

March 30, 2011

# Notice of Annual and Special Meeting of Shareholders

of Intact Financial Corporation, May 4, 2011, and

## Management Proxy Circular



## Table of Contents

Page

### INVITATION TO SHAREHOLDERS

### NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS OF INTACT FINANCIAL CORPORATION

<b>1 — Voting Information</b> . . . . .	1
<b>2 — Business of the Meeting</b> . . . . .	4
Election of the Board of Directors . . . . .	4
Appointment of Auditor . . . . .	16
Shareholder Rights Plan . . . . .	17
Shareholder Advisory Vote on Approach to Executive Compensation . . . . .	21
<b>3 — Reports of the Committees</b> . . . . .	21
Report of the Audit and Risk Review Committee . . . . .	21
Report of the Conduct Review and Corporate Governance Committee . . . . .	24
Report of the Human Resources Committee . . . . .	27
<b>4 — Compensation Discussion and Analysis</b> . . . . .	30
<b>5 — Summary Compensation Table</b> . . . . .	41
<b>6 — Incentive Plan Awards</b> . . . . .	42
<b>7 — Pension Plan Benefits</b> . . . . .	44
<b>8 — Termination and Change of Control Benefits</b> . . . . .	46
<b>9 — Indebtedness of Directors and Executive Officers</b> . . . . .	47
<b>10 — Corporate Governance Practices</b> . . . . .	47
<b>11 — Shareholder Proposals</b> . . . . .	47
<b>12 — Additional Information and Contacting Intact Financial Corporation</b> . . . . .	48
<b>13 — Approval of the Board of Directors</b> . . . . .	48
<b>SCHEDULE A — Statement of Corporate Governance Practices</b> . . . . .	A-1
<b>SCHEDULE B — Mandate of the Board of Directors</b> . . . . .	B-1
<b>SCHEDULE C — Shareholder Rights Plan Resolution</b> . . . . .	C-1



March 30, 2011

Dear Shareholders,

On behalf of the board of directors and senior management team of Intact Financial Corporation (respectively the “Board of Directors” and “Senior Management”), we are very pleased to invite you to join us at the 2011 Annual and Special Meeting of Shareholders of Intact Financial Corporation (the “Meeting”) that will take place on May 4, 2011 at 2:00 p.m. (Eastern Time) at the Baillie Court of the Art Gallery of Ontario, located at 317 Dundas Street West, Toronto, Ontario, Canada, M5T 1G4.

At this Meeting, you will have the opportunity to meet your fellow shareholders, obtain first-hand information on Intact Financial Corporation, learn about our plans for the future, and be called upon to vote on matters described in this Management Proxy Circular.

If you cannot attend the Meeting in person, we urge you to exercise your vote by proxy, as described in the attached documents.

A web cast of the proceedings of the Annual and Special Meeting will be available in the Investor Relations section of the Intact Financial Corporation web site at [www.intactfc.com](http://www.intactfc.com).

We also invite you to consult our web site for information on our recent presentations to the investment community and on our results. Also available online is the full text of the 2010 Annual Report and other useful information.

As a valued shareholder, we appreciate and welcome your participation in the Annual and Special Meeting of Shareholders of Intact Financial Corporation.

Sincerely,

A handwritten signature in black ink, appearing to read "Claude Dussault".

Claude Dussault  
Chairman of the Board

A handwritten signature in black ink, appearing to read "Charles Brindamour".

Charles Brindamour  
President and Chief Executive Officer



**NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS OF  
INTACT FINANCIAL CORPORATION**

Date: Wednesday, May 4, 2011  
Time: 2:00 p.m. (Eastern Time)  
Place: **Art Gallery of Ontario (Baillie Court)**  
317 Dundas Street West  
Toronto, Ontario  
Canada M5T 1G4

**Business of the Meeting:**

1. Receive the consolidated financial statements for the year ended December 31, 2010 and the auditor's report on those statements;
2. Elect Directors;
3. Appoint the auditor;
4. To consider and, if thought fit, to adopt a resolution (the text of which is set out in Schedule "C" to the accompanying Management Proxy Circular) to confirm the adoption of and ratify the Shareholder Rights Plan adopted by the Board of Directors of Intact Financial Corporation on February 8, 2011;
5. Approve the advisory resolution (the text of which is set out in the accompanying Management Proxy Circular) to accept the approach to executive compensation disclosed in the accompanying Management Proxy Circular; and
6. Transact such other business as may properly be brought before the Meeting.

Holders of Common Shares of record at 5:00 p.m. Eastern Time on March 22, 2011 are entitled to receive the Notice of Annual and Special Meeting of Shareholders and will be entitled to vote at the Meeting. On that date, 109,654,865 Common Shares were issued and outstanding. Each holder of Common Shares is entitled to cast one (1) vote per share held.

By order of the Board of Directors,

A handwritten signature in cursive script, reading "Françoise Guénette".

Françoise Guénette  
Senior Vice-President, Corporate &  
Legal Services, and Secretary

March 30, 2011

Holders of Common Shares of Intact Financial Corporation who are unable to attend the Meeting are invited to complete, date and sign the enclosed form of proxy, and return it by mail in the postage-paid envelope provided or fax it to Computershare Investor Services Inc. at 1-866-249-7775. They may also register their vote at [www.investorvote.com](http://www.investorvote.com) or by calling toll free at 1-866-732-8683. In order to be valid, the form of proxy must reach Computershare Investor Services Inc., by Internet, phone, mail or by fax at its Toronto office, no later than 12:00 p.m. (Eastern Time) on May 2, 2011, or if the Meeting is adjourned, 24 hours (excluding Saturdays, Sundays and holidays) before any adjournment thereof.

For any questions regarding the Management Proxy Circular, the form of proxy or the exercise of voting rights, please call Computershare Investor Services Inc. at 1-800-564-6253 or the Office of the Corporate Secretary of Intact Financial Corporation at 1-877-341-1464, Ext. 45149 or 514-985-7111, Ext. 8367.

## Management Proxy Circular

### 1: VOTING INFORMATION

#### SOLICITATION OF PROXIES

This Management Proxy Circular (the “Circular”) is provided in connection with the solicitation of proxies to be used at the Annual and Special Meeting of Shareholders of Intact Financial Corporation, for the purposes indicated in the Notice of Meeting, to be held at 2:00 p.m. (Eastern Time) on Wednesday, May 4, 2011, at the Art Gallery of Ontario (Baillie Court), located at 317 Dundas Street West, Toronto, Ontario, Canada, and at any adjournment thereof.

#### *Who is Soliciting the Proxy*

Employees, Officers, Directors and agents of Intact Financial Corporation (“Intact Financial Corporation,” “IFC” or the “Company”) will solicit the proxies. The solicitation of proxies is done by mail, by fax or in person. The costs of solicitation will be borne by the Company.

#### *Date of Information*

The information contained in the Circular is given as at March 30, 2011, except where otherwise noted.

#### SHARE CAPITAL AND PRINCIPAL HOLDERS

The Company has an authorized share capital consisting of an unlimited number of Common Shares and an unlimited number of Class A Shares. As of the close of business (5:00 p.m., Eastern Time) on March 22, 2011, 109,654,865 Common Shares were issued and outstanding and no Class A Shares were outstanding.

To the knowledge of the Directors and Officers of the Company, no individual or corporation beneficially owns, directly or indirectly, or exercises control or direction over Common Shares carrying more than 10% of the voting rights attached to the Common Shares of the Company.

The Company began repurchasing its shares as of February 22, 2010 further to the approval of a Normal Course Issuer Bid (“NCIB”) by the Toronto Stock Exchange. On August 5, 2010, the Company announced its intention to increase the number of shares it could repurchase under its NCIB over the twelve month period that commenced on February 22, 2010, from 5,977,913 shares to 11,955,827 shares, representing approximately 10% of its public float as of February 17, 2010. This NCIB was further amended, effective February 2, 2011, to allow for purchases outside the facilities of the TSX pursuant to exemption orders issued by a securities regulator authority. On February 9, 2011, the Company announced that its Board of Directors had authorized the renewal of its normal course issuer bid to purchase for cancellation during the next 12 months up to 5% of its outstanding shares, subject to the approval of the Toronto Stock Exchange. Purchases of Common Shares commenced on February 22, 2011 and will expire on the earlier of February 21, 2012, or the date on which the Company has either acquired the maximum number of Common Shares allowable or otherwise decided not to make any further repurchases. Shareholders may obtain a copy of the notice filed with the Toronto Stock Exchange by contacting the Secretary’s Office of the Company at 700 University Avenue, Suite 1500-A (Legal), Toronto, Ontario, M5G 0A1, or by telephone at 1-877-341-1464, Ext. 45149 or 514-985-7111, Ext. 8367.

#### WHO MAY VOTE

Each holder of record of Common Shares of Intact Financial Corporation at the close of business (5:00 p.m., Eastern Time) on March 22, 2011, the record date established for receiving the Notice of Meeting and for voting in respect of the Meeting, are entitled to cast one (1) vote for each Common Share held on all matters proposed to come before the Meeting.

## HOW TO VOTE

### *If you are the registered holder of Common Shares*

Holders of Common Shares of the Company may vote either:

- in person at the Meeting; or
- by proxy

To vote by proxy, holders of Common Shares may complete, sign and return the enclosed form of proxy by mail in the postage-paid envelope provided, or fax it to Computershare Investor Services Inc. (“Computershare”), at 1-866-249-7775. They may also register their vote at [www.investorvote.com](http://www.investorvote.com) or call Computershare toll free at 1-866-732-8683. This form of proxy authorizes a proxyholder to represent and to vote on behalf of the holder of Common Shares at the Meeting.

### *If you are not the registered holder of Common Shares*

The names of shareholders whose shares are held in the name of a nominee (a bank, trust company, securities broker, trustee or other intermediary) do not appear on the list of shareholders of the Company. As required by Canadian securities legislation, you will have received **from your nominee** either a request for voting instructions or a form of proxy for the number of shares you hold. To vote, please follow the instructions provided by your nominee. If your shares are held in the name of a nominee and you wish to vote in person at the Meeting, please contact your broker or an agent of that broker or your intermediary well in advance of the Meeting to determine how you can do so. Please register with the transfer agent, Computershare, upon arrival at the Meeting.

## VOTING BY PROXY

### *Voting Instructions*

Common Shares represented by a proxy are to be voted for or withheld from voting by the proxyholder designated in the enclosed form of proxy as instructed by the shareholder. **If no instructions are given, the voting rights attached to the Common Shares will be exercised by any designated proxyholder who is a Director and/or Officer of the Company by voting as follows:**

- **FOR** the election of each proposed Director nominated by management (“Management”) of Intact Financial Corporation;
- **FOR** the appointment of the auditor;
- **FOR** the approval of the resolution of the shareholders confirming the adoption and ratifying the Shareholder Rights Plan adopted by the Board of Directors of Intact Financial Corporation on February 8, 2011 (the “**Shareholder Rights Plan Resolution**”);
- **FOR** the approval of the advisory resolution of the shareholders to accept the approach to executive compensation disclosed in this Management Proxy Circular.

The enclosed form of proxy confers on the proxyholder designated therein discretionary authority with respect to any proposed amendments or variations to the matters set out therein and any other business which may properly come before the Meeting. At the date of this Circular, Management of Intact Financial Corporation is not aware of any amendment or other matter which may properly come before the Meeting.

### *How to appoint a proxyholder*

The proxyholders designated in the enclosed form of proxy are Directors and/or Officers of the Company. **If a holder of Common Shares wishes to appoint a proxyholder other than one of the persons designated in the form of proxy, such holder may do so by striking out the names appearing thereon and inserting the name of such person in the blank space provided.** If the holder of Common Shares is a legal entity, an estate or trust, the form of proxy must be signed by a duly authorized representative and accompanied by a certified resolution confirming such authorization. A proxyholder is not required to be a shareholder of the Company.

*In order to be valid, the form of proxy must be registered with Computershare by mail, internet ([www.investorvote.com](http://www.investorvote.com)), phone (1-866-732-8683) or by fax at 1-866-249-7775, no later than 12:00 p.m. (Eastern Time) on May 2, 2011, or, if the Meeting is adjourned, 24 hours (excluding Saturdays, Sundays and holidays) before the new date determined by adjournment of the Meeting. If you wish to return the form of proxy by mail, you may use the postage-paid envelope included with this Circular.*

#### ***How to revoke a proxy***

Shareholders may revoke a proxy:

- by delivering a written notice to that effect signed by them or their duly authorized representative(s) to Computershare Investor Services Inc., at 100 University Avenue, 9th Floor, North Tower, Toronto, Ontario, Canada, M5J 2Y1, no later than 12:00 p.m. (Eastern Time) on May 2, 2011, or if the Meeting is adjourned, 24 hours (excluding Saturdays, Sundays and holidays) before any continuation thereof after an adjournment;
- by delivering a written notice to that effect signed by them or their duly authorized representative(s) to an agent of Computershare, on the day of the Meeting, or any continuation thereof after an adjournment; or
- in any other manner permitted by law.

The notice must be signed by the shareholder or by an attorney duly authorized in writing to this effect; if the shareholder is a legal entity, the notice must be signed by an officer or attorney of the corporation duly authorized in writing by a resolution, a certified copy of which must be attached to the notice.

A beneficial owner of Common Shares may revoke a voting instruction form (or a waiver of the right to receive meeting materials and to vote) given to an intermediary at any time by written notice to the intermediary, except that an intermediary is not required to act on a revocation of a voting instruction form (or of a waiver of the right to receive materials and to vote) that is not received by the intermediary at least seven (7) days prior to the Meeting.

#### ***Confidentiality***

In order to protect the confidential nature of voting by proxy, the votes exercised by proxy are received and compiled for the Meeting by Computershare, the transfer agent and registrar of the Company. Computershare submits a copy of the form of proxy to the Company only when a shareholder clearly wishes to communicate with Management or when there is a legal requirement to do so.

## **GENERAL INFORMATION**

#### ***Financial Statements and Auditor's Report***

A copy of the Company's 2010 Annual Report is being sent to shareholders who have requested it, and includes the consolidated financial statements of the Company for the year ended December 31, 2010 together with the auditor's report thereon, and Management's Discussion and Analysis of the financial position and results of operations. This Annual Report is also available in the Investor Relations section of the Company's web site ([www.intactfc.com](http://www.intactfc.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)). No vote will be taken at the Meeting in respect of the Company's 2010 Annual Report.

#### ***Currency***

Unless indicated otherwise, all amounts are in Canadian dollars and "\$" or "dollars" refer to Canadian dollars.

## **2: BUSINESS OF THE MEETING**

### **ELECTION OF THE BOARD OF DIRECTORS**

Listed below are the names of the eleven (11) persons who are proposed as nominees for election as Directors of the Company. Please note that the information hereunder, including information as to Common Shares beneficially owned or controlled, directly or indirectly, and professional experience has been furnished by each of the nominees, as of December 31, 2010. Unless otherwise indicated, all of the nominees are now members of the Board of Directors and have been Directors of the Company or its corporate predecessors since the dates indicated. Management does not contemplate that any of the proposed nominees will be unable to serve as a Director but, if that should occur for any reason prior to the Meeting, the Management representatives designated in the enclosed form of proxy reserve the right to vote for another nominee at their discretion. All elected Directors of the Company will hold office until the next Annual Meeting of Shareholders of the Company, or until their successors are elected or appointed.

### **Board of Directors' Skills Matrix**

The Board of Directors' Skills Matrix sets out the selection criteria and reflects the current strengths of the Board as a whole. Board member selection criteria include the following for each candidate: availability, personality and good judgment and ethics and reputation. In addition, Management and the Board aim to develop a diversified Board composition that includes the following skills and strengths which are in line with the needs of the Company, its mission and future development.



- Financial institution experience
- Professional services
- Labour relations / Human resources
- Government relations
- Information technology
- International experience
- Marketing
- Media / Communications
- Public sector / Not-for-profit / Academic
- Risk management
- Operational management
- Strategic management
- Financial literacy and expertise
- Other board memberships

The recruitment process includes references, verification of reputation and ethics as well as background checks (credit and criminal); external consultants are called upon from time to time to give additional support to the recruitment and verification process.

### **Majority Voting for Directors**

The Board of Directors of the Company has approved a policy stipulating that the votes in favour of the election of a Director nominee at an Annual and/or Special Meeting of Shareholders must represent at least

50% plus one (1) of the total shares voted in favour or withheld in order for the Director to be elected to the Board of Directors. The policy does not apply in circumstances involving contested Director elections.

<u>Nominee for election as Director</u>	<u>Common shares Owned, Controlled or Directed</u>		<u>Deferred Share Units</u>		<u>Public Board Memberships During Last Five (5) Years</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	
<p>CLAUDE DUSSAULT, B.Sc. Toronto, Ontario, Canada Director since: 2000 Age: 56</p> <p>Independent Director</p> <p>Attendance: Board (Chair) 12/12 (100%)</p>  <p>Mr. Dussault has been Chair of the Board of Directors of Intact Financial Corporation since January 1, 2008, and was President and Chief Executive Officer of the Company from 2001 to the end of 2007. Mr. Dussault has been a director of Intact Financial Corporation and its P&amp;C insurance subsidiaries since 2000. He has held several executive positions within the Intact group of companies in Canada for the last 25 years; he is a Fellow of the Canadian Institute of Actuaries and the Casualty Actuarial Society; he graduated from the Université Laval (Québec) with a Bachelor of Actuarial Science degree and has completed the Advanced Executive Education Program at the Wharton School of Business.</p>	56,411	100,411	572.19	—	Metro Inc. (2005-)
<p>CHARLES BRINDAMOUR, B.Sc. Toronto, Ontario, Canada Director since: 2008 Age: 40</p> <p>Attendance: Board 12/12 (100%) Investment Committee 4/4 (100%)</p>  <p>Charles Brindamour is President and Chief Executive Officer of Intact Financial Corporation. Under his leadership, the Company became an independent and widely-held Canadian company. Mr. Brindamour began his career with Intact in 1992 as an actuary and held a number of progressive management positions in St-Hyacinthe and Toronto. He also served in management and executive roles in Europe both with ING Groep, the Company's former majority shareholder, and ING Romania, where he was Chief Actuary and Chief Financial Officer. Upon his return to Canada in 1999, he led the company's acquisition, strategic planning and capital management functions. Two years later he became Senior Vice President of Personal Lines and, in 2004, he was appointed Executive Vice President, responsible for underwriting, claims, planning, corporate development and investor relations. In 2007, he became Chief Operating Officer, a position he held until his appointment as President and CEO in January 2008.</p> <p>A graduate of Université Laval (Québec), Mr. Brindamour received his Bachelor of Actuarial Sciences in 1992. He is also an Associate of the Casualty Actuarial Society. Mr. Brindamour is a board member of Intact Financial Corporation and the Insurance Bureau of Canada. He is a member of the Advisory Committee of the Climate Change Adaptation Project, an initiative of the University of Waterloo. Mr. Brindamour is also a member of the 2010 Campaign Cabinet of the United Way of Greater Toronto and is Chair of the insurance industry campaign.</p>	35,198	35,198	—	—	—

Nominee for election as Director	Common shares Owned, Controlled or Directed		Deferred Share Units		Public Board Memberships During Last Five (5) Years
	2010	2009	2010	2009	
YVES BROUILLETTE, B.Sc. Montreal, Quebec, Canada Director since: 1989 Age: 59	13,500	13,500	5,457.57	3,302.01	White Mountains Insurance Group (2007-)

Independent Director

Attendance:

Board	12/12 (100%)
Audit & Risk Review Committee	5/5 (100%)
Conduct Review and Corporate Governance Committee	4/4 (100%)



Mr. Brouillette is currently President of Placements Beluca Inc. which is a privately held investment company. Since 2007, he has also been a director of White Mountains Insurance Group, a Bermuda-domiciled financial services holding company listed on the New York Stock Exchange. He was, from April 2002 to September 2005, the Chief Executive Officer of ING Latin America. Prior to that time, Mr. Brouillette was General Manager of ING Mexico and Chairman of the Executive Committee of ING Commercial America since 2001. Over the last 35 years, Mr. Brouillette has occupied several senior positions within the ING group of companies, including CEO of Intact Financial Corporation (formerly ING Canada Inc.) from 1993 to 2001. He is an Actuarial Science graduate of the Université Laval (Québec), a graduate of the Advanced Management Program of Harvard Business School and is a Fellow of the Canadian Institute of Actuaries and of the Casualty Actuarial Society. Mr. Brouillette has also been a director of our P&C insurance companies since 1989.

---

PAUL CANTOR, B.A. LL.B., FICB Toronto, Ontario, Canada Director since: 2006 Age: 69	1,100	1,100	3,587.28	2,492.37
--	-------	-------	----------	----------

Independent Director

Attendance:

Board	12/12 (100%)
Human Resources Committee	5/5 (100%)
Investment Committee	4/4 (100%)



Mr. Cantor is the Chair of the Public Sector Pension Investment Board and of York University's Board of Governors. Concurrently, he is Senior Advisor at Bennett Jones LLP. Mr. Cantor is also a member of the Board of Directors of ING Bank of Canada. He was Chairman and CEO of National Trust Company and earlier held other senior executive positions in the financial services sector. He has also served on the board of directors of a number of publicly-traded companies and/or large financial institutions. He was Managing Partner and then Chair of Russell Reynolds Associates Canada. His public sector service includes establishing and serving as the first executive director of the World Bank-Canadian government sponsored Toronto International Leadership Centre for Financial Sector Supervision, as well as serving with the Department of Finance of the Government of Canada. Paul Cantor obtained a Bachelor of Arts from the University of Alberta and a law degree from the University of Toronto. He is also a Fellow of the Institute of Canadian Bankers.

Nominee for election as Director	Common shares Owned, Controlled or Directed		Deferred Share Units		Public Board Memberships During Last Five (5) Years
	2010	2009	2010	2009	
MARCEL CÔTÉ, M.Sc. Montreal, Quebec, Canada Director since: 2004 Age: 68	4,250	4,250	8,154.36	6,001.56	Empire Company Limited (2007-) Engenuity Technologies Inc. (2002-2007) Nurun Inc. (1998-2007) Osisko Mining Corporation (2010-) Ryan Gold Corp. (2010-) Sobeys Inc. (2004-2007)

Independent Director

Attendance:

Board	11/12 (92%)
Conduct Review and Corporate Governance Committee (Chair)	4/4 (100%)
Human Resources Committee	5/5 (100%)



Mr. Côté is Senior Partner of Secor Consulting Inc., a Montreal-based consulting firm specializing in business strategy which he founded in 1975, and of which he was the President until June 2007. In 1989 and 1990, he was Director of Strategic Planning and Communication for the Office of the Prime Minister of Canada. From 1986 to 1988, he worked as an economic advisor to the Premier of Québec. Mr. Côté holds an M.Sc. in Economics from the Graduate School of Industrial Administration of Carnegie Mellon University in Pittsburgh, Pennsylvania. He is also a Fellow of the Center for International Affairs of Harvard University. Mr. Côté has also taught at the Université de Sherbrooke and the Université du Québec à Montréal. Mr. Côté was appointed as a member of Intact Financial Corporation's former Advisory Board in 1999, and was previously a member of our Board of Directors from 1997 to 1999.

---

ROBERT W. CRISPIN, MBA, CFA Scarborough, Maine, USA Director since: 2004 Age: 64	—	—	2,910.61	1,753.33	Sul América S.A. (2006-)
---	---	---	----------	----------	--------------------------

Independent Director

Attendance:

Board	12/12 (100%)
Audit and Risk Review Committee	5/5 (100%)
Investment Committee (Chair)	4/4 (100%)



Mr. Crispin was, until retirement, a member of ING Americas Executive Committee, which is responsible for all of ING Group's insurance, banking and investment management activities in North and South America. From 2001 until the end of 2007, when he retired, he was Chairman and Chief Executive Officer of ING Investment Management Americas and was responsible for ING Mutual Funds, ING Institutional Markets and ING Group's insurance operations in Brazil, Chile and Peru. Prior to joining ING Group in 2001, Mr. Crispin was an Executive Vice-President of Massachusetts Mutual Life Insurance Company. Over the past 34 years, he has held senior positions with a number of major insurance and financial service companies. These include Travelers Companies where he was Vice Chairman, and Lincoln National Corporation where he was Executive Vice-President and Chief Investment Officer. He has led a variety of units including investment, finance, distribution, international operations and technology. Mr. Crispin received a B.A. from Wesleyan University and an MBA from the University of Connecticut. He holds the Chartered Financial Analyst designation.

Nominee for election as Director	Common shares Owned, Controlled or Directed		Deferred Share Units		Public Board Memberships During Last Five (5) Years
	2010	2009	2010	2009	
EILEEN MERCIER, M.A., MBA Toronto, Ontario, Canada Director since: 2004 Age: 63	1,000	1,000	5,006.39	3,484.26	CGI Group Inc. (1995-) Shermag Inc. (2003-2007) Teekay Shipping Corp. (2000-)

Independent Director

Attendance:



Board	12/12 (100%)
Audit and Risk Review Committee (Chair)	5/5 (100%)
Investment Committee	4/4 (100%)

Ms. Mercier is currently the Chair of the Board of the Ontario Teachers Pension Plan. Her career encompasses over 39 years of general management experience in the forest products, financial services, integrated oil and communication industries. From 1995 to 2003, Ms. Mercier headed her own management consulting firm, Finvoy Management Inc., specializing in financial strategy, restructuring and corporate governance issues. Prior to that time, she was Senior Vice-President and Chief Financial Officer of Abitibi-Price Inc. She holds an MBA from York University and a Masters Degree from the University of Alberta. Ms. Mercier was appointed a member of Intact Financial Corporation's former Advisory Board in 1999.

TIMOTHY H. PENNER Toronto, Ontario, Canada Director since: 2010 Age: 55	616	—	—	—
--	-----	---	---	---

Independent Director

Attendance:



Board	7/9 (78%)*
Conduct Review and Corporate Governance Committee	2/2 (100%)**
Human Resources Committee	3/3 (100%)**

Tim Penner, President of Procter & Gamble Inc., joined P&G Canada 33 years ago, after graduating from Wilfrid Laurier University. His initial career was in marketing, first in laundry products, and later in health care. From 1993 to 1996, he was Vice-President of P&G's Health and Beauty Care business in the U.K. From 1996 to 1999, he was Vice-President of P&G's North American Tissue/Towel business, based in the U.S. He returned to Canada in 1999, as President of P&G Inc. Throughout his career, he has served on various community, educational and professional committees. He serves on the Board of the Youth Challenge Fund and the YMCA of Greater Toronto. He is on the International Advisory Council, Schulich School of Business (York University), and is on the Ontario Task Force on Competitiveness and Prosperity. He serves on the Board, and is Past Chair of both GS-1 and Food & Consumer Products of Canada. He was Chair of the United Way of Greater Toronto 2007 Campaign, after serving as Deputy Chair for 2006. Mr. Penner has also served as Honorary Chair for Career Bridge, a successful internship program that links qualified, professional-level immigrants with Canadian employers.

\* Mr. Penner was elected as a Director on May 5, 2010

\*\* Mr. Penner was appointed as a member of the CRCG and HR Committees effective May 5, 2010.

Nominee for election as Director	Common shares Owned, Controlled or Directed		Deferred Share Units		Public Board Memberships During Last Five (5) Years
	2010	2009	2010	2009	
LOUISE ROY, O.Q. Montreal, Quebec, Canada Director since: 2004 Age: 63	2,000	2,000	3,244.87	1,897.94	Domtar Inc. (1997-2007) Power Financial Corporation (2010-)

Independent Director

Attendance:

Board	11/12 (92%)
Conduct Review and Corporate Governance Committee	4/4 (100%)
Human Resources Committee	5/5 (100%)



Ms. Roy is Chancellor and Chair of the Board of Université de Montréal, the first woman to occupy these functions. She is an invited Fellow at CIRANO, the Center for Interuniversity Research and Analysis on Organizations, a position she has held since September 2003. She is also President of the Conseil des arts de Montréal since September 2006. She serves as a Director of Power Financial Corporation, Montréal International and the Institute of Corporate Directors (ICD Quebec Chapter). Ms. Roy is also a consultant and a company Director. During her career, she has been a Director of Provigo Inc. until 1992, the Laurentian Bank of Canada until 1993, Videotron Ltée until 1997, and Domtar Corporation until 2007. She was President and Chief Executive Officer of the Montreal Urban Community Transport Commission until 1992, Executive Vice-President of Air France until 1997, President and Chief Executive Officer of Telemedia Communications Inc. until 2000 and Senior Vice-President of International Air Transport Association until 2003. She participated in several fundraising campaigns, including the Université de Montréal and several other cultural organizations. In 2009, she was named an Officer of the National Order of Québec.

STEPHEN G. SNYDER, B.Sc., MBA Calgary, Alberta, Canada Director since: 2009 Age: 61	18,698	9,716	270.88	263.09	Canadian Imperial Bank of Commerce (2000-2009) TransAlta Corporation (1996-)
--	--------	-------	--------	--------	---

Independent Director

Attendance:

Board	11/12 (92%)
Audit and Risk Review Committee	4/5 (80%)
Conduct Review and Corporate Governance Committee	4/4 (100%)



Mr. Snyder has been the President and CEO of TransAlta Corporation since 1996, an energy company focused on electricity generation and energy trading and marketing. Previously, he was President & CEO of Noma Industries Ltd., GE Canada Inc., and Camco, Inc. He is also a director of TransAlta Corporation and Co-Chair of the Calgary Stampede Foundation Campaign. Mr. Snyder is an immediate past Director of the Canadian Imperial Bank of Commerce. He is the past Chair of the following organizations: Alberta Secretariat for Action on Homelessness, the Calgary Committee to End Homelessness, the Canada-Alberta ecoEnergy Carbon Capture & Storage Task Force, the Conference Board of Canada, the Calgary Zoological Society, the Canadian Electrical Association, the United Way Campaign of Calgary and Area, and the Calgary Zoo's "Destination Africa" capital campaign. He was awarded the Alberta Centennial Medal in 2005, the Conference Board of Canada 2008 Honorary Associate Award, the Chamber of Commerce Sherrold Moore Award of Excellence in 2009, and the Canadian Energy Person of the Year Award by the Energy Council of Canada in 2010.

Mr. Snyder holds a Bachelor of Science in chemical engineering from Queen's University (Kingston) as well as a master of business administration from the University of Western Ontario (London). In addition, he has honorary degrees from the University of Calgary (LLD), and the Southern Alberta Institute of Technology (Bachelor of Applied Technology).

<u>Nominee for election as Director</u>	<u>Common shares Owned, Controlled or Directed</u>		<u>Deferred Share Units</u>		<u>Public Board Memberships During Last Five (5) Years</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	
CAROL STEPHENSON London, Ontario, Canada Director since: 2004 Age: 60	1,000	1,000	6,758.84	4,997.62	General Motors Company (2009-) Manitoba Telecom Services Inc. (2008-) Sears Canada Inc. (2001-2006) Union Energy Waterheater Income Fund (2003-2007)

Independent Director

Attendance:

Board	9/12 (75%)
Human Resources Committee (Chair)	5/5 (100%)
Conduct Review and Corporate Governance Committee	3/4 (75%)



Ms. Stephenson has been the Dean of the Richard Ivey School of Business at the University of Western Ontario since July 1, 2003. Prior to this appointment, she worked for more than 30 years in the telecommunications and technology industries, most recently as President and Chief Executive Officer of Lucent Technologies Canada. Ms. Stephenson currently serves on the board of directors for several top Canadian companies and on important government committees. She is Chair of the Ontario Research Fund and Chair of the Government of Canada's Advisory Committee on Senior Level Retention and Compensation. From 2005-2007, Ms. Stephenson served as a Member of the Prime Minister's Advisory Council on Science and Technology. In November 2006, she was appointed by the Federal Government to serve on the Board of Directors of the Vancouver Olympic Games Organizing Committee (VANOC). Ms. Stephenson is a graduate of the University of Toronto. She has also completed the Executive Program at the Graduate School of Business Administration, University of California at Berkeley, and the Advanced Management Program at Harvard University. In 2000, she was awarded an honorary doctorate in engineering from Ryerson Polytechnic University. Ms. Stephenson was appointed a member of the Company's former Advisory Board in 1999 and was previously a member of our Board of Directors in 1999. She has also been a director of the Company's P&C insurance subsidiaries since 2002.

## Additional Disclosure Relating to Directors

To the knowledge of the Company, no proposed Director of the Company is or has been, within the last 10 years, (a) subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued while acting in the capacity of director, chief executive officer or chief financial officer of any company; (b) subject to a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, that was issued after he/she ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while he/she was acting in that capacity. Moreover, to the knowledge of the Company, no proposed Director is or has been, within the last 10 years, (a) bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold his/her assets; or (b) a director or executive officer of any company that, while he/she was acting in that capacity, or within a year of his/her ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, except for the following:

*Eileen Mercier*, a Director of the Company, served as a director of Shermag Inc. until August 9, 2007. On May 5, 2008, Shermag Inc. announced that it had obtained protection under the *Companies' Creditors Arrangement Act* ("CCAA") from the Québec Superior Court. Shermag Inc. closed a transaction with Groupe Bermex Inc. and implemented a plan of arrangement in October 2009 allowing it to emerge from the CCAA proceedings. The transaction enabled Groupe Bermex Inc. to take control over Shermag Inc. and to pursue its restructuring and relaunching.

## Attendance of Directors whose terms ended in 2010

The terms of Ivan E.H. Duvar and Robert Normand as Directors of the Company ended on May 5, 2010. From January 1, 2010 to May 5, 2010, their respective attendance records as Directors were as follows:

Ivan E.H. Duvar . . . . .	Board <sup>(1)</sup>	3/4	(75%)
	Conduct Review and Corporate Governance Committee	2/2	(100%)
	Human Resources Committee	1/2	(50%)
Robert Normand . . . . .	Board <sup>(1)</sup>	3/4	(75%)
	Audit and Risk Review Committee	3/3	(100%)
	Investment Committee	2/2	(100%)

Note:

(1) Messrs. Duvar and Normand decided not to attend the May 2010 Board and Committee meetings based on the fact that they would not solicit re-election at the May 2010 Annual Meeting.

Intact Financial Corporation reiterates its thanks for Mr. Duvar's and Mr. Normand's contribution. Mr. Duvar had served as a director of IFC's P&C insurance subsidiaries since 1983, a director of IFC from 1993 to 1996, and from 2005 to 2010. In addition to being a member of IFC's board since 2004, Robert Normand had served as a director of the Company's federal P&C insurance subsidiaries since 2000 and of Belair Insurance Company Inc. since 2005.

## Directors' Compensation for 2010

The total remuneration paid to Directors of the Company during the year ended December 31, 2010, other than Directors who also serve as Officers of Intact Financial Corporation or its affiliates, is set out in the table

below. Directors' compensation is not and has not been in the past, paid to Directors who serve as Officers of the Company or its affiliates.

Name	Retainer and Attendance Fees Awarded in Cash (\$)	Share-Based Awards (DSUs) <sup>(1)(2)</sup> (\$)	Share-Based Awards (Common Shares) (\$)	Total Compensation (\$)	Percentage of Fees in Cash/DSUs/Shares (%)
Yves Brouillette	0	90,300	0	90,300	0/100/0
Paul Cantor	44,100	42,500	0	86,600	51/49/0
Marcel Côté	0	90,800	0	90,800	0/100/0
Robert W. Crispin <sup>(3)</sup>	48,800	46,500	0	95,300	51/49/0
Claude Dussault <sup>(4)</sup>	200,000	25,000	0	225,000	89/11/0
Ivan E.H. Duvar	15,915	25,000	0	40,915	39/61/0
Eileen Mercier	36,150	61,150	0	97,300	37/63/0
Robert Normand	22,715	25,000	0	47,715	48/52/0
Louise Roy	30,400	55,400	0	85,800	35/65/0
Timothy H. Penner <sup>(5)</sup>	0	0	55,387	55,387	0/0/100
Stephen G. Snyder	0	0	88,700	88,700	0/0/100
Carol Stephenson	22,000	70,000	0	92,000	24/76/0

Notes:

- (1) Share-based awards to Directors of the Company are made in the form of deferred share units ("DSUs") or common shares as discussed more fully under the heading "Information on Deferred Share Unit and Share Purchase Plan for Non-Related Directors" below.
- (2) The number of DSUs granted to each Director in 2010 is disclosed in the table entitled "Outstanding Director Share-Based Awards (DSUs and Shares)" below.
- (3) Mr. Crispin, who retired from his functions at ING Americas and is now considered an independent Director of the Company, consequently became a remunerated Director effective January 1, 2008.
- (4) Mr. Dussault advised the Board of Directors early in 2007 of his decision to retire from his full-time role as President and Chief Executive Officer of Intact Financial Corporation effective January 1, 2008. The Board accepted his resignation and in turn proposed Mr. Dussault as the next Chair of the Board. Mr. Dussault accepted the nomination and has served as Chair of the Board and acted as Special Advisor to the new President and Chief Executive Officer from January 1, 2008 to December 31, 2009. Mr. Dussault is now an independent Director.
- (5) Mr. Penner was elected a Director of the Company on May 5, 2010.

In order to recognize the increasing complexity of the Company and to attract and retain qualified individuals to serve on the Board, the Human Resources Committee ("HR Committee"), as in past years, reviewed the Directors' compensation and upon its recommendations, the Board revised the Directors' compensation program as follows, effective January 1, 2010:

- an annual Board retainer of \$60,000, of which \$25,000 are payable in DSUs or Common Shares at the beginning of the year;
- an additional annual retainer of \$5,000 for the Conduct Review and Corporate Governance Committee ("CRCG Committee") Chair and Investment Committee Chair;
- an additional annual retainer of \$10,000 for the Audit and Risk Review Committee ("Audit Committee") Chair and for the HR Committee Chair;
- an additional annual retainer of \$3,000 for members of the Audit Committee (other than the Chair);

- an attendance fee of \$1,500 per meeting (\$800 if by telephone); and
- all reasonable travel expenses incurred to attend meetings.

The remuneration above covers the function of a Director of the Boards of both Intact Financial Corporation and of its property and casualty (“P&C”) insurance companies.

### **Changes to Directors’ Compensation in 2010**

The responsibility for Directors’ compensation is now included in the mandate of the CRCG Committee. Based on a comparative analysis of directors’ compensation with a peer group of Canadian public corporations carried out independently by Towers Watson for the account of the CRCG Committee, the Committee reconfirmed its policy of aligning the Company’s total director compensation to that of the median of its comparable market.

Accordingly, the CRCG Committee recommended adjustments to IFC’s compensation policy for Directors, which were accepted by the Board of Directors and is as follows:

Effective January 1, 2011:

- the base annual Board retainer has been adjusted from \$60,000 to \$90,000, to be gradually implemented over the next three years, broken down as follows for 2011:
  - from \$35,000 to \$40,000 in cash;
  - from \$25,000 to \$35,000 for the portion that must be received by the directors in common shares or in DSUs;
- the annual retainer for the HR Committee Chair and the Audit Committee Chair will be increased from \$10,000 to \$18,000 each;
- the annual retainer for the CRCG Committee Chair and the Investment Committee Chair will be increased from \$5,000 to \$9,000;
- the annual retainer for members of the Audit Committee will be increased from \$3,000 to \$6,000;
- the annual retainer for members of the HR Committee will be increased from \$0 to \$6,000;
- the annual retainer for members of the CRCG Committee and the Investment Committee will be increased from \$0 to \$3,000;
- the equity component of the Board Chair’s remuneration will be increased from \$25,000 to \$75,000 over three years: raised to \$45,000 in 2011; and
- the cash component of the Board Chair’s remuneration will remain at \$200,000 for a total remuneration of \$245,000 in 2011.

### **Directors Share Ownership Requirement Policy**

In accordance with the Company’s minimum share ownership requirement policy adopted in 2007, independent Directors of the Board are required to hold three (3) times their annual Board retainer in Common Shares or DSUs of the Company within three (3) years of their election to the Board of Directors or becoming independent and starting to receive Director compensation.

On February 16, 2010, the minimum share ownership requirement for independent Directors was increased to Common Shares or DSUs valued at four (4) times the annual Board retainer received in cash, DSUs or shares. Sitting Directors will have two (2) years to reach this new minimum level, while newly appointed Directors will have three (3) years from their election to the Board of Directors to reach this level.

Based upon the annual Board retainer of \$60,000 the minimum director share ownership requirement in 2010 was \$240,000 worth of common shares and/or DSUs, although sitting Directors have until February 16,

2012 to comply with this requirement. The market or payout value of DSUs/Common Shares outstanding is based on the closing share price of \$50.86 on the TSX as of December 31, 2010.

	Common shares held (#)	DSUs held (#)	Total value of all equity holdings (\$)	Conformity with Director Share Ownership Policy
Yves Brouillette	13,500	5,457.57	964,182	Yes
Paul Cantor	1,100	3,587.28	238,395	Has until February 16, 2012 to comply
Marcel Côté	4,250	8,154.36	630,886	Yes
Robert W. Crispin	0	2,910.61	148,034	Has until February 16, 2012 to comply
Claude Dussault	56,411	572.19	2,898,165	Yes
Eileen Mercier	1,000	5,006.39	305,485	Yes
Timothy H. Penner	616	0	31,330	Has until May 5, 2013 to comply
Louise Roy	2,000	3,244.87	266,754	Yes
Stephen G. Snyder	18,698	270.88	964,757	Yes
Carol Stephenson	1,000	6,758.84	394,615	Yes

#### Information on Deferred Share Unit and Share Purchase Plan for Non-Related Directors

To ensure that Directors' compensation is aligned with shareholders' interests, the following program has been put into place:

- \$25,000 (\$35,000 effective in 2011, and increasing gradually to \$40,000 in 2013) of the compensation of Directors is in DSUs issued or Common Shares purchased at the beginning of the year; and
- the Board of Directors and Committee annual retainers may be received by a Director in total or in part in cash or in DSUs or in Common Shares at his or her discretion.

A DSU is a bookkeeping entry that represents an amount owed by the Company to the Director having the same value as one (1) Common Share of the Company, but that will not be settled until such time as the Director leaves the Board of Directors. Payment of DSUs is made in cash at the time of settlement, equal in amount to the number of DSUs held by the Director multiplied by the closing share price on the Toronto Stock Exchange ("TSX") as of the redemption date. Canadian Directors may choose the redemption date, the final redemption date being at least 10 business days after the receipt of a notice from the Director notifying the Company of his/her intention to leave the Board of Directors, but no later than December 15 of the first calendar year commencing after the year in which the termination date occurred. Our US Directors are not entitled to choose a redemption date, the final redemption date being December 15 of the first calendar year commencing after the year in which the US Director terminated his or her directorship.

DSUs provide a notional ongoing equity stake in the Company, therefore ensuring alignment of the interests of the Directors with those of the shareholders of the Company. A total of 12,560.54 DSUs and 1837 Common Shares were granted to eligible Directors in 2010.

Those Directors who elect to receive all or a portion of their compensation in DSUs are credited such amounts on record in quarterly instalments with the DSUs being granted at the end of such quarter based on the closing share price on the TSX on the fourteenth (14<sup>th</sup>) day of the month following the end of such quarter (or where such day is not a business day, the following business day when Common Shares are publicly traded).

In addition to their compensation in DSUs, in the event that any cash dividend is declared and paid by the Company on Common Shares, the Directors will be credited with additional DSUs. The number of such

additional DSUs is calculated by dividing the total amount of dividends that would have been paid to a Director if his/her outstanding DSUs had been Common Shares on the dividend record date, by the closing share price on the TSX on the dividend payment date.

When a Director elects to receive his/her remuneration in Common Shares, such Common Shares are purchased in the market by Computershare as agent of the Company on the fifteenth (15<sup>th</sup>) day (or the following business day when Common Shares are publicly traded) of the month following the end of a quarter.

#### Outstanding Director Share-Based Awards (DSUs and Shares)

Name	Share-Based Awards					
	Number of Common Shares granted in 2010 (#) <sup>(1)</sup>	Year-end Value of Common Shares granted in 2010 (\$)	Number of DSUs granted in 2010 (#) <sup>(1)</sup>	Year-end Value of DSUs Granted in 2010 <sup>(2)</sup> (\$)	Number of DSUs/Common Shares Outstanding (#)	Market or Payout Value of DSUs/Common Shares Outstanding (\$) <sup>(3)</sup>
Yves Brouillette	n/a	n/a	2,155.56	109,632	5,457.57	277,572
Paul Cantor	n/a	n/a	1,094.91	55,687	3,587.28	182,449
Marcel Côté	n/a	n/a	2,241.92	114,024	8,154.36	414,731
Robert W. Crispin	n/a	n/a	1,157.28	58,859	2,910.61	148,034
Claude Dussault	n/a	n/a	572.19	29,102	572.19	29,102
Ivan E. H. Duvar	n/a	n/a	690.52	35,120	2,234.06	113,624
Eileen Mercier	n/a	n/a	1,522.13	77,416	5,006.39	254,625
Robert Normand <sup>(4)</sup>	n/a	n/a	627.98	31,939	0	0
Timothy H. Penner <sup>(5)</sup>	616	n/a	n/a	n/a	616	31,330
Louise Roy	n/a	n/a	1,357.02	69,018	3,244.87	165,033
Stephen G. Snyder	1,221	62,100	7.79	396	1,491.88	75,877
Carol Stephenson	n/a	n/a	1,761.22	89,576	6,758.84	343,755

Notes:

- (1) The number of DSUs or Common Shares (including dividends paid as DSUs) granted in 2010 is equal to the annual grant of \$25,000 calculated based on the closing share price on the TSX as of the first business day of the year and the total of each quarterly grant, calculated based on the closing share price on the TSX as of the last business day of each quarter for the first quarter of 2010 and, for the rest of the year were calculated based on the closing share price on the TSX as of the fourteenth day of the month following the end of each quarter (or where such day was not a business day, the following business day when Common Shares were publicly traded), the whole in accordance with the new Director Compensation Plan.
- (2) The year-end value of DSUs/Common Shares granted in 2010 is based on the closing share price of \$50.86 on the TSX as of December 31, 2010.
- (3) The market or payout value of DSUs/Common Shares outstanding is based on the closing share price of \$50.86 on the TSX as of December 31, 2010.
- (4) Mr. Normand ceased to be a Director of the Company on May 5, 2010. Subsequently, he redeemed all of his DSUs.
- (5) Mr. Penner was elected a Director of the Company on May 5, 2010. Mr. Penner elected to have all of his remuneration paid in Common Shares including his Annual Grant which was pro rated in accordance with the Director Compensation Plan.

## Summary of the Number of Board of Directors and Committee Meetings

The following meetings were held during the financial year ended December 31, 2010:

### Board Meetings

Intact Financial Corporation . . . . . 12

### Committee Meetings

Audit and Risk Review Committee . . . . . 5  
Conduct Review and Corporate Governance Committee . . . . . 4  
Human Resources Committee . . . . . 5  
Investment Committee . . . . . 4

## APPOINTMENT OF AUDITOR

On the advice of the Audit and Risk Review Committee, the Board recommends voting FOR the appointment of the accounting firm of Ernst & Young LLP (“E&Y” or the “External Auditor”) as auditor of the Company for the financial year commencing January 1, 2011 and ending December 31, 2011 and to hold office until the next Annual Meeting of the Shareholders. E&Y has served as auditor of Intact Financial Corporation and its predecessor companies since 1993. Please note that the lead audit partner in charge of the services provided to the Company is replaced every five (5) years.

## Pre-approval of External Auditor Services

As part of the Company’s corporate governance practices, the Audit Committee has adopted a policy restricting non-audit services that may be provided by E&Y to the Company or its subsidiaries. Prior to the engagement of the External Auditor for non-audit services, the Audit Committee must pre-approve the provision of such services with due consideration to avoiding an impact on auditor independence. This includes consideration of applicable regulatory requirements and guidance and the Company’s own internal policies. All services provided by E&Y during the past two (2) years have received the approval of the Board of Directors further to the recommendation of the Audit Committee. Fees paid to the External Auditor for 2009 and 2010 are as follows:

### Auditor Fees

(in thousands of dollars)

	<u>2010</u>	<u>2009</u>
Audit Fees <sup>(1)</sup> . . . . .	789	700
Audit-Related Fees <sup>(2)</sup> . . . . .	280	391
Tax Fees <sup>(3)</sup> . . . . .	58	76
All Other Fees . . . . .	0	0
Total . . . . .	<u>1,127</u>	<u>1,167</u>

Notes:

- (1) Audit Fees include fees for professional services for the audit of the Company’s financial statements and those of its subsidiaries or other services that are normally provided by external auditors in connection with statutory and regulatory filings or engagements, including internal control audit and reviews.
- (2) Audit-Related Fees are for assurance and related services performed by the External Auditor. These services include pension fund audits, accounting consultations in connection with acquisitions and divestitures and interpretation of financial accounting and reporting standards, including IFRS, and other attest services not required by statute or regulation.
- (3) Tax Fees are for assistance with tax compliance, tax planning, and tax advice related to restructurings and tax audits and appeals related thereto.

Information regarding the Audit Committee as disclosed in the Company's 2010 Annual Information Form at pages 20 and 21 is hereby incorporated by reference.

## **SHAREHOLDER RIGHTS PLAN**

At the Annual and Special Meeting, shareholders will be asked to consider, and, if deemed advisable, to approve the Resolution confirming the Shareholder Rights Plan (the "Rights Plan") adopted by the Board of Directors on February 8, 2011. Under the listing policies of the TSX, a shareholder rights plan must be ratified by a corporation's shareholders within six months of its adoption failing which such plan shall terminate. The TSX has advised the Company that this requirement will be satisfied in respect of the Rights Plan if the Resolution approving the Rights Plan, a copy of which is reproduced as Schedule "C" to this Management Proxy Circular, is approved by a majority of votes at the Annual and Special Meeting.

Based on the advice of its legal advisors, the Board of Directors believes that the Rights Plan preserves the fair treatment of shareholders, is consistent with current Canadian corporate best practice and addresses institutional investor guidelines. The Rights Plan is not intended to prevent a take-over of the Company.

### **Background and Purpose of the Rights Plan**

The Board of Directors, after thorough examination of the issue and consultation with external advisors, decided that the adoption of the Rights Plan would be in the best interests of the Company and its shareholders. The Rights Plan is designed to provide the Company's shareholders and the Board of Directors additional time to assess an unsolicited take-over bid for the Company and, where appropriate, to give the Board of Directors additional time to pursue alternatives for maximizing shareholder value. The Rights Plan also encourages fair treatment of all shareholders by providing shareholders with an equal opportunity to participate in a take-over bid. The Rights Plan encourages a potential acquirer to proceed by way of a Permitted Bid (as defined below), which requires the take-over bid to satisfy certain minimum standards designed to promote fairness, or with the concurrence of the Board of Directors.

The Rights Plan was not adopted in response to any specific proposal to acquire control of the Company, nor is the Board of Directors currently aware of any pending or threatened take-over bid for the Company. The Rights Plan will be in effect for three years following its adoption by the shareholders.

### **Relevant Considerations**

Below is a summary of certain relevant considerations in connection with the Board of Directors' review and consideration of the Rights Plan. The Rights Plan has been adopted to address the concerns raised as part of these considerations.

#### Time

Current legislation permits a take-over bid to expire 35 days after it is initiated. The Board of Directors does not believe this is sufficient time to permit shareholders to consider a take-over bid and make a reasoned and unhurried decision or for other more favourable alternatives to be explored and developed.

#### Pressure to Tender

A shareholder may feel compelled to tender his or her Common Shares to a take-over bid which the shareholder considers to be inadequate out of a concern that in failing to do so, the shareholder may be left with illiquid or minority discounted shares.

#### Unequal Treatment

While existing securities legislation has addressed many concerns related to unequal treatment of shareholders, there remains the possibility that control of a company may be acquired pursuant to private agreements in which a small group of shareholders disposes of shares at a premium to market price, which premium is not shared by the other shareholders. Also, a person may slowly accumulate Common Shares

through stock exchange acquisitions which may result, over time, in the acquisition of control without payment of fair value for control or fair sharing of any control premium among all shareholders.

### Other Considerations

The Rights Plan does not inhibit shareholders from exercising their rights as shareholders under the Company's corporate statute, the *Canada Business Corporations Act*. These rights include the right to solicit proxies to promote a change in the composition of the Board of Directors and to requisition a shareholders meeting to transact any proper business stated in the requisition. In addition, the Rights Plan does not affect the financial condition of the Company. Finally, the issuance of rights will not change the manner in which shareholders currently trade their Common Shares.

### **Summary of Rights Plan**

The material terms of the Rights Plan are summarized below. This summary is qualified in its entirety by reference to the actual provisions of the Rights Plan, a copy of which is available on the SEDAR web site at [www.sedar.com](http://www.sedar.com), upon request from the Office of the Corporate Secretary of the Company, and will also be available at the Annual and Special Meeting. Certain definitions of the Rights Plan have been summarized at the end of this section for ease of reference.

#### *Issue of Rights*

The Rights Plan is effective on February 9, 2011. One right (a "Right") attaches in respect of each Common Share outstanding immediately following the close of business on February 9, 2011 (the "Record Time"). The Company will issue Rights on the same basis for each common share issued after the Record Time and before the earlier of the Separation Time and the Expiration Time.

#### *The Rights*

Each Right will entitle the holder, subject to the terms and conditions of the Rights Plan, to purchase additional Common Shares after the Separation Time.

#### *Exercise of Rights*

The Rights may not be exercised before the Separation Time.

After the Separation Time and before the Expiration Time, each Right entitles the holder to acquire one Common Share for an exercise price equal to four times the market price of the common shares as determined at the Separation Time (subject to certain anti-dilution adjustments).

If a Flip-in Event occurs before the Expiration Time, each Right (other than the Rights held by an Acquiring Person which become null and void on the occurrence of the Flip-in Event) may be exercised to purchase that number of common shares having an aggregate market price equal to twice the exercise price for an amount in cash equal to the exercise price (subject to certain anti-dilution adjustments).

#### *Redemption of Rights*

All (but not less than all) of the Rights may be redeemed by the Company with the prior approval of the shareholders at any time before a Flip-in Event occurs at a redemption price of \$0.00001 per Right (subject to adjustment). In addition, if a Permitted Bid, a Competing Permitted Bid or a bid in respect of which the Board has waived the operation of the Rights Plan is completed, the Company will immediately, and without further formality, redeem the Rights at the redemption price.

#### *Waiver*

The Board may, at any time before an acquisition of Common Shares under a take-over bid made by a take-over bid circular to all registered holders of Common Shares that would trigger a Flip-in Event, waive the application of the "Flip-in" provisions of the Rights Plan to the acquisition.

The Board may, with the prior approval of the shareholders, at any time before any other acquisition of Common Shares that would trigger a Flip-in Event, waive the application of the “Flip-in” provisions of the Rights Plan to the acquisition.

#### *Term of Rights Plan*

Unless otherwise terminated, the Rights Plan will expire at the Expiration Time.

#### *Fiduciary Duties of the Board of Directors*

The Rights Plan will not detract from or lessen the duty of the Board of Directors to act honestly and in good faith with a view to the best interests of the Company and its shareholders. The Board of Directors will continue to have the duty and power to take such actions and make such recommendations to the Company’s shareholders as are considered appropriate.

#### *Amending Power*

If the Rights Plan is approved by the shareholders of the Company, all amendments to the Rights Plan, other than amendments to correct clerical or typographical errors and amendments to maintain the validity of the Rights Plan as a result of a change of applicable legislation or applicable rules or policies of securities regulatory authorities, must be approved by a majority of the votes cast by shareholders, other than an offeror under a take-over bid or an Acquiring Person (or any associate or affiliate of the offeror or the Acquiring Person or any other person acting jointly or in concert with the offeror or the Acquiring Person). In addition, all amendments to the Rights Plan require the written concurrence of the Rights Agent and prior written consent of the Toronto Stock Exchange (as applicable).

#### *Definitions*

##### *Acquiring Person*

Subject to certain exceptions, an Acquiring Person is a person who becomes the Beneficial Owner of 20% or more of the outstanding Common Shares.

##### *Beneficial Owner*

A person is a Beneficial Owner of Common Shares if the person (or any associate or affiliate of the person or any other person acting jointly or in concert with the person) legally or beneficially owns Common Shares or has the right to acquire (immediately or within 60 days) Common Shares upon the exercise of any convertible securities or pursuant to any agreement, arrangement or understanding.

A person is not a Beneficial Owner of Common Shares if the person is engaged in the management of mutual funds, investment funds or public assets for others (e.g., a fund manager, trust company, pension fund administrator, trustee or a registered broker or dealer administering non-discretionary client accounts), as long as the person:

- (a) holds the Common Shares in the ordinary course of its business for the account of others; and
- (b) is not making a take-over bid or acting jointly or in concert with a person who is making a take-over bid.

##### *Separation Time*

The Separation Time occurs on the tenth trading day after the earliest of:

- (a) the first date of a public announcement that a person has become an Acquiring Person;
- (b) the date of the commencement or announcement of the intent of a person to commence a take-over bid, other than a Permitted Bid or Competing Permitted Bid; and
- (c) the date on which a take-over bid ceases to be a Permitted Bid or Competing Permitted Bid;

(or, in the case of (b) or (c), such later date as the Board may determine in good faith).

#### *Expiration Time*

If the shareholders approve the Rights Plan, the Expiration Time will occur on the earliest of:

- (a) the time at which the right to exercise the Rights terminates in accordance with the Rights Plan;
- (b) immediately after the annual meeting of shareholders to be held in 2014 and every third year thereafter unless the Rights Plan is reconfirmed at that meeting; and
- (c) the tenth anniversary of the date the Rights Plan was adopted by the Board.

#### *Flip-in Event*

A Flip-in Event occurs when a person becomes an Acquiring Person.

Upon the occurrence of a Flip-in Event, any Rights that are legally or beneficially owned by an Acquiring Person, will become null and void. As a result, the Acquiring Person's ownership interest in Intact Financial Corporation will be greatly diluted if a substantial portion of the Rights are exercised after a Flip-in Event occurs.

#### *Permitted Bid*

A Permitted Bid is a take-over bid that satisfies the following conditions:

- (a) the bid is made to all holders of Common Shares (other than the offeror);
- (b) the offeror agrees that no Common Shares will be taken up or paid for under the bid for at least 60 days following the commencement of the bid;
- (c) the offeror agrees that no Common Shares will be taken up or paid for under the bid unless, at the time of take-up or payment, more than 50% of the outstanding Common Shares held by shareholders, other than the offeror (or any associate or affiliate of the offeror or any other person acting jointly or in concert with the offeror), have been deposited pursuant to the bid and not withdrawn;
- (d) the offeror agrees that the Common Shares may be deposited to and withdrawn from the bid at any time before Common Shares are taken up and paid for; and
- (e) if, on the date specified for take-up and payment, condition (c) is satisfied, the bid will remain open for an additional period of at least 10 business days to permit the remaining shareholders to tender their Common Shares.

#### *Competing Permitted Bid*

A Competing Permitted Bid is a take-over bid that satisfies the following conditions:

- (a) the bid is made after the commencement and before the expiry of a Permitted Bid;
- (b) the bid satisfies all the conditions of a Permitted Bid other than Permitted Bid condition (b); and
- (c) the offeror agrees that no Common Shares will be taken up or paid for under the bid before the close of business on a date that is not earlier than the later of:
  - (i) 35 days after the date of the Competing Permitted Bid, and
  - (ii) the 60<sup>th</sup> day after the date on which the earliest prior bid was made.

The full text of the resolution of the shareholders confirming the shareholder rights plan of Intact Financial Corporation is available at Schedule C of this Management Proxy Circular.

## SHAREHOLDER ADVISORY VOTE ON APPROACH TO EXECUTIVE COMPENSATION

The Board of Directors believes that shareholders should have the opportunity to fully understand the objectives, philosophy and principles that the Board has used to make executive compensation decisions. In 2011 the Board decided to hold a non-binding advisory vote on the approach to executive compensation as disclosed in this Management Proxy Circular. It is the Board's intention that this shareholder advisory vote will form an important part of the ongoing process of engagement between shareholders and the Board on compensation.

Shareholders are invited to review the "Compensation Discussion and Analysis" section starting on page 30 of this Management Proxy Circular before voting on this matter and, if there are specific concerns you wish to discuss, contact the Board by writing to the Office of the Corporate Secretary, Intact Financial Corporation, 700 University Avenue, Suite 1500-A (Legal), Toronto, Ontario, Canada, M5G 0A1, or by e-mail as indicated in the Corporate Governance section of the Company's web site at [www.intactfc.com](http://www.intactfc.com). The "Compensation Discussion and Analysis" section discusses the Board's compensation philosophy, the objectives of the different elements of the Company's compensation programs and the way the Board assesses performance and makes decisions. It explains how the Company's compensation programs are centered on a pay-for-performance culture and are aligned with strong risk management principles and the long-term interests of shareholders. This disclosure has been approved by the Board of Directors on the recommendation of the Board's Human Resources Committee with the support of the Human Resources Committee's external consultant, Towers Watson.

**The Board of Directors recommends that shareholders APPROVE the following non-binding advisory resolution:**

**"BE IT RESOLVED, on a non-binding and advisory basis and not to diminish the role and responsibilities of the Board of Directors, that the shareholders accept the approach to executive compensation disclosed in the Company's management proxy circular delivered in advance of the 2011 annual meeting of shareholders."**

### 3: REPORTS OF THE COMMITTEES

The main responsibility of the Board of Directors is to oversee the management of the business and affairs of the Company. In this regard, the Board of Directors establishes policies, reporting mechanisms and procedures in view of safeguarding the assets of the Company and ensuring its long-term viability, profitability and development.

More specifically, the mandate of the Board of Directors is to review and approve strategic planning and the corporate objectives of the Company, supervise Management and ensure succession planning, identify risks and assess their impact on the business and affairs of the Company, and ensure that adequate controls exist in relation to Business Ethics, Compliance and Corporate Governance, including monitoring of conflicts of interest.

To this end, the Board of Directors delegates certain of its functions to Committees and these Committees are responsible for reviewing the above aspects more closely and reporting their findings to the Board of Directors. The Board of Directors, the Committees and their members may retain independent consultants to advise them. The reports of the main Committees of the Board of Directors are reproduced hereunder.

#### REPORT OF THE AUDIT AND RISK REVIEW COMMITTEE

##### Role of the Audit and Risk Review Committee

The Audit and Risk Review Committee (in this section, the "Committee") is responsible for reviewing and evaluating the integrity of the financial statements of the Company and overseeing the accounting and financial reporting processes. The Committee ensures the effectiveness and the accuracy of appropriate internal controls and risk management programs.

The Committee also ensures that financial reporting and disclosures are in compliance with legal and regulatory requirements, and reviews and assesses the qualifications, independence and performance of the External Auditor.

The Committee is responsible for reviewing the certification process and the certifications by the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) of the financial statements of the Company, as required by applicable legislation.<sup>(1)</sup>

### **Composition of the Audit and Risk Review Committee**

The Committee meets the legal requirements for independence. The Committee is composed of at least three (3) Directors of the Board, each of whom must be independent, and is currently composed of four (4) Directors, all of whom are independent Directors, and none of whom is a member of Management or an employee of the Company or its P&C insurance subsidiaries. Each Committee member is “financially literate” within the meaning of the rules of the Canadian Securities Administrators (“CSA”) relating to audit committees.

The Committee is composed of the following four (4) independent individuals:



Eileen Mercier Yves Brouillette Robert W. Crispin Stephen G. Snyder

The Committee met five (5) times in 2010. The President & CEO and other members of management attended meetings at the invitation of the Chair of the Committee. Detailed materials were distributed in advance of each meeting, containing information which allowed the Committee to make informed decisions. In-camera sessions were held at every meeting. The Committee members attended all of the 2010 meetings, except Stephen G. Snyder who was absent for one meeting.

### **Approval of the Financial Information**

In line with its Mandate, the Committee has performed the following functions in 2010:

#### Financial Review

- reviewed on a continuing basis the best practices in relation to new laws and rules that apply to the Company; in this regard, the CEO and the CFO continued to certify the Company’s consolidated financial statements as required under National Instrument 52-109 — *Certification of Disclosure in Issuer’s Annual and Interim Filings*;
- reviewed financial disclosure documentation, including interim and annual financial statements, Management’s Discussion and Analysis, Annual Information Form and press releases of the Company, and either approved such documents or recommended them for approval to the Board of Directors.

#### Internal Controls and Disclosure Controls

- reviewed quarterly reports of the internal auditor (“Internal Auditor”) and evaluated internal audit processes and adequacy of resources;
- reviewed the reports from the Senior Vice-President, Corporate and Legal Services and Secretary on legal, compliance and governance matters and matters related to litigation;
- reviewed the reports of the Internal Auditor and Management’s response to comments;

(1) The mandate of this Committee is presented in its entirety in the Company’s Annual Information Form for the most recently completed financial year.

- reviewed and ensured the effectiveness of the transition to and implementation of the new International Financial Reporting Standards (IFRS).

#### External Auditor

- reviewed and assessed the External Auditor's Audit plan and execution thereof;
- reviewed and approved all audit and permitted non-audit services performed by the External Auditor, as well as related fees;
- approved the independent audit fees and services and recommended them to the Board of Directors for approval;
- reviewed the policies governing the hiring of personnel employed by the External Auditor;
- ensured the qualifications, performance and independence of the External Auditor;
- recommended to the Board of Directors the appointment of the External Auditor;
- met regularly with the External Auditor without the presence of Management.

#### Risk Management

- reviewed the reports of the Chief Risk Officer and Appointed Actuary on risk management, reinsurance programs, implementation plans, actuary and progress reports;
- reviewed special projects and related risks.

The Committee also periodically reviews its mandate against laws, regulations and best practices to make sure that it carries out all of its duties according to applicable requirements and meets its objectives of overseeing the integrity of the Company's financial statements.

#### **Engagement of External Consultants**

The Committee is authorized to and has procedures for the engagement of external consultants at the expense of the Company. In this regard, the Committee occasionally retained external consultants in 2010.

#### **Private Meetings**

The Committee regularly held private meetings with each of the Chief Financial Officer, the Internal Auditor, the External Auditor, the Chief Risk Officer and Appointed Actuary and the Senior Vice-President, Corporate and Legal Services, and Secretary (or the Vice-President, Legal Services and Compliance, and Assistant Secretary), and Management.

The Committee is satisfied that it has appropriately fulfilled its mandate in 2010.

(Signed) Audit and Risk Review Committee

Eileen Mercier (Chair)  
 Yves Brouillette  
 Robert W. Crispin  
 Stephen G. Snyder

## **REPORT OF THE CONDUCT REVIEW AND CORPORATE GOVERNANCE COMMITTEE**

### **Role of the Conduct Review and Corporate Governance Committee**

The Conduct Review and Corporate Governance Committee (in this section, the “Committee”) is responsible for ensuring a high standard of ethics, compliance and governance in the Company.

In this regard, the Committee is responsible for overseeing compliance and governance programs of the Company including reviewing and approving related party transactions, the governance framework of the Company’s pension plans, the compliance and market conduct programs and policies of the Company, as well as the implementation and review of corporate governance initiatives. In performing its oversight function over ethics, compliance and governance, the Committee ensures that the Company and its subsidiaries meet their legal requirements and apply best practices, as they may evolve from time to time.

As part of its mandate, the Committee reviews the Company’s policy on appointment of Board and Committee members and identifies and recommends candidates for nomination to the Board of Directors. The Committee is also responsible for the implementation and review of the nomination process as well as the implementation and review of orientation and education programs for Board members, and maintains a process for assessing the performance of the Board of Directors, its Committees, Board and Committee Chairs and individual Directors.

The Committee is also now responsible, as of January 1, 2010, for reviewing Directors’ remuneration and makes recommendations to the Board of Directors in this regard.

### **Composition of the Conduct Review and Corporate Governance Committee**

The Committee is composed of a minimum of three (3) Directors, and currently composed of six (6) Directors, all of whom are independent Directors, and none of whom is a member of Management or an employee of the Company or its P&C insurance subsidiaries.

The Committee is composed of the following six (6) individuals:



Marcel Côté   Yves Brouillette   Timothy H. Penner   Louise Roy   Stephen G. Snyder   Carol Stephenson

The Committee met four (4) times in 2010. The President & CEO and other members of Management attended meetings at the invitation of the Chair of the Committee. Detailed materials were distributed in advance of each meeting, containing information which allowed the Committee to make informed decisions. In-camera sessions were held at every meeting. The Committee members attended all of the 2010 meetings, except Carol Stephenson who was absent for the first meeting. During 2010, Timothy Penner replaced Ivan Duvar as a member of this committee. Mr. Duvar attended the first two meetings, while Mr. Penner attended the last two meetings.

### **Oversight over Compliance and Market Conduct Programs**

The Committee reviewed and approved the Company’s various compliance programs including the Ombudsman’s Office, the Privacy Office, market conduct initiatives, as well as key compliance risks, incidents and compliance projects, and the Company’s relationships with clients, brokerages and regulatory authorities. A list of our principal risks can be found in our annual Management’s Discussion & Analysis for the year ended December 31, 2010, available on our web site at [www.intactfc.com](http://www.intactfc.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Related Party Transactions and Conflicts of Interest**

The Committee reviewed the related party transactions during the year in accordance with applicable legislation to ensure that such transactions were at fair market value or at conditions at least as favourable as prevailing market terms and conditions, or fair value if fair market value references did not exist, and reviews the Company's procedures to ensure compliance with applicable legislation and their effectiveness in identifying related party transactions that may have a material effect on the stability and solvency of the Company.

More specifically, the Committee approved inter-company services, charges and inter-company reinsurance agreements, including those between Intact Financial Corporation and its P&C subsidiaries; the Committee also reviewed the Directors and Officers Questionnaires for 2010 relating to Conflict of Interest, and no concern was identified in this regard.

## **Corporate Governance**

The Committee monitors ongoing developments regarding corporate governance and identifies potential conflicts of interest among Directors. The Committee reviews governance subjects or issues that it identified at the request of the Board of Directors, other committees of the Board of Directors or the Company, including advisory votes on executive compensation, Director evaluation and compensation and shareholder engagement.

## **Board of Directors Appointment and Assessment Processes**

The Committee reviewed the results of the annual Self-Assessment on the Effectiveness of the Board of Directors, as well as the evaluations of the Committees of the Board of Directors. The Committee also reviewed the nomination process in place for the appointment of Directors.

The Committee also reviewed the Self-Assessment process of Directors for 2010, which includes self-assessment by each Director and a private meeting with the Chair of the Board of Directors to discuss such self-assessment.

The above processes of the Board were managed by the Secretary's Office of the Company for 2010.

The Chair also privately discussed peer review with each member of the Board of Directors, and the Chair of the Committee discussed the performance of the Chair of the Board of Directors with each member of the Board of Directors and then reviewed such performance with Mr. Dussault.

Every year, the Secretary's Office reviews the results of the assessment of the Board of Directors, of its committees and of its members, including the Chair, and proposes an action plan in view of continued improvement and enhancement of the functions and efficiency of the Board of Directors and its committees. Such action plan is reviewed and approved by the CRCG and the Board of Directors, and realization of the action plan is also commented on by the Board members the following year.

## **Engagement of External Consultants**

The Committee has procedures for the engagement of external consultants. While the Board of Directors, its committees and individual members of the Board are authorized to engage consultants at the expense of the Company, the Committee is responsible for approving such engagements in certain circumstances that could occur, such as where there may be conflicts of interest or disagreements in relation to the hiring of consultants. The Board of Directors and the HR Committee occasionally retained external consultants in 2010. Please see the Report of the HR Committee, below, in this regard.

## **Say on Pay**

With regards to executive compensation, the Committee has monitored developments involving greater shareholder engagement in this area, more specifically as they relate to the question of shareholder advisory votes, or "Say on Pay." After discussion, the Committee recommended the implementation of a non-binding advisory vote on the Company's approach to executive compensation. The Committee will continue to monitor this subject and if necessary, pursue further analysis in relation to the overall context of the Company.

## **Activities of the Conduct Review and Corporate Governance Committee in 2010**

In 2010, the Committee, in accordance with its mandate, accomplished the following:

### **Board of Directors Appointment, Assessment and Corporate Governance**

- Reviewed its assessment practices and conducted assessments of the Board of Directors, the Board and Committee Chairs, and its individual members;
- Reviewed the completed Directors and Officers Questionnaires on Conflicts of Interest;
- Reviewed Directors' share ownership requirements;
- Reviewed the list of criteria for the recruitment of new board members, including discussion of the required qualifications; and made its recommendations to the Board of Directors;
- Reviewed the Board and Committee meeting structures and made recommendations to the Board of Directors;
- Reviewed best practices and benchmarking; and
- Reviewed and recommended to the Board of Directors in relation to the remuneration of Directors and the DSU and Share Purchase Program.

### **Compliance, Regulatory and Related Party Transactions**

- Prepared annual report to the Office of the Superintendent of Financial Institutions Canada ("OSFI") and to the Autorité des marchés financiers on the activities of the Committee in 2009;
- Completed background checks on Directors and Officers as per OSFI guidelines;
- Reviewed related party transactions between the Intact companies, including inter-company reinsurance agreements;
- Reviewed compliance reports indicating the key ongoing compliance risks, key incidents, regulatory matters and key compliance projects, including discussions and reports relating to social media risks;
- Reviewed and recommended to the Board of Directors changes to the outsourcing policy;
- Reviewed and recommended to the Board of Directors changes to the Corporate Disclosure and Insider Trading Policies, including changes to the blackout period.

### **Strategies and Mandate of the Committee**

- Reviewed and approved the Conduct Review and Corporate Governance sections of the 2010 Management Proxy Circular;
- Reviewed the governance framework of the Company's pension funds further to the departure of ING Group and recommended changes to the Board of Directors;
- Reviewed and recommended to the Board of Directors a revised mandate for the Committee.

The Committee is satisfied that it has appropriately fulfilled its mandate in 2010.

(Signed) Conduct Review and Corporate Governance Committee

Marcel Côté (Chair)  
Yves Brouillette  
Timothy H. Penner  
Louise Roy  
Stephen G. Snyder  
Carol Stephenson

## REPORT OF THE HUMAN RESOURCES COMMITTEE

### Role of the Human Resources Committee

The Human Resources Committee (in this section, the “Committee”) oversees the management of the Company in relation to human resources matters, including compensation of employees, management and executives, assessment of the President and Chief Executive Officer (“President & CEO”) and senior executives, and succession plans.

In this regard, the role of the Committee is to assist Management in defining a comprehensive management policy that supports the Company’s overall strategy and objectives, attracts and retains talent and key executives, links total compensation to financial performance and to the attainment of strategic objectives and provides total competitive opportunities at a reasonable cost while enhancing the ability of the Company to fulfill its objectives. This includes policies and programs to foster a positive culture within the organization and to ensure high performance of all employees.

Regarding compensation, the Committee reviews, at least annually, the overall market positioning of employees and approves the budget merit increase envelope for the year. It also reviews, at least annually, the total remuneration of Management in relation to pre-established objectives of the Company, as well as the individual compensation of the Senior Executives of the Company, which it approves in relation to pre-established objectives of the Company and personal objectives of the Senior Executives for the year.

The Committee is also responsible for reviewing the Company’s Pension and Incentive Plans (“Plans”) and recommends them to the Board of Directors for approval. The Committee approves amendments to such Plans or recommends such changes to the Board of Directors if the design of such Plans is fundamentally changed or if they are replaced by new Plans. The Committee is also responsible for approving the financial statements of the Company’s pension funds and recommends to the Board of Directors the approval of the actuarial valuations.

The Committee reviews and assesses Management’s proposals for major reorganizations of the Company that affect the management structure and its composition, and makes recommendations to Management and to the Board of Directors in this regard. It also reviews and recommends to the Board of Directors the annual statement on executive compensation included in this Circular that is filed with regulators and communicated to the Company’s shareholders.

### Composition of the Human Resources Committee

The Committee meets the best practice requirements for independence. It is composed of five (5) Directors, all of them being independent Directors, and none of whom is an officer or employee of the Company. None of the Committee members are eligible to participate in the Company’s executive compensation programs.

The Committee’s breadth of executive compensation knowledge was developed from their different combined experiences, as former entrepreneurs, business owners and top executives in large corporations. All members have served as directors on public company boards. In 2007, Mr. Paul Cantor acted as Chair of the Blue Ribbon Commission sponsored by the Institute of Corporate Directors. This Commission researched and reported on and recommended best practices in Canadian corporations for executive compensation governance and executive compensation measurement and evaluation.

The Committee is composed of the following five (5) individuals:



Carol Stephenson Paul Cantor Marcel Côté Timothy H. Penner Louise Roy

The Committee met five (5) times in 2010. The President & CEO and other members of management attended meetings at the invitation of the Chair of the Committee. Detailed materials were distributed in advance of each meeting, containing information which allowed the Committee to make informed decisions. In-camera sessions were held at every meeting. The Committee members attended all of the 2010 meetings, except Ivan Duvar who was absent for the first meeting. During 2010, Timothy Penner replaced Ivan Duvar as a member of this committee. Mr. Duvar attended the May meeting, while Mr. Penner attended the last three meetings.

#### **Activities of the Human Resources Committee in 2010**

In 2010, the Committee, in accordance with its mandate, accomplished the following:

##### **Compensation**

- Reviewed the market positioning of the Company and conducted annual merit and market review of both executive and employee compensation, including that of the Chief Executive Officer;
- Reviewed the Company's approach to the management of its pension plans (legislation, funding, actuarial valuations and pension indexation recommendations);
- Reviewed and approved the remuneration for Senior Management;
- Reviewed and approved Short-Term Incentive Plans ("STIP") for Senior Management and employees and Long-Term Incentive Plans ("LTIP"), including plans for Senior Management and Intact Investment Management Inc. participants;
- Reviewed and approved the CEO's STIP, LTIP and total compensation;
- Reviewed current and emerging market trends and best practices; and
- Reviewed the merit, appropriateness, and competitiveness of providing a special award to executives for the successful transition from ING Canada to Intact Financial Corporation.

##### **Assessments and Succession Planning**

- Reviewed the assessment of the CEO and the CEO's performance objectives for 2010 and reported to the Board of Directors in relation to the approval by the Board of Directors of the compensation of the CEO;
- Reviewed the Succession Plans of the CEO and Senior Vice Presidents.

##### **Strategies and Mandate of the Committee**

- Reviewed and approved the Human Resources sections of the 2010 Management Proxy Circular;
- Reviewed and approved the mandate of the Committee;
- Reviewed and approved an audit of executive compensation alignment with the Principles and Standards of the Financial Stability Board presented by our independent advisor;
- Reviewed the Company's Corporate Social Responsibility strategy; and
- Reviewed action plans related to diversity in the workplace.

##### **Succession Planning**

Each year, the company conducts succession planning. In this regard, it establishes succession plans and prepares reports for critical functions including Senior Management and the Chief Executive Officer. Such reports are presented to the Committee for review, analysis, discussion and reporting to the Board of Directors.

In relation to this plan, the Company takes action to prepare the next level of succession for each level of management. Lateral movements to diversify exposure, leadership training, mentoring and special programs are provided for certain of these persons.

#### **Role of Executive Officers in Compensation Decisions**

The Chief Human Resources Officer works with the President & CEO to prepare presentations for each meeting of the Committee and assists the President & CEO in developing and presenting to the Committee recommendations and supporting material regarding the compensation of Senior Executives. Supporting material is also provided to the Committee for the President & CEO position, but without any recommendations. The Secretary's Office separately manages the assessment process of the CEO by the members of the Board and reports the results of such assessment to the Committee and to the Board of Directors, such assessment being part of the assessment of the CEO in relation to attainment of the Company's financial objectives, his own personal objectives and his total compensation.

The Chief Risk Officer works with the President & CEO to review the personal objectives of Senior Management to ensure that, individually as well as aggregately, they do not provide incentive for excessive risk taking.

The Committee is satisfied that it has appropriately fulfilled its mandate in 2010.

(Signature) Human Resources Committee

Carol Stephenson (Chair)

Marcel Côté

Paul Cantor

Timothy H. Penner

Louise Roy

## 4: COMPENSATION DISCUSSION AND ANALYSIS

The following has been prepared to enhance the quality and transparency of the Company's executive compensation disclosure. It provides explanations regarding the objectives and implementation of the Company's executive pay programs.

### Introduction

The Board of Directors mandated the Human Resources Committee (in this section, the "Committee") to supervise and approve or recommend to the Board of Directors the human resources practices and policies of the Company that support the Company's overall strategy and objectives. The values guiding the Company in achieving its objectives are the following: behaving with integrity, respecting each other, being customer-driven, striving for excellence and being socially responsible. The compensation philosophy described below supports the Company's mission as well as its values.

### Compensation Philosophy

Behind each of Intact Financial Corporation's products and services is a team of motivated, intelligent and hard-working employees. To be successful and sustain its position as the largest provider of home and auto insurance in the country, the Company must attract, retain and motivate talented Executives and Senior Executives in a highly competitive business environment. The Committee wants Intact Financial Corporation's leaders to focus on sustaining high levels of performance and growth in shareholder value, reinforcing the pay-for-performance philosophy. Senior Executives play a key role in meeting the Company's objectives. The review, assessment and approval of the Senior Executives' compensation is indeed one of the main functions of the Committee. Objectives of the Executive compensation package are the following:

- attract, retain and motivate talented Executives and Senior Executives in a highly competitive business environment;
- align the objectives of employees with those of the Company and the long-term interests of shareholders;
- link individuals' short-term incentives both to individual performance and to the achievement of the Company's financial and strategic results;
- link Executives' and Senior Executives' long-term incentives to the Company's financial results relative to the financial results of the rest of the Canadian P&C insurance industry.

To achieve the above objectives, the Committee:

- sets target total compensation levels (including base salary, short-term and long-term incentives, perquisites, benefits and pension) aligned to the market median of the relevant comparator market (see detailed comparator group below);
- implements ownership guidelines as appropriate;
- awards additional incentive compensation that rewards performance and recognizes special achievements, as appropriate.

### Alignment of compensation with risk management principles

The Company's compensation programs are founded on principles and processes that support the management of risk, ensuring management's plans and activities are prudent and focused on generating shareholder value within an effective risk control environment. In 2010, the Independent Compensation Consultant retained by the Company assessed the alignment of its major compensation programs with the

Financial Stability Board’s principles for sound compensation practices and made recommendations for changes. The Committee reviewed the assessments and approved the following enhancements to compensation programs:

- Reinforcement of existing clawback policy by adding to the definitions and scope of Confidential Information and Non-Solicitation clauses, as well as a stricter process regarding certain matters, for example the return of confidential information after departure or termination.
- No-hedging policy has been expanded to include any traded securities (vs. shares only);

In addition, the Committee now formally meets periodically with the Chief Risk Officer to discuss how the Company’s compensation approach and programs align with sound risk management principles and how the compensation structure and design result in incentive awards that are symmetric with risk outcomes.

### **Components of the Compensation of Executives of Intact Financial Corporation and its Subsidiaries**

The executive compensation package applies to all of the Company’s executives (Vice Presidents, referred to as “Executives” in sections 4 through 8 of this Circular, approximately 80 positions) and senior executives (Senior Vice Presidents and above referred to as “Senior Executives” in sections 4 through 8 of this Circular, approximately 20 positions). It is designed to assist the Company in attracting and retaining the best available personnel for positions of substantial responsibility and align their interests with those of the Company’s shareholders. Each year the Company reviews its compensation package (the Committee reviews the compensation of Senior Executives, and Senior Executives review the compensation package of Executives) to ensure alignment with the compensation philosophy. The Committee also reviews the compensation philosophy on a yearly basis. The following components are part of the executive compensation package:

#### **1. Base Salary:**

- Goal: to provide fixed compensation based on the external market as well as internal equity with respect to the role, scope, responsibilities and accountabilities within Intact Financial Corporation, and the experience and performance of the individual in the role.

<b>Compensation element</b>	<b>Type</b>	<b>Audience</b>	<b>Performance</b>	<b>Payouts based on</b>	<b>Market positioning</b>
Base Salary	Cash	All executives	Annual	Adjustments based on individual performance and market trends	target = median

- Administration: Salaries are reviewed once a year by the Committee, with an effective date of April 1 for employees and Executives, and of January 1 for Senior Executives. Market distributions are available for all positions, including Senior Executive positions. While target total compensation levels are at the market median, actual total compensation may be above market median for the best performers when expectations in terms of growth, combined ratios (expenses and claims ratios) and return on equity (“ROE”) performance relative to the Canadian P&C industry are met or exceeded. In order to assess the value of the compensation for Senior Executives (base salary, short term and long term incentives,

pension and benefits and perquisites), the aggregate comparator group generally used when observing market trends is composed of the following companies:

Allstate Insurance Company of Canada	Lombard Canada Ltd.
Aviva Canada Inc.	Manulife Financial Corporation
AXA Canada Inc.	Mouvement Desjardins
Bank of Montreal	National Bank of Canada
Chartis Insurance Company of Canada	Royal & SunAlliance Canada
Chubb Insurance Company of Canada	RBC Financial Group
Co-operators General Insurance Company	RBC Insurance
Dominion of Canada General Insurance	Standard Life Assurance Company Ltd.
Economical Insurance Group, The	Sun Life Financial Inc.
Great-West Life Assurance Company, The	TD Bank Financial Group
HSBC Bank Canada	Wawanesa Mutual Insurance Company
Laurentian Bank of Canada	

Scope of comparator group compares to that of Intact Financial Corporation as follows:

	2010	
	Revenues (\$M)	Employees (#)
25 <sup>th</sup> percentile	1,217	1,627
Median	2,348	3,359
75 <sup>th</sup> percentile	13,369	16,349
Intact	4,621	7,000

This comparator group comprised of twenty-three (23) Canadian companies has been approved by the Committee following a recommendation developed jointly by the external consultants and Intact's human resources team to reflect the organization's natural labour pool. The comparator group, which is itself reviewed on an annual basis by the Committee, is composed of major Canadian banks and companies of comparable size, scope and geographic span, including other large financial services institutions, among which are life insurance companies and P&C companies. The Committee believes that the selected companies represent an accurate mix between casualty insurance companies, life insurance companies, and banking/financial services companies.

The President & CEO's compensation is established separately by the Committee. Mr. Brindamour's base salary represents 99% of his market median. The Committee is satisfied with this positioning based on their assessment of Mr. Brindamour's performance since his appointment on January 1, 2008. Mr. Tullis' base salary represents 90% of the market median, which is reflective of Mr. Tullis' long industry experience while taking internal equity into consideration. Mr. Iles, Mr. Gagnon and Mr. Pontbriand's base salaries represent 109% of their respective market median, on aggregate.

## 2. Short Term Incentive Plan (STIP):

- Goal: to link compensation to a combination of individual contributions and national financial performance that enhances shareholder and customer value, rewards employees who help Intact

Financial Corporation achieve its business goals, and attract and retain the talent necessary for the Company's success.

Compensation element	Type	Audience	Performance	Payouts based on	Market positioning
Short-Term Incentive Plan (STIP)	Cash	All executives	1 year	Achievement of Company's strategic financial and non-financial objectives, and individual goals	target = median

- Administration: All permanent employees, including Executives and Senior Executives, participate in the annual, cash-based STIP. Awards are earned on the achievement of the Company's strategic financial objectives and the personal performance of individual participants. At the beginning of each year, a target incentive opportunity is communicated to each participant, based on the internal value of the position as well as alignment to the market median of the relevant market. This target incentive opportunity is expressed as a percentage of the participant's salary, and reflects the bonus practice of other Canadian financial companies for comparable positions. The target incentive is made up of several components, or objectives, and is paid at target for each specific target component, each with its own weight, if met. The target performance criteria are based on a composite of some or all of the following, depending on the particular position: combined ratio, operational earnings per share, direct premiums written growth, leadership and execution of strategic priorities.
- For each component, minimum and maximum levels are also set, allowing a sliding scale to be used, from zero at minimum level to twice the targeted amount at maximum level. Individual performance objectives represent at target, 25% of the weight of the overall target incentive for Senior Executives and 50% for the Executives.

The 2010 STIP payout targets as a percentage of base salary for NEOs are as follows:

Name & Position	STIP minimum	STIP target	STIP maximum
Charles Brindamour President & CEO	0%	100%	2X = 200%
Mark Tullis Chief Financial Officer	0%	65%	2X = 130%
Louis Gagnon President, Intact Insurance	0%	55%	2X = 110%
Derek Iles SVP Western Canada & Vice-Chair	0%	55%	2X = 110%
Marc Pontbriand Executive Vice President	0%	55%	2X = 110%

The following table sets forth the 2010 Financial Performance Measures that are applied under the STIP to determine the amount of the award to Senior Executives. These objectives represent at target, 75% of the weight of the overall target incentive.

Financial Metrics	Weight
Growth (in DWP) Relative to the Industry	10%
Profitability (Combined Ratio) Relative to the Industry	25%
Operating Earnings per Share	40%

Two of the current financial measures (growth & profitability) for the incentive payment are based on the company's performance relative to the industry average performance. The following table represents the payout for each NEO based on 2010 results and will be paid in the second quarter of 2011:

Name and Title	2010 STIP target (\$)	2010 STIP Financial Result (%)	2010 STIP result (75% financial & 25% personal)	2010 Total STIP (\$)
Charles Brindamour President & CEO	\$750,000	186.70%	165.0%	\$1,237,500
Mark Tullis Chief Financial Officer	\$260,000		167.8%	\$ 436,215
Louis Gagnon President, Intact Insurance	\$220,000		168.8%	\$ 371,305
Derek Iles SVP Western Canada & Vice-Chair	\$207,837		165.0%	\$ 342,983
Marc Pontbriand Executive Vice President	\$172,700		178.8%	\$ 308,744

### 3. Long Term Incentive Plan-Intact Financial Corporation 2010 Stock Incentive Plan (the "LTIP"):

- Goal: to align the rewards of IFC Executives and Senior Executives with Intact Financial Corporation shareholder value creation, communicate to the investor community that IFC Executives and Senior Executives have a stake in the success of the Company, reinforce the pay-for-performance philosophy, encourage participants to focus on sustaining high performance levels and growth in shareholder value, provide competitive levels of total compensation, and retain the services of key employees.

Compensation element	Type	Audience	Performance	Payouts based on	Market positioning
Long Term Incentive Plan (LTIP)	Performance Units (60%) Restricted Stock Units (40%)	All executives	3 years	IFC's three-year average ROE relative to Canadian P&C industry average ROE (for Performance Units). Not linked to performance for Restricted Stock Units. Payouts in the form of IFC Shares	target = median

- Administration: Under the LTIP, participants are awarded notional share units referred to as Performance Stock Units ("PSU") and Restricted Stock Units ("RSU"). The number of Units allocated to each participant is determined by dividing the economical value, which is a percentage of base salary (see LTIP payout target table below), by the average value of a Common Share of Intact Financial Corporation during the last quarter of the most recently completed financial year. The average price of one Common share during the last quarter of 2009 was \$35.06. The market median long-term incentive practices of Canadian financial services companies for comparable positions are considered when determining the size of individual awards. The payout for PSU's is based on a specific target determined by the Committee, composed of the difference between the three-year average ROE of the Company and that of the Canadian P&C industry. There is no payout if the actual ROE is less than the average of the industry, as reported to the regulatory authorities, and twice the target level is paid if the actual

differential is twice or more. RSU's automatically vest three years from the year of the grant. Vesting for RSU's is not linked to Intact's performance. At the time of vesting, one (1) RSU is converted to one (1) Common Share of Intact Financial Corporation. Each award vests and is paid out at the end of the three (3) year performance cycle, upon receiving approval from the Board. The payment is in the form of Intact Financial Corporation Common Shares (These common shares are purchased on the secondary market).

The LTIP 2010 payout ranges, as a percentage of salary, for NEOs are as follows:

Name & Position	LTIP minimum	LTIP target	LTIP maximum
Charles Brindamour President & CEO	0%	180%	2X = 360%
Mark Tullis Chief Financial Officer	0%	95%	2X = 190%
Louis Gagnon President, Intact Insurance	0%	100%	2X = 200%
Derek Iles SVP Western Canada & Vice-Chair	0%	100%	2X = 200%
Marc Pontbriand Executive Vice President	0%	90%	2X = 180%

A total of 223,494 Units (134,556 PSU's and 89,708 RSU's) were awarded in 2010 to LTIP participants. The awards for NEOs are detailed as follows:

Name & Title	2010 Performance Stock Units awarded	2010 Restricted Stock Units awarded	2010 Total award (#)
Charles Brindamour, President & CEO	23,103	15,402	38,505
Mark Tullis, Chief Financial Officer	6,503	4,336	10,839
Louis Gagnon, President, Intact Insurance	6,845	4,564	11,409
Derek Iles, SVP Western Canada & Vice-Chair	6,467	4,311	10,778
Marc Pontbriand, Executive Vice President	4,836	3,224	8,060

The following table sets forth the Performance Measures that are applied under the LTIP to determine the amount of the award of PSU's to Executives and Senior Executives. The performance measure used is Intact Financial Corporation's consolidated 3-year average ROE relative to the 3-year P&C industry average as reported by MSA Research Inc., excluding Intact P&C ROE (or such other source as the Committee determines to be appropriate in the circumstances).

8 percentage points of out-performance	=	200% payout (maximum)
4 percentage points of out-performance	=	100% payout (target)
Industry average performance	=	50% payout (threshold)
Below Industry average performance	=	0% payout

In June 2010, Executives and Senior Executives also received a special RSU award to reward them for their role in the highly successful transition from ING Canada to Intact Financial Corporation. This award had been previously approved by the Committee following a comparison of the transition outcomes with the predetermined transition goals. The number of RSU's awarded under the special grant to each Executive represents 50% of the total number of units awarded to them under the LTIP for the 3-year performance cycle 2010-2012. This award is competitive on the market for similar transactions.

A total of 104,883 RSU's were awarded. These RSU's will vest at 100% on June 10, 2013 (after 3 years). The awards for NEO's are detailed as follows:

Name & Title	2010 Special RSU award
Charles Brindamour, President & CEO	19,253
Mark Tullis, Chief Financial Officer	5,420
Louis Gagnon, President, Intact Insurance	5,705
Derek Iles, SVP Western Canada & Vice-Chair	5,389
Marc Pontbriand, Executive Vice President	4,030

**Prior Long Term Incentive Plans under Former Majority Owner ING Group:**

Certain NEOs had unexercised options or unsettled issues under prior plans of ING Group and ING Americas. Following the divestiture of ING Canada on February 19, 2009, under the terms of the ING Group Leo (Long-Term Equity Ownership) and Global Share Option Plan (“GSOP”) plans, participants including certain NEO's had 12 months and 90 days respectively to exercise their options, failing which they would lose all such rights. Approximately 75 participants were holding options under GSOP and Leo programs. Considering that all options had a nil in-the-money value and also taking into consideration that the original expiry dates of such rights went up to 2014, Intact Financial Corporation converted these plans into Share Appreciation Rights (SAR's) based on ING Group Share price to be settled in cash. The conversion ensured continuity of the program, ensured fairness for employees who have contributed to the success of the Company over the years and also ensured fairness to our shareholders. The conversion provided the same economic opportunity to participants as they had before divestiture, and honoured the terms of the option grants until their respective expiry dates. Awards already vested under prior ING Americas Stock Incentive Plan were credited to individual Notional Shares Accounts that become payable upon retirement or employment termination. Such accounts, under the same principle of fairness, were converted into notional IFC Common Shares and are credited with dividend equivalents. Please refer to pages 42 and 43 for specific detail.

**4. Pension & Benefits:**

- Goal: to guarantee each participant competitive benefits and a retirement income, in order to retain the Company's Executives and Senior Executives.
- Administration: Intact's Executives and Senior Executives benefit from two (2) pension plans: a base plan, which is a defined benefits plan with pensionable earnings to the annual limits allowed by the Canada Revenue Agency (“CRA”); and a supplementary executive retirement plan (“SERP”) that is capped to the difference between the limits established by the CRA and the Executive's or Senior Executive's pensionable earnings. The pension benefit under the registered plan is determined at retirement using a formula combining average earnings and service. Average earnings is defined as the average of the best 60 consecutive months of earnings during the last 120 months. The SERP serves as a retention tool for Executives and Senior Executives and vests when the Executive and Senior Executive has completed two (2) years of continuous service with the Company. For all participants, pensionable earnings comprise base salary; for Senior Executives, pensionable earnings also include 50% of STIP target. Please refer to the Pension plan section at page 44 of this Circular for details on these plans. In conjunction with a risk management strategy, the Committee submitted a recommendation to the Board of Directors in order to remove the automatic indexation provision in the registered pension plans for pension benefits accrued on or after January 1, 2011. In terms of company benefits, Executives and Senior Executives benefit from the same plan as other employees, which provides a number of options so each individual can design the medical, dental, life, disability and other insurance coverage that he or she wants for himself or herself and his or her dependants.

## 5. Perquisites:

- Goal: to provide Executives and Senior Executives with a group of perquisites that best meet their needs and lifestyle, which include the lease of a company car, a mortgage subsidy, a club membership, deposits in a Health Care Spending Account (HCSA), taxable cash, and a comprehensive medical examination.
- Administration: All Intact Financial Corporation Executives and Senior Executives are provided with a taxable cash allowance, equal to 5% of their base salary, plus \$7,500. The perquisite year runs from April 1 to March 31.

## Share Ownership Guidelines and Restrictions on Trading

In November 2009, the Committee adopted new share ownership guidelines for all executives including the five NEOs. As of their 2010 LTIP grant, Executives will now be expected to accumulate and own Intact Financial Corporation Common Shares over time. This practice, designed to more closely align Management's and shareholders' interests, is common in our industry and consistent with the principles of the Canadian Coalition for Good Governance. Executives are expected to accumulate two (2) times their annual LTIP target in IFC stock over time. There is a prescribed mechanism but no set time frame to satisfy this guideline. Participants in the LTIP must retain a minimum of 50% of their after-tax LTIP gains (from the 2010 and subsequent grants) in Company stock until they reach their target ownership. IFC stock for ownership guidelines purposes include stock currently owned, IFC stock bought on the market, or acquired through the LTIP in the future, as well as non-vested RSUs granted under the LTIP. Unvested PSU's are not included in the ownership calculation.

All NEOs comply with the share ownership guidelines since the implementation of the requirements and the majority of them have already met their target ownership levels. Below is a table representing the NEOs share ownership as a multiple of salary and their participation status, as of December 31, 2010.

Named Executive Officer	Target Ownership		Value of Shareholdings as at December 31, 2010				Total Holdings as a Multiple	Status
	Multiple	\$	Common Shares	Vested Deferred Share Units	Unvested Restricted Stock Units	Total Holdings		
Charles Brindamour	3.60 x salary	\$2,700,000	\$1,790,170	\$0	\$1,762,553	\$3,552,724	4.74 x salary	Not required
Mark Tullis	1.90 x salary	\$760,000	\$1,577,779	\$0	\$496,190	\$2,073,969	5.18 x salary	Not required
Louis Gagnon	2.00 x salary	\$800,000	\$50,860	\$0	\$522,281	\$573,141	1.43 x salary	Required
Derek Iles	2.00 x salary	\$755,770	\$503,667	\$294,683	\$493,342	\$1,291,692	3.42 x salary	Not required
Marc Pontbriand	1.80 x salary	\$565,200	\$50,962	\$0	\$368,938	\$419,900	1.34 x salary	Required

Based on Intact's December 31, 2010 closing stock price of \$50.86.

In 2005, the Committee adopted a policy whereby insiders are not permitted to engage in hedging activities with respect to IFC stock. This policy was expanded in 2010 to align more closely with the Financial Stability Board's principles for sound compensation practices. More specifically, insiders are prohibited from selling IFC's Common Shares or other traded securities directly or indirectly if they do not own them or have not fully paid for them. Insiders are also prohibited from directly or indirectly buying or selling a call or put on the Company's Common Shares.

## Clawback policy

IFC's long-term incentive plan agreement includes provisions that provide for the reimbursement of previously received LTIP remuneration, should the Corporation discover that an executive could or should have been terminated for cause after such payment has been made. This clawback is included in the LTIP agreement that must be signed by each executive to be entitled to become a participant.

In 2010, IFC expanded its forfeiture provisions by introducing a clawback and readjustment of compensation policy for key executives, IIM and other employees, including the NEOs, to align more closely with the Financial Stability Board's principles for sound compensation practices and emerging best practices. In

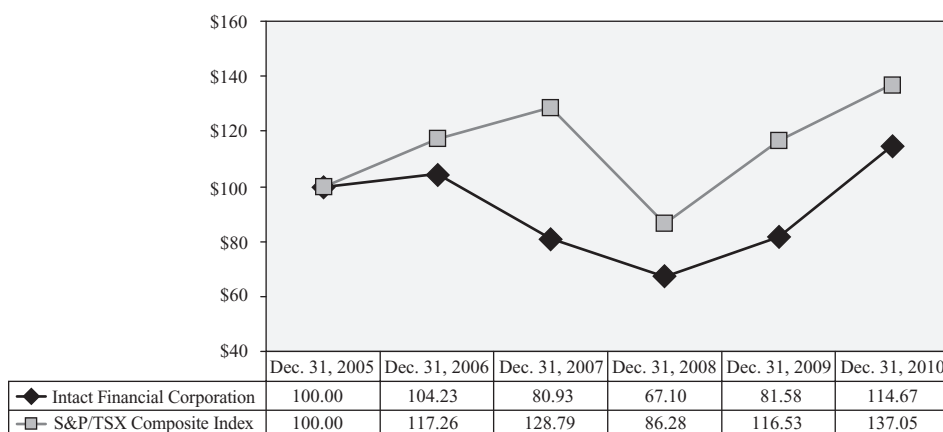
the event of fraud or misconduct, including failure to follow internal policies and procedures, IFC can adjust a key employee's compensation, recoup incentive awards that have already been paid or vested, as well as cancel unvested long-term incentive awards.

## Performance

The Company's performance-based compensation is intended to align the objectives of employees with those of the Company and the long-term interests of shareholders. Short-term incentives are linked both to individual performance and to the achievement of the Company's financial and strategic results, while long-term incentives are linked to the Company's financial results relative to the financial results of the rest of the Canadian P&C insurance industry over three years.

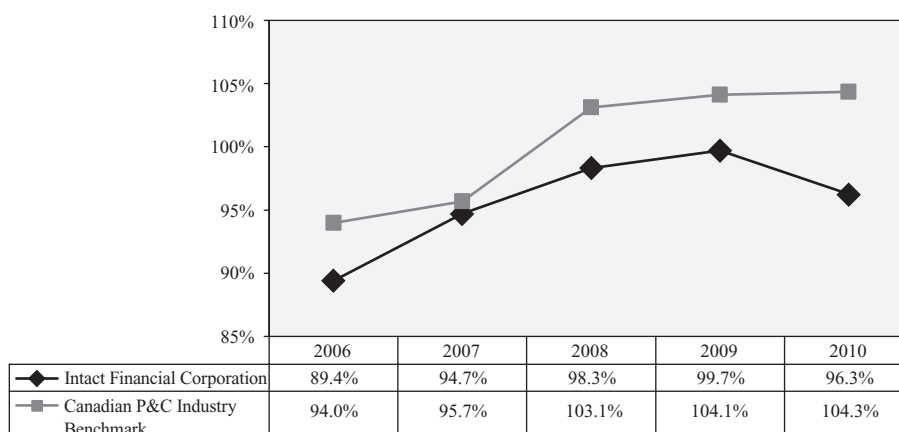
The Company's total shareholder return (including dividends) for 2010 of 40.6% was higher than the S&P/TSX Composite Index's total return of 17.6%. The following graph compares the total cumulative return for \$100 invested in Common Shares of the Company with the total cumulative return of the S&P/TSX Composite Index for the 5-year period from December 31, 2005 through December 31, 2010.

Cumulative Value of a \$100 Investment assuming Reinvestment of Dividends



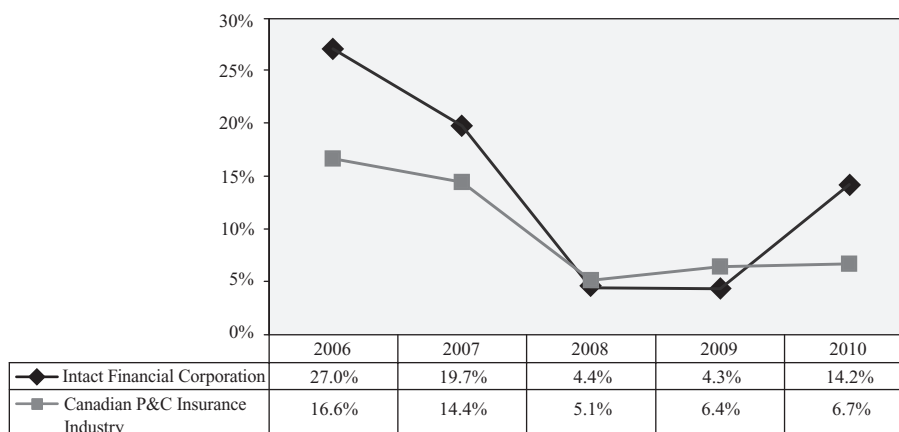
All permanent employees, including Executives and Senior Executives, participate in the annual, cash-based STIP. Awards are earned on the achievement of the Company's strategic financial objectives (which could include premium growth, underwriting profitability and operating earnings per share) and the personal performance of individual participants. Growth and profitability for the incentive payment are based on the Company's performance relative to the top 20 P&C Insurance Companies. The graph below illustrates the Company's track record of outperforming the top 20 P&C Insurance Companies from a combined ratio perspective, and highlights the significant 8% positive gap in 2010. Based on the strength of the Company's performance in 2010 compared to that of the top 20 P&C Insurance Companies, the level of STIP payout was above target.

### Combined Ratio



One of the key goals of the Company is to consistently outperform its P&C industry peers. For the 2007-2009 three-year period, which ended on December 31, 2009, the average ROE of the Company was slightly lower than that of the P&C industry's average for that same period, due to a conservative approach to asset impairments. Consequently, there was no payout under the LTIP. Please refer to pages 34 and 35 of this Circular for details on the LTIP payment. For the 2008-2010 period, the three-year average ROE of the Company was higher than that of the P&C industry's three-year average, bolstered by the outperformance in 2010. This results in a projected payout of 35% of target under the LTIP.

### Return on Equity



Overall, 2010 was a very good year for the Company and its shareholders. Consequently, the annual bonuses for 2010 are above target for all of the NEOs, as shown on page 34 of this Circular.

### Compensation Consultant Independent Advice

The Committee receives the assessments and recommendations from Management taking into consideration all shareholders' interests. To this end, the Committee works with Management and the compensation team of Intact Financial Corporation to review employment and compensation practices in the Canadian market in order to ensure that the Company's employees and Management are competitively compensated. The Committee may also consult directly with independent experts to fulfill its mandate.

The Committee has retained the services of Towers Watson to act as its compensation consultant. Towers Watson's role mainly consists of conducting a yearly market analysis of IFC's Senior Executive positions and advising the Committee on market trends, program structures and designs. The market analysis includes

comparisons with peer group companies; the comparisons are included by Intact Financial Corporation in the Senior Executive tally sheets presented to the Committee in order to make the best informed pay decisions. However, the Committee does not solely rely on market data surveys to determine compensation levels. Individual performance and internal equity are also taken into account.

In 2010, fees paid to Towers Watson for market analysis and other compensation advice totalled \$163,303. Another division of Towers Watson was also paid \$747,451 for pension and actuarial services for Intact Financial Corporation employees. The Committee is of the opinion that Towers Watson, the compensation consultant it retained, is able to provide services sufficiently independent of its other relationship with the Company. The Chair of the Committee pre-approves any non compensation related work performed by Towers Watson.

#### **Executive Compensation for 2010**

The Committee has reviewed the executive compensation of the most Senior Executives for 2010, presented in Section 4 of this Circular.

The statement on executive compensation has been approved by the Committee, for which the members are:

(Signature) Human Resources Committee

Carol Stephenson, Chair  
Paul Cantor  
Marcel Côté  
Timothy H. Penner  
Louise Roy

## 5: SUMMARY COMPENSATION TABLE

Compensation for the most recently completed financial year is summarized in the *Summary Compensation Table* below for the following individuals:

- The President & CEO — Charles Brindamour
- The Chief Financial Officer — Mark Tullis
- The next three (3) most highly compensated executive officers (total compensation) — Louis Gagnon, Derek Iles and Marc Pontbriand, who, together with the President & CEO and Chief Financial Officer, make up the “Named Executive Officers” or the “NEOs”.

**Summary Compensation Table**

Name and principal position	Year	Salary (\$) <sup>(1)</sup>	Share-based awards (\$) <sup>(2)</sup>	Non-equity incentive plan compensation (\$)	Pension value (\$) <sup>(4)</sup>	All other compensation (\$) <sup>(5)</sup>	Total Compensation (\$)
				Annual incentive plans <sup>(3)</sup>			
Charles Brindamour . . . . . President & CEO	2010	750,477	2,025,000	1,237,500	549,928	16,995	4,579,900
	2009	626,585	1,127,000	493,562	216,272	26,742	2,490,161
	2008	567,115	990,000	278,004	587,678	17,182	2,439,979
Mark Tullis . . . . . Chief Financial Officer	2010	400,186	570,000	436,215	80,606	29,824	1,516,831
	2009	354,280	334,000	271,756	58,627	26,902	1,045,565
	2008	340,429	325,850	91,165	97,763	17,298	872,505
Louis Gagnon . . . . . President, Intact Insurance	2010	400,115	600,000	371,305	65,368	0	1,436,788
	2009	371,185	370,000	231,736	70,503	0	1,043,424
	2008	224,307	97,000	30,262	25,587	0	377,156
Derek Iles . . . . . SVP, Western Canada & Vice Chair	2010	377,906	566,828	342,983	52,645	13,452	1,353,813
	2009	372,355	372,300	210,140	114,987	30,739	1,100,521
	2008	378,692	365,000	105,002	166,167	19,995	1,034,856
Marc Pontbriand . . . . . Executive Vice President	2010	314,031	423,900	308,744	68,258	5,707	1,120,640
	2009	306,045	275,000	182,816	117,548	9,109	890,518
	2008	310,038	270,000	61,238	222,221	17,458	880,955

Notes:

- (1) The salaries reported in the Summary Compensation Table are the actual base salaries paid in the 2010, 2009 and 2008 financial years. The 2010 figures include an adjustment for the first day of January 2010 that was paid at the 2009 salary rate. The 2010 annual base salaries for our NEOs are listed in the table below:

Name	2010 base salary
Charles Brindamour, President & CEO . . . . .	\$750,000
Mark Tullis, Chief Financial Officer . . . . .	\$400,000
Louis Gagnon, President, Intact Insurance . . . . .	\$400,000
Derek Iles, SVP Western Canada & Vice-Chair . . . . .	\$377,885
Marc Pontbriand, Executive Vice President . . . . .	\$314,000

- (2) In terms of equity-based compensation, the NEOs were awarded a number of Performance Units and Restricted Stock Units for the financial year 2010 under the LTIP. Each NEO receives an economic value equivalent to a percentage of their base salary. These percentages are determined based on market trends and individual merit. Please refer to the LTIP component in the Compensation Discussion & Analysis on page 35 of this Circular for individual LTIP percentages and the number of Performance Units and Restricted Stock Units this translates into. The special RSU award provided in June 2010 is also included in the share-based awards value. Please refer to pages 35 and 36 of this Circular for details on the special RSU award.
- (3) Annual incentive plans are comprised of the STIP. Two of the current financial measures (growth & profitability) for the incentive performance year 2010 are based on the Company’s performance relative to the industry average performance. The amounts disclosed in the Summary Compensation Table for 2010 are the annual bonuses paid in the first quarter of 2011 for the performance year 2010. The amounts disclosed in the Summary Compensation Table for 2009 are the annual bonuses paid in the first quarter of 2010 for the

performance year 2009. The amounts disclosed in the Summary Compensation Table for 2008 are the annual bonuses paid in the first quarter of 2009 for the performance year 2008.

- (4) The pension value disclosed for each NEO is the compensatory value of registered and non-registered defined benefits plans. The compensatory value includes the service cost, net of employee contributions, if any, plus differences between actual and estimated earnings, and any additional changes that have a retroactive impact.
- (5) All other compensation includes dividend payments made to NEOs under the LTIP. In accordance with the terms of the LTIP, the NEOs are and were entitled to receive dividends on the Restricted Shares delivered to them on May 16, 2008 for the 2005/2007 LTIP performance cycle as well as for the Restricted Shares delivered to them on May 15, 2009 for the 2006/2008 LTIP performance cycle. The amounts indicated in the table above are the amounts that were paid on March 30, 2010, June 30, 2010, September 30, 2010 and December 31, 2010 at a dividend rate per share of \$0.34.

## 6: INCENTIVE PLAN AWARDS

The following table provides information on all outstanding awards for each NEO at the end of the most recently completed financial year. PSU's are presented based on vesting at target. However, the ultimate vesting of PSU's depends on performance and may range from 0% to 200% of target.

### Outstanding Share-Based Awards and Option-Based Awards

Name	Option-based Awards				Share-based Awards			
	Number of securities underlying unexercised options (#) <sup>(1)</sup>	Option exercise price (\$) <sup>(2)</sup>	Option expiration date <sup>(3)</sup>	Value of unexercised in-the-money options (\$) <sup>(4)</sup>	Number of shares or units of shares that have not vested (#) <sup>(5)</sup>		Market or payout value of share-based awards that have not vested (\$) <sup>(6)</sup>	
					PSU	RSU	PSU	RSU
Charles Brindamour . . . . .	5,665	17.28	May 19, 2013	\$0	102,185	34,655	\$5,197,129	\$1,762,553
	1,758	23.44	March 15, 2014					
	1,810	23.29	August 9, 2014					
Mark Tullis . . . . .	29,171			\$0	30,933	9,756	\$1,573,252	\$ 496,190
	49,487	38.27	March 15, 2011					
	65,635	31.29	March 11, 2012					
	64,750	15.62	March 3, 2013					
	86,309	23.44	March 15, 2014					
Louis Gagnon . . . . .	—	—	—	—	25,857	10,269	\$1,315,087	\$ 522,281
Derek Iles . . . . .	3,907	38.20	March 15, 2011	\$0	33,753	9,700	\$1,716,678	\$ 493,342
	14,846	35.59	Sept. 6, 2011					
	6,837	31.35	March 11, 2012					
	977	30.98	May 27, 2012					
Marc Pontbriand	964	31.35	March 11, 2012	\$0	25,020	7,254	\$1,272,517	\$ 368,938
	6,095	17.25	May 19, 2013					
	990	23.44	March 15, 2014					

Notes:

- (1) IFC SAR's Awards based on stock price of former majority owner ING Groep. Please refer to the Compensation Discussion and Analysis ("CD&A") on page 36 of this Circular for a description of the plan. The exercise price and the number of SARs were adjusted to preserve the economic opportunities of participants following capital transactions by ING Group in 2009.

- (2) The strike price for each SAR award has been converted to Canadian dollars from the currency in which it was allocated (Euro or US dollar) using the Bank of Canada exchange rate on the award date as detailed in the below table:

<u>Date</u>	<u>Exchange Rate</u>
March 15, 2001 . . . . .	1 EUR= 1.4110 CAD
March 15, 2001 . . . . .	1 USD= 1.5596 CAD
September 6, 2001 . . . . .	1 EUR= 1.3937 CAD
March 11, 2002 . . . . .	1 EUR= 1.3894 CAD
March 11, 2002 . . . . .	1 USD= 1.5842 CAD
May 27, 2002 . . . . .	1 EUR= 1.4130 CAD
March 3, 2003 . . . . .	1 USD= 1.4846 CAD
May 19, 2003 . . . . .	1 EUR= 1.5776 CAD
March 15, 2004 . . . . .	1 EUR= 1.6313 CAD
August 9, 2004 . . . . .	1 EUR= 1.6142 CAD
March 30, 2005 . . . . .	1 EUR= 1.5746 CAD

- (3) Expiration date for the SAR's is based on original awards expiry dates.
- (4) The price of the ING Group shares as of December 31, 2010 was 7.28 Euros; therefore all SAR's have a nil in-the-money value.
- (5) The total number of shares that have not vested represent the total number of performance units (based on vesting at target) and restricted stock units allocated to NEOs under the LTIP for the performance cycles 2008/2010, 2009/2011 and 2010/2012. The special RSU allocation made in June 2010 is included in the 2010/2012 numbers. The details are as follows:

<u>Performance cycle</u>	<u>Charles Brindamour</u>	<u>Mark Tullis</u>	<u>Louis Gagnon</u>	<u>Derek Iles</u>	<u>Marc Pontbriand</u>
2008/2010 . . . . .	30,220	9,947	2,967	11,142	8,242
2009/2011 . . . . .	48,862	14,483	16,045	16,144	11,942
2010/2012 . . . . .	57,758	16,259	17,114	16,167	12,090

- (6) The minimum payout under the plan is 0% for the performance units. The restricted stock units component is not based on performance, therefore the minimum payout is the number of restricted stock units awarded multiplied by the share price at vesting. The values of the unvested share-based awards represent the total number of performance units that have not vested, multiplied by the Intact Financial Corporation share price at closing on December 31, 2010, which was \$50.86 assuming a performance at target (100%), and the total number of restricted stock units that have not vested, multiplied by the IFC share price at closing on December 31, 2010, which was \$50.86.

### Incentive Plan Awards — Value Vested or Earned During the Year

<u>Name</u>	<u>Option-based awards — Value vested during the year (\$)</u>	<u>Share-based awards — Value vested during the year (\$)<sup>(1)</sup></u>	<u>Non-equity incentive plan compensation — Value earned during the year (\$)<sup>(2)</sup></u>
Charles Brindamour . . .	—	0	1,237,500
Mark Tullis . . . . .	—	0	436,215
Louis Gagnon . . . . .	—	0	371,305
Derek Iles . . . . .	—	0	342,983
Marc Pontbriand . . . . .	—	0	308,744

Notes:

- (1) The Performance Units allocated under the LTIP for the performance cycle 2007/2009 vested on January 1, 2010. Participants received Restricted Shares equivalent to 0% of their initial award, based on Intact Financial Corporation's average three (3) year performance relative to the industry (please refer to the description of the LTIP below).
- (2) The value represents the amounts to be paid in the second quarter of 2011 for the performance year 2010.

**Intact Financial Corporation Long Term Incentive Plan (LTIP):** In 2005, the Company established a long-term incentive plan called LTIP. This plan belongs to Intact Financial Corporation and was the long term incentive plan offered to Executives and Senior Executives from 2005 to 2009. Please refer to the CD&A on pages 34-35 of this Circular for details on the LTIP. Details on the terms of the grants are provided in the Summary Compensation Table section on page 41 of this Circular. On January 1, 2010, the awards made under the LTIP for the performance cycle 2007/2009 vested. Intact Financial Corporation's three (3) year average ROE was 8.1%, and the industry's three (3) year average ROE for that same period was 8.9%. Intact Financial Corporation therefore under-performed the industry by 0.8%, which according to the LTIP performance

measures, results in a payout of 0% of the initial Performance Units allocated in 2007. Awards for the 2008/2010 performance cycle vested on January 1, 2011, but the delivery and confirmation of the final number of Restricted Shares delivered to participants will occur in May 2011 after the industry financial results are made public and the Committee approves the delivery. Participants are entitled to dividend payments (paid in cash) once the delivery of Restricted Shares has occurred.

### Prior ING Americas Stock Incentive Plan

Mr. Iles had vested awards under prior ING Americas Stock Incentive Plan that were credited to an individual Notional Shares account. The account becomes payable upon retirement or employment termination. His account is now denominated in IFC Common Shares and is credited with dividend equivalents. His Notional Shares based on the IFC Common Share price of \$50.86 as at December 31, 2010 are valued at \$294,683. Please refer to page 36 of the CD&A.

## 7: PENSION PLAN BENEFITS

The following tables provide information on pension plans in which the NEOs participate.

### Defined Benefit Plans Table (“DB”)

Name	Number of years credited service (#) <sup>(1)</sup>	Annual benefits payable		Accrued obligation at start of year (\$) <sup>(3)</sup>	Compensatory change (\$) <sup>(4)</sup>	Non-compensatory change (\$) <sup>(5)</sup>	Accrued obligation at year end (\$) <sup>(6)</sup>
		At year end (\$)	At age 65 (\$) <sup>(2)</sup>				
Charles Brindamour	15.6712	204,044	562,690	1,466,210	549,928	706,771	2,722,909
Mark Tullis	2.0000	19,646	116,377	67,287	80,606	36,798	184,691
Louis Gagnon	3.9231	29,259	152,954	137,912	65,368	77,625	280,905
Derek Iles	17.0000	173,459	229,401	1,635,336	52,645	386,245	2,074,226
Marc Pontbriand	12.6822	85,600	135,576	740,622	68,258	187,626	996,506

Notes:

- (1) For Mr. Derek Iles, the number of years of credited service under the SERP is 19.2521 (includes 2.2521 years while a Western Union employee). Also, part of Mr. Iles’ annual benefits payable will come from the conversion into an annual benefit of his accumulated defined contribution account accrued while a Western Union employee (estimated at \$1,224 as at December 31, 2010). This annual benefit, however, does not impact the total annual benefits payable since the SERP wraps around all annual pension benefits payable.
- (2) The information shown in this column was determined based on the final average earnings of each participant as at December 31, 2010 and years of credited service projected up to age 65 (assuming full-time employment).
- (3) The information shown in this column was determined by using the same assumptions and methods as those used for 2009 financial statement reporting purposes. In particular, the discount rate used, for each individual, is as follows (in line with the discount rate used for purposes of 2009 accounting disclosures of each of the applicable pension plans): Mr. Brindamour (6.00%), Mr. Tullis (6.00%), Mr. Gagnon (6.00%), Mr. Iles (6.10%), Mr. Pontbriand (6.20%).
- (4) Includes the service cost, net of employee contributions, if any, plus differences between actual and estimated earnings, and any additional changes that have a retroactive impact.
- (5) Includes all items that are not compensatory, such as changes in actuarial assumptions and interest cost.
- (6) The information shown in this column was determined by using the same assumptions and methods as those used for 2010 financial statement reporting purposes. In particular, the discount rate used, for each individual, is as follows (in line with the discount rate used for purposes of 2010 accounting disclosures of each of the applicable pension plans): Mr. Brindamour (5.20%), Mr. Tullis (5.20%), Mr. Gagnon (5.20%), Mr. Iles (5.30%), Mr. Pontbriand (5.40%).

## Narrative discussion for Intact DB and SERP Plans

Intact’s Executives and Senior Executives benefit from two (2) pension plans:

1. A registered plan (“Base Plan”), where the pension benefit is determined at retirement using a formula combining average earnings and service:

Average earnings is defined as the average of the best 60 consecutive months of earnings during the last 120 months

Earnings are comprised of base salary.

<u>Formula for each service period</u>	<u>Charles Brindamour<sup>(1)</sup></u>	<u>Mark Tullis<sup>(1)</sup></u>	<u>Louis Gagnon<sup>(1)</sup></u>	<u>Derek Iles<sup>(2)</sup></u>	<u>Marc Pontbriand<sup>(3)</sup></u>
• For service on and after January 1, 2000, the pension accrual is 2% of average earnings multiplied by the number of years of service	✓	✓	✓	✓	✓
• For service up to December 31, 1999, the pension accrual is 1.3% of average earnings up to the average year’s maximum pensionable earnings (“YMPE”), plus 2% of the excess	N/A	N/A	N/A	N/A	✓
• For service from January 1, 1997 to December 31, 1999, the pension accrual is 1.3% of average earnings up to the average YMPE, plus 2% of the excess	✓	N/A	N/A	N/A	N/A
• For service up to December 31, 1996, the pension accrual is 1.35% of average earnings up to the average YMPE, plus 2% of the excess	✓	N/A	N/A	N/A	N/A
• For service from January 1, 1994 to December 31, 1999, the pension accrual is 1.3% of average earnings up to the average YMPE, plus 2% of the excess	N/A	N/A	N/A	✓	N/A
• For service up to December 31, 1993, the pension accrual is 1.184% of average earnings up to the average YMPE, plus 1.85% of the excess	N/A	N/A	N/A	✓	N/A

(1) Participant under the “Le régime de retraite de la direction d’Intact et de ses compagnies affiliées (anciennement le régime de la direction du Groupe Commerce)”

(2) Participant under the “The Pension Plan for Employees of Intact and Its Affiliated Companies (formerly Halifax Plan)”

(3) Participant under the “Le régime de retraite des employés d’Intact et de ses compagnies affiliées (anciennement le régime de Belair)”

The benefit payable shall not exceed the maximum pension amount as may be permitted under the *Income Tax Act (Canada)*.

The pension benefit is payable at normal retirement age (age 65). Participants are eligible to receive an unreduced pension benefit when they reach age 60 and have at least 20 years of service. Early retirement is available as of age 55. The accrued normal pension benefit is then reduced by 6% for each year between the early retirement date and the earlier of: the date the participant reaches the age of 60, if such participant has 20 or more years of service, or the normal retirement date.

At retirement, the normal form of pension benefit payable to single participants is a lifetime pension benefit with provision that at least 60 monthly payments will be made in any event. Participants with a spouse will receive a lifetime pension benefit with a joint and 60% survivor form benefit, with provision that at least 60 monthly payments will be made in any event.

Pension benefits accrued prior to January 1, 2012 are indexed annually based on the greater of 50% of CPI or CPI minus 3%, up to a maximum of 4%. There is no automatic indexation for pension benefits accrued on or after January 1, 2012.

The Base Plan is a contributory plan, but Senior Executives are not required to contribute to the plan.

2. A supplementary executive retirement plan (“SERP”) where the pension benefit is equal to the excess of (a) over (b), as follows:
  - (a) the amount of annual pension which would be determined in accordance with the terms of the Base Plan if the tax limits as to the maximum pension payable, as set out in the Base Plan, were not applicable; and
  - (b) the amount of annual pension actually payable from the Base Plan.

For purposes of determining the pension benefit payable under the SERP, earnings also include 50% of the STIP target.

SERP benefits are not indexed.

The SERP serves as a retention tool for executives and vests when the executive has completed two (2) years of continuous service with the Company.

## **8: TERMINATION AND CHANGE OF CONTROL BENEFITS**

The Company does not have employment contracts with its NEOs, since these are permanent full-time positions. Hiring documents include confirmation of total compensation, as well as a requirement for each Executive to sign the IFC Living Our Values document (formerly the Code of Conduct), as well as the Confidentiality and Non-Solicitation Agreement. The Company does not have individual employment agreements with any of its Executives or Senior Executives that guarantee continued employment or that establish payments upon termination of employment.

The Company is required to provide “reasonable notice” upon termination of employment. The length of reasonable notice required varies with the facts and circumstances of the individual situation.

Finally, the Company provides the minimum compliance requirement under common law or the Civil Code of Quebec. Generally, the severance package for Executives and Senior Executives increases with the following factors, as well as industry general practices: age, length of service, base salary and benefits, level of responsibility and difficulty in finding alternative employment.

**Long Term Incentive Plan:** The LTIP contains a provision relating to the consequences of a change of control of the Company, as described below:

**“General Rule for Change of Control”.** Except as otherwise provided in an Award Agreement, if a Change of Control occurs, and if the agreements effectuating the Change of Control do not provide for the fair assumption or substitution of all Stock Incentives granted under this Plan, with respect to any Stock Incentive granted under this Plan that is not so assumed or substituted fairly (a “Non-Assumed Stock Incentive”), the Committee, in its sole and absolute discretion, may, with respect to any or all of such Non-Assumed Stock Incentives, take any or all of the following actions to be effective as of the date of the Change of Control (or as of any other date fixed by the Committee occurring within the thirty (30) day period immediately preceding the date of the Change of Control, but only if such action remains contingent upon the consummation of the transaction giving rise to the Change of Control) (such date referred to as the “Action Effective Date”):

- (a) Accelerate the Vesting Date(s) applicable to any such Non-Assumed Stock Incentive; and/or

- (b) Unilaterally cancel such Non-Assumed Stock Incentive in exchange for:
- (i) whole and/or fractional Shares (or for whole Shares and cash in lieu of any fractional Share) or whole and/or fractional shares of a successor (or for whole shares of a successor and cash in lieu of any fractional share) that, in the aggregate, are equal in value to the value of the Shares subject to such Stock Incentive (as determined by the Committee in its sole and absolute discretion), determined as of the Action Effective Date; or
  - (ii) cash or other property equal in value to the value of the Shares subject to such Stock Incentive (as determined by the Committee in its sole and absolute discretion), determined as of the Action Effective Date.

### **Compensation of Directors**

Please refer to the “Directors Compensation” section at page 11 of this Circular.

## **9: INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

To the knowledge of the Company, there is no outstanding indebtedness to the Company or to its subsidiaries incurred by Directors, Executive Officers, employees or former Directors, Executive Officers or employees of the Company, except under a loan program for the acquisition of computer equipment and software that is available to all the employees of the Company. Advances to a person under this program are of a nominal value (average: \$3,500). As well, a number of Executive Officers benefited through an executive perquisite program from a reduced rate of interest on their personal residence mortgage, provided by ING Bank of Canada, which prior to the sale by ING Groep of its majority ownership stake in the Company, was an affiliate of the Company; this program provides for a company subsidy of up to 30% of the ING Bank of Canada’s posted rate plus 1% for the offered term.

## **10: CORPORATE GOVERNANCE PRACTICES**

Intact Financial Corporation considers corporate governance and sound market practices to be essential components of its operations. As a Canadian reporting issuer with securities listed on the TSX, Intact Financial Corporation has corporate governance practices that meet or exceed the requirements of the TSX and the applicable rules of the Canadian Securities Administrators. In addition, Intact Financial Corporation’s corporate governance practices are reviewed regularly to ensure alignment with the evolving best practices of comparable publicly traded companies. Intact Financial Corporation also has a complete compliance program that includes a Code of Conduct and Business Principles document entitled “Living Our Values,” in addition to maintaining an Ombudsman’s Office and a Privacy Office headed by the Compliance Department.

The Company’s Statement of Corporate Governance Practices is attached as Schedule “A” to this Circular.

## **11: SHAREHOLDER PROPOSALS**

The *Canada Business Corporations Act* permits certain eligible shareholders of the Company to submit shareholder proposals to the Company for inclusion in a management proxy circular for an annual meeting of shareholders. No shareholder proposals were submitted for consideration at the 2011 Annual Meeting of Shareholders. The final date by which the Company must receive shareholder proposals for the annual meeting of shareholders of the Company to be held in 2012 is December 31, 2011.


## **12: ADDITIONAL INFORMATION AND CONTACTING INTACT FINANCIAL CORPORATION**

Further information relating to Intact Financial Corporation may be obtained from its web site at [www.intactfc.com](http://www.intactfc.com) and from the SEDAR web site at [www.sedar.com](http://www.sedar.com). Financial information is provided in the Company's comparative financial statements and management's discussion and analysis for the fiscal year ended December 31, 2010 and these documents are accessible through SEDAR.

To obtain a copy of these documents together with the Company's annual information form, when available, at no cost, please contact the Investors Relations Department of the Company at 700 University Avenue, Suite 1500, Toronto, Ontario, M5G 0A1, or by telephone toll-free within North America at 1-866-778-0774 ((416) 941-5336 outside North America), or by fax at (416) 941-0006, or by e-mail at [ir@intact.net](mailto:ir@intact.net).

## **13: APPROVAL OF THE BOARD OF DIRECTORS**

The Board of Directors has approved the contents and the sending of this Management Proxy Circular to the shareholders of the Company.

A handwritten signature in cursive script that reads "Françoise Guénette". There is a small mark below the letter 's' in "Guénette".

Françoise Guénette  
Senior Vice-President,  
Corporate and Legal Services and Secretary

March 30, 2011

## SCHEDULE A

### Statement of Corporate Governance Practices

In establishing its governance practices, the Board of Directors of the Company has adopted principles, structures and processes to enable the Board of Directors to carry out its responsibilities more effectively and that are focused on the implementation, development and maintenance of a compliance and corporate governance mindset throughout the Company.

These principles, structures and processes include the following: a Code of Conduct document entitled “Living Our Values” that details high ethical standards; the support of a dedicated Compliance team that follows legislative, regulatory and compliance and governance rules, trends and best practices in addition to maintaining a high level of governance and a compliance mindset across our companies; various policies and reporting mechanisms including Whistleblower procedures and Incident Reporting. The Compliance team includes an Ombudsman’s Office and a Privacy Office that provide services mainly to insureds who have queries in this regard or have reasons to complain. The Company has also put in place strict policies on conflict of interest, disclosure of material information and insider trading.

By virtue of “Living Our Values,” the Company has endorsed high ethical and compliance principles to promote integrity, respect, excellence, social responsibility and a focus on customers. These principles shape the Company’s activities globally and apply to all of our employees, officers and directors. They include abiding by the law, respecting confidentiality, avoiding conflicts of interest, respect in the workplace, socially responsible actions, proper use of the Company’s resources and opportunities and sound market conduct, the whole based on personal accountability.

The compliance programs and systems, including “Living Our Values” and its related policies and processes, are managed by the Company’s full-time dedicated compliance team that reports to the Senior Vice-President, Corporate and Legal Services, and Secretary, who act independently from the Operations of the Company. In addition, approximately 30 representatives from the operational and Human Resources departments across Canada also act as compliance ambassadors across the Company. This Statement of Corporate Governance Practices is responsive to the rules and guidelines adopted by the Canadian securities regulatory authorities, as set out in National Instrument 58-101 *Disclosure of Corporate Governance Practices*, National Policy 58-201 *Corporate Governance Guidelines* and National Instrument 52-110 *Audit Committees* (“Disclosure Rules”). In addition, this statement provides additional disclosure to comply with and exceed recommended best practices. The Board of Directors has approved this disclosure on the recommendation of its Conduct Review and Corporate Governance Committee (“CRCG Committee”).

Additional information about our governance programs may be found on SEDAR ([www.sedar.com](http://www.sedar.com)) where our “Living Our Values” Code of Conduct document is filed, our corporate website at [www.intactfc.com](http://www.intactfc.com), and in this Statement of Corporate Governance Practices.

#### BOARD OF DIRECTORS

##### Directors Independence

- 10 of 11 directors are considered to be independent.
- Additional disclosure regarding directors standing for election is available on pages 5 to 10 of this Circular.

The Company is subject to various disclosure rules, guidelines and requirements governing the independence of the Board of Directors and its committees.

Independence of a Director is defined as a person who has no direct or indirect material relationship with the Company, its subsidiaries, or its auditor, or as a partner, officer or significant shareholder of an entity that has a material relationship with the Company.

The CRCG Committee determines, at least annually, whether a Director is independent, based on information provided by each Director on a conflict of interest questionnaire that lists his/her personal business and other relationships and dealings with the Company or its affiliates and our External Auditor. The conflict of interest questionnaire also requires disclosure of all entities with which a Director or an Officer is involved.

Additional information relating to each Director standing for election, including the name(s) of any other reporting issuer(s) on whose Board the Director serves and the attendance record for each Director, may be found on pages 5 to 10 of this Circular.

Ten (10) of the eleven (11) candidates proposed for election qualify as unrelated and independent, as they are independent from management and free from any interest, function, business or other relationship that could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the Company's best interest. Only the Company's President and Chief Executive Officer is considered a non-independent Director.

#### **Non-executive Chair of the Board of Directors and Private Meetings of Directors**

- The positions of Board Chair and Chief Executive Officer are separate.
- The Chair is an independent member of the Board.
- Independent directors meet without the presence of management following each meeting of the Board as well as each Committee meeting.
- The Audit and Risk Review Committee, Human Resources Committee (responsible for executive compensation) and CRCG Committee (responsible for nomination and remuneration of directors) are composed exclusively of independent Directors.

The roles of the Chair of the Board and President and Chief Executive Officer of the Company are separate. Claude Dussault, formerly President and Chief Executive Officer of the Company, was elected Board Chair of the Company, effective January 1, 2008.

In 2010, a meeting of the independent directors was held following each regular meeting of the Board of Directors.

It is also the practice of each committee of the Board of Directors to meet without management present immediately following each of its meetings. Topics discussed at these meetings include, but are not limited to, Board processes and contexts, succession planning, executive assessments, organizational changes, and strategy. The CRCG Committee and the Audit and Risk Review Committee each held four (4) private meetings during 2010 and the Human Resources Committee held five (5) such meetings.

#### **Board of Directors Mandate**

- The Board is responsible for stewardship of the Company.
- The Board and its Committees have independent access to external consultants and experts.

The Board of Directors, either directly or through its committees, explicitly assumes responsibility for the stewardship of the Company; it is responsible for the supervision of the management of the business and affairs of the Company with the objective of enhancing the value of the Company for its shareholders and with a view to ensuring the Company's long-term viability.

The Board Mandate (reproduced on page B-1 of this Circular), which is reviewed at least once annually, sets out the responsibilities of the Board of Directors, which can be summarized as follows: review and approval of the strategic plan and in relation thereto approval of material transactions; supervision of Senior Management and succession planning including the appointment of the President and Chief Executive Officer

and ensuring that other executives are in place to ensure sound management of the Company; oversight of financial reporting including ensuring the accuracy of financial statements and returns and timely reporting and disclosure; assessment by the Board of Directors of its own effectiveness and that of its committees, committee chairs and members; ensuring that the Company has sound risk management programs and also ensuring that the Company has appropriate internal controls in place; and ensuring a business ethics, compliance and corporate governance mindset and creation of a culture of integrity throughout the organization. Finally, the mandates of the Board of Directors and all its committees confirm independent access of the Board and its committees to outside consultants and experts.

### **Position Descriptions**

- Position descriptions have been developed for the Board Chair, Committee Chair and the President and Chief Executive Officer.

The Board of Directors Mandate and the position descriptions of the Board Chair and of the Committee Chairs define the roles and responsibilities of the Board of Directors, its committees and their Chairs. The description of the functions of the Chief Executive Officer delineate Management's responsibilities. These mandates, the by-laws of the Company and Board resolutions that are adopted from time to time, including signature authority limits, clearly define the limits to Management's authority.

The description of functions of the President and Chief Executive Officer has been developed with the input of the President and Chief Executive Officer and has been approved by the Board of Directors. This description of functions includes: Leadership Role; Strategic Planning; Financial Results; Succession Planning; Human Resources Management; Board Relations and Overall Performance. The President and Chief Executive Officer is responsible for defining, communicating and implementing the strategic direction, goals and core values of the Company with a view to maximizing shareholder value and ensuring the long-term viability of the Company.

### **Orientation and Continuing Education**

- Directors are provided with regular briefings regarding industry developments, new legislation as well as industry and political and social trends.
- Information sessions for specific subjects such as shareholder rights plans and their status in Canada are held.
- Directors have the opportunity to meet one-on-one with key executives.

Each Director receives a Directors' Manual or an update of the Directors' Manual periodically. A copy of the Directors' Manual is also provided to new Directors. This Manual includes information on the corporate and organizational structures of the Company and its subsidiaries, a description of its Board and Committees, their mandates and composition, the corporate governance and compliance programs of the Company, and a template of the subjects presented to the Board of Directors and its Committees at each of their regular meetings.

Directors are expected to attend all Board and committee meetings in person, although attendance by video-conference or telephone is also accepted in appropriate circumstances. Directors are also expected to prepare in advance of each meeting in order to positively contribute to discussions and decisions.

At each Board of Directors meeting, a strategic review is presented to the Board of Directors that repositions the Company in its various markets and that reiterates main developments and challenges; at such meetings, special subjects are also covered with a view to keeping the Directors informed and up-to-date in relation to industry developments, new legislation that affects operations and distribution, major files and projects, as well as political and social trends. Each year, at the dedicated strategic planning meetings, an

overview of the industry is provided to the Directors together with an assessment of the risks and opportunities and market trends: threats and opportunities as well as strengths and weaknesses are presented and discussed with the Board of Directors, who are expected to give their points of view and provide input on the assessment of such risks. Senior Management is also invited to present its vision of the main aspects affecting the Company's sectors of activities. In 2010, the Board of Directors held two (2) strategic meetings to discuss positioning of the Company, its development and its long-term objectives. In addition, industry publications are periodically made available to the Directors.

Finally, a training session is organized from time to time to cover various aspects related to the Company and its subsidiaries, including subjects such as industry information, interpretation of financial information, marketing programs, distribution programs, corporate governance, risk management and other pertinent subjects.

In 2010, the following specific subjects were covered during regular Board meetings or at special meetings called for this purpose:

- Social media opportunities and risks;
- Shareholder rights plans: the situation in Canada and the benefits of such plans;
- Investments, more particularly on "efficient frontier" with a view to de-risking our investment portfolios further to the financial crisis that took place in 2008;
- Best practices for public companies in governance and compliance; and
- Regulatory landscape for insurance companies.

Programs for new Directors also include one-on-one meetings with executives holding key functions at the Company.

#### **Code of Conduct and Ethics**

- Company adopted its Code of Conduct entitled "Living Our Values" in December 2009.
- Policies and procedures, including whistleblower process, make up compliance framework.
- CRCG Committee as well as Audit and Risk Review Committee are notified in the event of complaints or fraudulent conduct.

The Board of Directors adopted its new Code of Conduct document entitled "Living Our Values" in December 2009 that is filed and available on SEDAR ([www.sedar.com](http://www.sedar.com)). "Living Our Values" applies to all employees, officers and Directors of the Company. It provides a framework to promote **integrity, respect,**

**excellence, social responsibility and customer driven actions.** Together with related compliance programs, “Living Our Values” provides mechanisms to detect and deter wrongdoing and to encourage good corporate citizenship.

1. We behave with integrity	<p>We demonstrate the highest ethical standards of personal conduct.</p> <p>We behave with honesty, integrity, openness and fairness when dealing with each other, customers, partners and governments.</p>
2. We respect each other	<p>We value the diversity of our people and their dreams.</p> <p>We foster an environment conducive to personal growth and development and to new opportunities.</p> <p>We recognize and value the contribution each of us and our teams are making to our success.</p>
3. We are customer driven	<p>We listen to customers, understand their needs, offer the best solutions and deliver on our promise.</p> <p>We make it easy for customers to deal with us.</p> <p>We go beyond expectations and always deliver an outstanding experience.</p>
4. We strive for excellence	<p>We are disciplined in our approaches and actions, which is why we excel in all aspects of our business.</p> <p>We embrace change and the opportunities it creates, encourage innovative thinking and always seek to improve.</p> <p>We value and reward high performance and success.</p> <p>We provide high value to our shareholders.</p>
5. We are socially responsible.	<p>We respect the environment and its finite resources.</p> <p>We believe in making the communities where we live and work safer, healthier and happier.</p> <p>We encourage the involvement and citizenship of all our employees.</p>

“Living Our Values” promotes the highest levels of personal conduct and ethical standards in conformity with the law while promoting the spirit of fairness and honesty behind the law; it promotes respect for privacy and confidential information and fosters open and honest communication and disclosure.

A number of policies have been adopted over the years and are amended from time to time to take into account new trends in best practices and legal requirements; such policies include Conflicts of Interest, Protection and proper use of the Company’s assets and opportunities, Incident Reporting and Whistleblowing procedures. In this regard, procedures allow reporting on a confidential and anonymous basis: complaints can be made by telephone or e-mail or direct communications through Internal Audit Services, the Law and Compliance Department or Human Resources. Complaints can also be brought to the CRCG Committee or to the Board of Directors.

All complaints and compliance issues are reported to the Legal and Compliance team that makes a determination as to the most appropriate forum to deal with each complaint/issue. The Senior Vice-President, Corporate and Legal Services, and Secretary, who is also ultimately responsible for compliance, reports to the CRCG Committee on a quarterly basis which in turn also reports to the Board of Directors on a quarterly basis.

An annual report is also presented to this Committee for review. Such reports cover compliance programs, compliance issues, clients' complaints handling process and statistics, performance for the past year and the Action Plan for the following twelve to fifteen months. The Audit and Risk Review Committee is also notified by the Senior Vice-President, Corporate Audit Services, if a complaint relates to accounting, internal controls or audit matters or if fraudulent conduct is involved. In such instances, Corporate Audit Services or the Audit and Risk Review Committee determine how the case will be handled.

### **Nomination of Directors**

- CRCG Committee acts as the nominating committee of the Board.
- Director Retirement Policy establishes 70 as the age of retirement from the Board.
- CRCG Committee is responsible for ensuring assessment of Board, Committees, Chair of the Board and its Committees, and individual Directors.
- A Skills Matrix has been developed to help identify talent and Board requirements of potential Directors.
- An ever-green list of Director candidates is maintained.
- Directors may sit on no more than five public company boards at one time.

The CRCG Committee is the nominating committee of the Board of Directors. As such, this Committee is responsible for the review of the "Nomination Policy for the Board of Directors and Committee Members" (the "Nomination Policy") and for its implementation once it is approved by the Board of Directors. The Committee also reviews the nomination process as well as the orientation and education programs for new members and for current members.

The Company has adopted a Retirement Policy for Directors establishing a normal retirement age of 70. A Director may, on an exceptional basis, be recommended for re-election after he or she has reached this age if it is deemed to be in the best interests of the Company and is recommended by the CRCG Committee.

The CRCG Committee is also responsible for ensuring assessment of the Board of Directors and the members of the Board of Directors and its committees on an on-going basis. As part of the process, the CRCG Committee considers the competencies and skills of the Board of Directors, as a whole, and required competencies and skills from new members. Candidates are screened to ensure they have the following attributes: integrity, judgment, financial literacy, excellent communication skills, ability to act as a team player, in addition to adhering to the values of the Company expressed in "Living Our Values," its Code of Conduct document and related policies referred to above. To help the CRCG Committee in identifying the right Board of Directors candidates, a Skills Matrix has been developed for use by the CRCG Committee that identifies the talent and board requirements of current and potential Directors.

The maintenance of an "ever-green" list of Director candidates was approved by the CRCG Committee for use in the event of future vacancies on the Board of Directors.

The Nomination Policy process also provides for verification and monitoring of conflicts of interest and relationships with the Company and its affiliates, as well as the independence of Directors. Finally, the Nomination Policy provides for geographic and gender representation.

In 2011 the Board of Directors adopted a policy related to the limitation of the number of public company board directorships that could be held by Directors of the Company at one time. The policy sets out that no Director may simultaneously sit on more than five boards of publicly listed companies, including their service as a Director of the Company.

## Size of the Board of Directors and Election of Directors

- Details regarding the Majority Voting Policy for the election of Directors can be found at page 4 of this Circular.

The size of the Board of Directors and the election process, including the Majority Voting Policy for election of Directors, is described on pages 4 and 5 of this Circular. We consider that the size of the Board of Directors and its Committees is appropriate.

## Compensation

- Director compensation is detailed at pages 11 to 15 of this Circular.
- Executive compensation, including that of the President and Chief Executive Officer, is available at pages 30 to 47 of this Circular.
- An independent compensation consultant was retained by the Human Resources Committee and also provides other services to the Company. Further information is available at page 39 of this Circular.
- A minimum share ownership requirement exists for all independent Directors of the Board. As of February 16, 2010, Directors were required to own common shares or DSUs of the Company having a value of at least four (4) times the annual Board retainer and were given two years in which to conform with this requirement.

See pages 11 to 15 and 30 to 47 of this Circular for information on Directors' Compensation, President and Chief Executive Officer assessment and determination of remuneration.

See pages 27 to 29 of this Circular for information on the members of the Human Resources Committee, its responsibilities and activities.

The Company has retained the services of Towers Watson to act as an independent compensation consultant. See page 39 of this Circular for further information.

On February 16, 2010, the Board of Directors increased the director share ownership requirement from three (3) to four (4) times the Board retainer composed of cash, shares and DSUs, and provided two years to reach this new requirement. Each director will have to own and retain at least \$300,000 in shares or DSUs. In addition, this amount will increase within the next two years, to reach \$360,000 in 2013. See pages 13 to 14 for full details regarding the director share ownership requirement.

## Board of Directors and Board Member Assessment

- The evaluation of the Board is overseen by the CRCG Committee with assistance from the Secretary's Office of the Company and every few years with the support of an external consultant.
- A self-assessment questionnaire is completed by all Directors.
- Committee Chairs also complete a self-assessment questionnaire and meet with the Board Chair to discuss their performance.
- The Board Chair is assessed by all Directors. The Chair of the CRCG Committee meets with the Board Chair to discuss his assessment.

For almost ten years now, the Board of Directors has been proceeding with its Self-Assessment. A Self-Assessment questionnaire is completed by all Directors. The results are analyzed by the Secretary's Office of the Company for the benefit of the CRCG Committee and the Board of Directors.

The CRCG Committee monitors the Board of Directors Self-Assessment process and reports to the Board of Directors which also receives the Summary Report and Analysis that includes all of the comments received from the Directors. The CRCG Committee also reviews and approves the Action Plan to address comments from the Directors with a view to improving Board and Committee processes, documentation and performance.

A process has been put into place for the Self-Assessment of each individual Director with the assistance of an external consultant that has developed questionnaires and processes adapted to the particular context of the Company. Both the process and the questionnaires are reviewed annually to make sure they continue to be adapted to our particular context and to take into account new trends and best practices. The Self-Assessment process includes completion of the Self-Assessment questionnaire by all of the Directors, who return it on a confidential basis to the Secretary's Office for analysis and reporting to the Board Chair, with recommendations. Each Director will then meet with the Board Chair to discuss his or her contribution to the Board of Directors and its committees, any views on the performance of his or her peers, as well as his or her own competencies and skills and what he or she is expected to bring to the Board of Directors. The Report is presented to the CRCG Committee.

Committee Chairs are assessed in a similar manner. Each committee Chair must complete a self-assessment and then meet with the Board Chair to discuss his or her performance.

Finally, the Board Chair is assessed by each Board member who gives his/her comments to the Chair of the CRCG Committee; the Chair of the CRCG Committee then discusses his assessment with the Board Chair.

### **Peer Review**

- The Chair of the Board meets each member of the Board and obtains his or her comments in relation to peer review.

In addition to the process described above for Board of Directors and Board Members' Assessment, the Chair of the Board meets each individual member of the Board and obtains their comments and feedback on Board assessment and peer review. The Chair of the Board follows-up with each member of the Board in this regard.

### **Shareholder engagement**

- The Board of Directors has adopted a policy on engagement with shareholders on governance matters.

The Board of Directors believes that it is important to have regular and constructive engagement directly with its shareholders to allow and encourage shareholders to express their views on governance matters directly to the Board outside of the annual meeting. These discussions are intended to be an interchange of views about governance and disclosure matters that are within the public domain and do not include a discussion of undisclosed material facts or material changes.

The Board will develop practices to increase engagement with its shareholders as is appropriate for its shareholder base and size. Examples of engagement practices include meeting with the company's larger shareholders and organizations representing a group of shareholders, as well as creating conduits for communication with smaller shareholders on an ongoing basis.

The Board recognizes that shareholder engagement is an evolving practice in Canada and globally, and will review this policy annually to ensure that it is effective in achieving its objectives.

Shareholders may communicate with the Board by writing to the Office of the Corporate Secretary of the Company, Intact Financial Corporation, 700 University Avenue, Suite 1500-A (Legal), Toronto, Ontario, Canada, M5G 0A1, or by e-mail as indicated in the Corporate Governance section of the Company's web site at [www.intactfc.com](http://www.intactfc.com).

## SCHEDULE B

### **Mandate of the Board of Directors Intact Financial Corporation And its P&C Insurance Companies**

#### **I. Purpose**

The main responsibility of the Board of Directors is to oversee the management of business and affairs of the Company. In this regard, the Board establishes policies, reporting mechanisms and procedures in view of safeguarding the assets of the Company and ensuring its long-term viability, profitability and development. The Board appoints the following committees to assist it in its stewardship role: the Audit and Risk Review Committee, the Conduct Review and Corporate Governance Committee, the Human Resources Committee, and the Investment Committee. The Board may also appoint other Committees, such as Pension Committee or Risk Management Committee and others, as it deems appropriate.

#### **II. Composition**

The composition of the Board is determined based on applicable legal requirements. The mandate of the Board requires complementary knowledge, skills and expertise on the part of the Directors, to enable them to positively contribute to the achievement of the Company's corporate objectives. The Nomination Policy for the Board of Directors, as approved from time to time by the Board, serves as a guide to determine the composition of the Board.

#### **III. Process and Operations**

The Board of Directors meets at least four (4) times per year. The calendar of meetings is determined two years in advance.

#### **IV. Mandate**

The Board of Directors supervises the management of the business and affairs of the Company. In exercising this role, the Board fulfills the following responsibilities:

##### **1. Strategic Planning**

Each year, the Board reviews, discusses and approves the strategic plan and the corporate objectives of the Company; it reviews and discusses attainment of results at each of its quarterly meetings, to ensure close monitoring of key objectives and prompt realignment, if judged appropriate. In relation thereto, the Board reviews with management the opportunities and risks of the Company's three-year plan, and approves it, including the Budget for the following year.

As part of strategic planning, the Board also reviews and approves material transactions and reorganizations, such as acquisitions, dispositions, mergers, corporate reorganizations, alliances and financing.

##### **2. Supervision over Senior Management and Succession Planning.**

The Board is responsible for ensuring that the Company is supported by an appropriate organizational structure including a CEO and other executives who have complementary skills and expertise to ensure the sound management of the business and affairs of the Company and its long-term profitability.

To play its role, the Board delegates this function to its Human Resources Committee that will make recommendations to the Board on the appointment, assessment, compensation and termination (if applicable) of the CEO and other executives and see to the assessment of Senior Management. The Committee will advise management in relation to its succession planning including the appointment, training and monitoring of senior management.

To support these objectives, the Human Resources Committee reviews, discusses and recommends or approves compensation and benefit plans for employees, management and Senior Management in view of

attracting and retaining talent and linking total compensation to financial performance and the attainment of strategic objectives.

### 3. Financial Reporting & Disclosures

The Board of Directors is responsible for ensuring that the Company adopts appropriate policies and procedures for the accuracy of its financial statements and returns and the timely reporting and disclosure of financial information to regulators and shareholders, respectively. The Board may delegate this function to the Audit and Risk Review Committee, which will review the Company's annual and quarterly financial statements and management's discussion and analysis and meet with the internal and external auditors and actuaries to discuss such statements and documentation. The Committee will approve or make recommendations to the Board for its approval of such statements and returns. The Committee may also review and approve press releases containing previously undisclosed financial information.

### 4. Pension Plans and Funds

The Board of Directors may appoint one or more committees for the monitoring of the various aspects of its pension plans (benefits, Financial Statements and Actuarial Valuation) or the management of their funds (review of policies and approval of strategies and investment reports). The Board may also appoint a committee for the review of the governance framework in relation to the management of the pension plan and pension funds.

### 5. Board of Directors

The Board of Directors is responsible for ensuring that its own structure and composition are in compliance with applicable corporate governance legislation and best practices and that such structures are appropriate for the Company.

With a view to ensuring effective Board structure and composition, on an annual basis, the Board undertakes a self-assessment to evaluate the effectiveness of the Board and individual Board members. The Board may delegate to the Conduct Review and Corporate Governance Committee the nomination of new Board members and the implementation and review of the nomination process for new Board members. To support corporate governance objectives, the Board may also delegate to the Conduct Review and Corporate Governance Committee the Company's corporate governance disclosure to be included in the Annual Report to shareholders.

### 6. Risk Management & Internal Controls

The Board is responsible for ensuring that the Company's business strategies and allocations of capital are related to the Company's risk appetite and tolerance. To this end, the Board must ensure that the Company has effective risk management programs and practices. The Board may delegate this function to the Audit and Risk Review Committee, which will review the Company's risk management programs and practices and evaluate the Company's compliance with key operational risk policies and limits.

The Board is also responsible for ensuring that the Company has appropriate internal controls in place for the protection of the accounting and financial reporting process. The Board may delegate this function to the Audit and Risk Review Committee, which will review the Company's internal control procedures, and establish procedures to receive submissions or complaints regarding accounting or auditing matters.

### 7. Business Ethics, Compliance and Corporate Governance

The Board of Directors is responsible for ensuring that the Company has the appropriate structures and programs in place to operate within the highest ethics, compliance and corporate governance practices. The Board may delegate this function to the Conduct Review and Corporate Governance Committee, which will review the Company's compliance programs including the ombudsman's office, the privacy office, market conduct and corporate governance initiatives. The Committee will review the Company's procedures to monitor its related party transactions and will approve permitted related party transactions. The Committee will also

ensure that there are appropriate procedures in place for the identification and resolution of conflicts of interest.

8. Access to External Auditor and Other Experts

The Board of Directors enjoys a broad oversight function over many technical and specialised aspects of the business and affairs of the Company. As such, individual members of the Board are authorised to engage consultants including lawyers, auditors and actuaries at the expense of the Company, in appropriate circumstances.

It is the responsibility of the Board of Directors to ensure that consultants are retained only when necessary and that such consultants are retained prudently and without duplication.

The Board of Directors may delegate this function to the Conduct Review and Corporate Governance Committee, which will ensure that appropriate policies and procedures are in place to provide for the prudent engagement of consultants.

Upon the recommendation of the Audit and Risk Review Committee, the Board also recommends the appointment of the External Auditor to the Shareholders.

**Approved by the Board of Directors of Intact Financial Corporation and its P&C Subsidiaries on May 4, 2010.**

**SCHEDULE C**

**Shareholder Rights Plan Resolution**

BE IT RESOLVED:

- (1) The Shareholder Rights Plan Agreement dated February 8, 2011 between Intact Financial Corporation and Computershare Investor Services Inc. as submitted to this Special Meeting is hereby approved, ratified and confirmed.
- (2) Any director or officer of Intact Financial Corporation is authorized to do all such acts and things and to execute and deliver all such instruments, agreements and other documents as in such person's opinion may be necessary or desirable in connection with the foregoing to give full effect to this resolution.



**Intact Financial Corporation**

700 University Ave.

Toronto, Ontario

M5G 0A1

