

# Second Quarter 2011

# 2

Unaudited Interim Consolidated Financial Statements  
For the quarter ended June 30, 2011

Intact Financial Corporation

**Intact Financial Corporation**  
**Unaudited interim Consolidated financial statements**

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**Intact Financial Corporation**  
**Unaudited interim Consolidated balance sheet**  
(in millions of Canadian dollars)

As at	Note	June 30, 2011	December 31, 2010	January 1, 2010
<b>Assets</b>				
Investments	4			
Cash and cash equivalents		\$ 12	\$ 138	\$ 60
Debt securities		4,706	4,821	4,784
Preferred shares		1,558	1,503	1,582
Common shares		2,018	1,877	1,312
Loans		331	314	319
		8,625	8,653	8,057
Accrued investment income		45	43	43
Investments in associates		136	119	98
Premium receivables		1,850	1,762	1,640
Reinsurance assets		311	235	261
Income taxes receivable	7	11	52	40
Deferred tax assets	7	77	29	56
Deferred acquisition costs		437	420	396
Other assets	8	340	335	336
Property and equipment		45	46	46
Intangible assets		174	170	159
Goodwill		218	211	179
<b>Total assets</b>		\$ 12,269	\$ 12,075	\$ 11,311
<b>Liabilities</b>				
Claims liabilities	5	\$ 4,541	\$ 4,379	\$ 4,270
Unearned premiums		2,662	2,586	2,464
Financial liabilities	4	801	715	406
Income taxes payable	7	31	78	102
Deferred tax liabilities	7	22	28	21
Other liabilities	8	774	824	733
Debt outstanding	10	496	496	398
		9,327	9,106	8,394
<b>Shareholders' equity</b>				
Share capital	11	969	993	1,061
Contributed surplus		101	96	83
Retained earnings	15	1,689	1,596	1,527
Accumulated other comprehensive income	15	183	284	246
		2,942	2,969	2,917
<b>Total liabilities and shareholders' equity</b>		\$ 12,269	\$ 12,075	\$ 11,311

See accompanying notes to the unaudited interim Consolidated financial statements.

**Intact Financial Corporation**  
**Unaudited interim Consolidated statement of comprehensive income**  
(in millions of Canadian dollars, except as otherwise noted)

For the periods ended June 30,	Note	Three months		Six months	
		2011	2010	2011	2010
<b>Direct premiums written</b>	6	\$ 1,355	\$ 1,319	\$ 2,297	\$ 2,237
Net premiums earned	6	1,075	1,054	2,143	2,073
Net claims incurred	5	(699)	(661)	(1,386)	(1,297)
Underwriting expenses		(343)	(327)	(666)	(641)
Impact of change in net claims discount rate	5	33	66	91	135
		(31)	(30)	(14)	(27)
<b>Underwriting income (loss)</b>		2	36	77	108
Net investment income	4	75	76	149	149
Net investment gains (losses)	4	71	63	133	103
Share of profit from investments in associates		6	8	9	10
Other revenues		14	14	28	23
Other expenses		(8)	(8)	(21)	(15)
Finance costs	10	(8)	(8)	(15)	(14)
Net income (loss) before income tax expense (benefit)		152	181	360	364
Income tax expense (benefit)	7	29	40	80	82
<b>Net income (loss) attributable to shareholders</b>		\$ 123	\$ 141	\$ 280	\$ 282
Weighted average number of common shares, basic and diluted (in millions)		109	115	110	117
<b>Earnings per share, basic and diluted (dollars)</b>		\$ 1.12	\$ 1.22	\$ 2.54	\$ 2.40
Dividends paid per share (dollars)		\$ 0.37	\$ 0.34	\$ 0.74	\$ 0.68
Net income (loss) attributable to shareholders		\$ 123	\$ 141	\$ 280	\$ 282
Other comprehensive income (loss)					
Net actuarial gains (losses) on employee future benefits	9	(49)	(39)	(41)	(62)
Available-for-sale securities:					
Changes in net unrealized gains (losses)		(6)	(32)	56	(3)
Reclassification to income of net (gains) losses		(53)	(26)	(152)	(73)
Income tax benefit (expense)	7	26	27	36	36
Other comprehensive income (loss) for the period		(82)	(70)	(101)	(102)
<b>Total comprehensive income (loss) attributable to shareholders</b>		\$ 41	\$ 71	\$ 179	\$ 180

See accompanying notes to the unaudited interim Consolidated financial statements.

## Intact Financial Corporation

### Unaudited interim Consolidated statement of changes in shareholders' equity

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

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
<b>Balance as at January 1, 2011</b>		\$ 993	\$ 96	\$ 1,596	\$ 284	\$ 2,969
Net income (loss) attributable to shareholders		-	-	280	-	280
Other comprehensive income (loss) for the period		-	-	-	(101)	(101)
<b>Total comprehensive income (loss) for the period</b>		-	-	280	(101)	179
Common shares repurchased for cancellation	11	(24)	-	(105)	-	(129)
Dividends paid		-	-	(81)	-	(81)
Share-based payments	12	-	5	(1)	-	4
<b>Balance as at June 30, 2011</b>		\$ 969	\$ 101	\$ 1,689	\$ 183	\$ 2,942
Balance as at January 1, 2010		\$ 1,061	\$ 83	\$ 1,527	\$ 246	\$ 2,917
Net income (loss) attributable to shareholders		-	-	282	-	282
Other comprehensive income (loss) for the period		-	-	-	(102)	(102)
Total comprehensive income (loss) for the period		-	-	282	(102)	180
Common shares repurchased for cancellation	11	(49)	-	(192)	-	(241)
Dividends paid		-	-	(79)	-	(79)
Share-based payments	12	-	4	-	-	4
<b>Balance as at June 30, 2010</b>		\$ 1,012	\$ 87	\$ 1,538	\$ 144	\$ 2,781

See accompanying notes to the unaudited interim Consolidated financial statements.

### Unaudited interim Consolidated statement of cash flows

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

For the periods ended June 30,	Note	Six months	
		2011	2010
<b>Operating activities</b>			
Net income (loss) attributable to shareholders		\$ 280	\$ 282
Adjustments for non-cash items	13	(125)	(88)
Changes in other operating assets and liabilities	13	(167)	(69)
Changes in net claims liabilities		88	43
Net cash flows provided by (used in) operating activities		76	168
<b>Investing activities</b>			
Proceeds from the sale of investments		4,158	5,136
Purchases of investments		(4,112)	(5,004)
Purchases of brokerages and books of business, net of sales		(13)	(19)
Purchases of property and equipment and other		(25)	(20)
Net cash flows provided by (used in) investing activities		8	93
<b>Financing activities</b>			
Proceeds from issuance of debt	10	-	98
Common shares repurchased for cancellation	11	(129)	(241)
Dividends paid		(81)	(79)
Net cash flows provided by (used in) financing activities		(210)	(222)
Net increase (decrease) in cash and cash equivalents		(126)	39
Cash and cash equivalents, beginning of period		138	60
<b>Cash and cash equivalents, end of period</b>	13	\$ 12	\$ 99

See accompanying notes to the unaudited interim Consolidated financial statements.

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

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**Note 1 - Status of the Company**

Intact Financial Corporation (“Intact” or the “Company”) (TSX: IFC), incorporated under the *Canada Business Corporations Act*, is domiciled in Canada and its shares are publicly traded on the Toronto Stock Exchange. The Company has investments in wholly-owned subsidiaries which operate principally in the Canadian property and casualty (“P&C”) insurance market. The Company’s significant subsidiaries are Intact Insurance Company, Belair Insurance Company Inc., The Nordic Insurance Company of Canada, Novex Insurance Company, Trafalgar Insurance Company of Canada, Equisure Financial Network Inc., Canada Brokerlink Inc. and GP Car and Home Inc.

**Acquisition of AXA Canada Inc.**

On May 31, 2011, the Company announced that it had signed a definitive agreement with AXA SA for the acquisition of all of the issued and outstanding shares of its subsidiary AXA Canada Inc. (“the Acquisition”). The total cash consideration for the Acquisition is approximately \$2.6 billion. A further performance based contingent consideration of up to \$100 may also be payable if certain profitability metrics are met within a period of five years. The Acquisition is expected to close in the fall of 2011 upon the receipt of all required regulatory approvals.

In connection with the Acquisition, the Company has entered into the following agreement and financing transactions:

- On May 31, 2011, IFC entered into a commitment letter with a Canadian bank (the “Acquisition Lender”) pursuant to which it has agreed, on its own behalf and in its capacity as administrative agent, to committed senior, unsecured facilities in an aggregate amount of \$1.3 billion (the “Acquisition Credit Facilities”) for the purpose of funding a portion of the purchase price for the Acquisition.

The Acquisition Credit Facilities are comprised of a 12-month bridge facility in the amount of \$500 (the “Bridge Facility”); a two-year term loan facility in the amount of \$500 (the “Tranche A Facility”); and a three-year term loan facility in the amount of \$300 (the “Tranche B Facility”).

The net proceeds from the following transactions will be used to partly fund the purchase price of the Acquisition and should reduce the amount to be drawn under the Acquisition Credit Facilities:

- The Company entered into an agreement to issue and sell, including the over-allotment option, 10,000,000 non-cumulative rate reset Class A shares Series 1 (“Series 1 preferred shares”), at a price of \$25.00 per Series 1 preferred share, for aggregate gross proceeds of \$250 on a bought deal basis to a syndicate of underwriters. The offering closed on July 12, 2011. If the Acquisition is not completed, the net proceeds will be used for general corporate purposes.
- On July 8, 2011, by way of a private placement in Canada, the Company issued \$100 aggregate principle amount of unsecured 50 year term notes (the “Notes”) due July 8, 2061. The Notes are direct unsecured obligations of the Company and rank equally with all other unsecured and unsubordinated indebtedness of the Company. The Notes bear interest at the rate of 6.20% per annum payable semi-annually. If the Acquisition is not completed, the net proceeds of the Notes offering will be used for general corporate purposes.
- The Company entered into an underwriting agreement dated June 2, 2011 with underwriters (the “Underwriters”). The Underwriters agreed to purchase from the Company and sell to the public, including the over-allotment option, 20,125,000 Subscription Receipts at a price of \$47.80 per Subscription Receipt for gross proceeds to the Company of \$962. The Subscriptions Receipts began trading on the Toronto Stock Exchange on June 9, 2011 under the symbol IFC.R. Until such time as the Acquisition closes, the gross proceeds from the Subscription Receipts will be held in escrow. Upon closing of the Acquisition, each Subscription Receipt will entitle the holder to receive one common share of the Company. If the Acquisition is not completed by January 31, 2012, the holders of Subscriptions Receipts will be entitled to receive their full subscription price together with their share of any interest that was earned during the term of escrow.

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

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In addition to the net proceeds of the financing transactions above, the Company intends to use borrowings under existing credit facilities and existing cash resources to fund the purchase price for the Acquisition.

**Note 2 - Basis of presentation**

These unaudited interim Consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reporting* (“IAS 34”), using the accounting policies the Company expects to adopt in its Consolidated financial statements as at and for the year ending December 31, 2011. The accounting policies the Company expects to adopt in its Consolidated financial statements as at and for the year ending December 31, 2011 are included in Note 2 to the March 31, 2011 unaudited interim Consolidated financial statements.

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

These unaudited interim Consolidated financial statements should be read in conjunction with the Company’s 2010 annual financial statements, the IFRS transition disclosures included in Note 15 to these financial statements and the additional disclosures required under IFRS included in the Company’s unaudited interim Consolidated financial statements as at and for the interim period ended March 31, 2011.

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

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

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

Associates are those entities over which the Company exerts significant influence as defined under IFRS and are accounted for using the equity method.

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

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**Notes to the unaudited interim Consolidated financial statements**  
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**Seasonality**

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

**Operating segments**

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

**Note 3 - Changes in accounting policies**

**3.1 Applied during the current period**

The Company made no significant accounting policy changes for the three-month period ended June 30, 2011.

**3.2 Standards issued but not yet effective**

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

**a) Financial instruments: classification and measurement**

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

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

The standard is effective for years beginning on or after January 1, 2013. The IASB is preparing to re-expose IFRS 9 in the second half of 2011. Further, an IASB staff paper has recommended that the re-exposed standard only be effective for years beginning on or after January 1, 2015.

**b) Consolidated financial statements**

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

- the principle of control sets out the three elements of control: (1) power over the investee; (2) exposure, or rights, to variable returns from involvement with the investee; (3) the ability to use power over the investee to affect the amount of the investor's returns, and

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**Notes to the unaudited interim Consolidated financial statements**  
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- when preparing consolidated financial statements, an entity must use uniform accounting policies for reporting like transactions and other events in similar circumstances. Intragroup balances and transactions must be eliminated. Non-controlling interests in subsidiaries must be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

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

**c) Joint arrangements**

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

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

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

**d) Disclosure of interests in other entities**

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

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

**e) Fair value measurement**

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

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

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

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**Notes to the unaudited interim Consolidated financial statements**  
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**f) Employee benefits**

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

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

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

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

**Note 4 - Financial instruments**

The following tables summarize the Company's investments.

Table 4.1 - Investments by classification

<b>As at June 30, 2011</b>	<b>Available- for-sale</b>	<b>Classified as fair value through profit or loss</b>	<b>Designated as fair value through profit or loss</b>	<b>Cash and cash equivalents, loans and receivables</b>	<b>Total</b>
<b>Cash and cash equivalents</b>	-	-	-	12	12
<b>Debt securities</b>					
Short-term notes	81	-	-	-	81
Fixed income					
Investment grade					
Government	1,373	-	1,539	-	2,912
Corporate	703	-	914	-	1,617
Asset-backed	96	-	-	-	96
<b>Total debt securities</b>	<b>2,253</b>	<b>-</b>	<b>2,453</b>	<b>-</b>	<b>4,706</b>
<b>Preferred shares</b>					
Investment grade					
Retractable	220	29	-	-	249
Fixed rate perpetual	431	105	-	-	536
Other perpetual	652	115	-	-	767
Non rated					
Fixed rate perpetual	6	-	-	-	6
<b>Total preferred shares</b>	<b>1,309</b>	<b>249</b>	<b>-</b>	<b>-</b>	<b>1,558</b>
<b>Common shares</b>	<b>1,038</b>	<b>451</b>	<b>529</b>	<b>-</b>	<b>2,018</b>
<b>Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>331</b>	<b>331</b>
<b>Total investments</b>	<b>4,600</b>	<b>700</b>	<b>2,982</b>	<b>343</b>	<b>8,625</b>
As at December 31, 2010					
Cash and cash equivalents	-	-	-	138	138
<b>Debt securities</b>					
Short-term notes	363	-	-	-	363
Fixed income					
Investment grade					
Government	1,345	-	1,591	-	2,936
Corporate	638	-	832	-	1,470
Asset-backed	52	-	-	-	52
<b>Total debt securities</b>	<b>2,398</b>	<b>-</b>	<b>2,423</b>	<b>-</b>	<b>4,821</b>
<b>Preferred shares</b>					
Investment grade					
Retractable	241	25	-	-	266
Fixed rate perpetual	565	75	-	-	640
Other perpetual	506	85	-	-	591
Non rated					
Fixed rate perpetual	6	-	-	-	6
<b>Total preferred shares</b>	<b>1,318</b>	<b>185</b>	<b>-</b>	<b>-</b>	<b>1,503</b>
<b>Common shares</b>	<b>1,021</b>	<b>438</b>	<b>418</b>	<b>-</b>	<b>1,877</b>
<b>Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>314</b>	<b>314</b>
<b>Total investments</b>	<b>4,737</b>	<b>623</b>	<b>2,841</b>	<b>452</b>	<b>8,653</b>
As at January 1, 2010					
Cash and cash equivalents	-	-	-	60	60
<b>Debt securities</b>					
Short-term notes	211	-	-	-	211
Fixed income					
Investment grade					
Government	1,628	-	1,631	-	3,259
Corporate	522	-	689	-	1,211
Asset-backed	103	-	-	-	103
<b>Total debt securities</b>	<b>2,464</b>	<b>-</b>	<b>2,320</b>	<b>-</b>	<b>4,784</b>
<b>Preferred shares</b>					
Investment grade					
Retractable	304	17	-	-	321
Fixed rate perpetual	777	45	-	-	822
Other perpetual	391	48	-	-	439
<b>Total preferred shares</b>	<b>1,472</b>	<b>110</b>	<b>-</b>	<b>-</b>	<b>1,582</b>
<b>Common shares</b>	<b>727</b>	<b>201</b>	<b>384</b>	<b>-</b>	<b>1,312</b>
<b>Loans</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>319</b>	<b>319</b>
<b>Total investments</b>	<b>4,663</b>	<b>311</b>	<b>2,704</b>	<b>379</b>	<b>8,057</b>

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**Notes to the unaudited interim Consolidated financial statements**  
(in millions of Canadian dollars, except as otherwise noted)

Table 4.2 - Carrying value of investments

	FV TPL <sup>1</sup>	Other investments				Total
	instruments	Unamortized	Unrealized	Unrealized	Net	investments
As at June 30, 2011	At fair value	cost	gains	losses	unrealized	At carrying
					gains (losses)	value
<b>Cash and cash equivalents</b>	-	12	-	-	-	12
<b>Debt securities</b>	-	81	-	-	-	81
Short-term notes	-	81	-	-	-	81
Fixed income						
Investment grade						
Government	1,539	1,347	27	(1)	26	2,912
Corporate	914	690	13	-	13	1,617
Asset-backed	-	95	1	-	1	96
<b>Total debt securities</b>	<b>2,453</b>	<b>2,213</b>	<b>41</b>	<b>(1)</b>	<b>40</b>	<b>4,706</b>
<b>Preferred shares</b>						
Investment grade						
Retractable	29	218	5	(3)	2	249
Fixed rate perpetual	105	305	126	-	126	536
Other perpetual	115	538	115	(1)	114	767
Non rated						
Fixed rate perpetual	-	3	3	-	3	6
<b>Total preferred shares</b>	<b>249</b>	<b>1,064</b>	<b>249</b>	<b>(4)</b>	<b>245</b>	<b>1,558</b>
<b>Common shares</b>	<b>980</b>	<b>982</b>	<b>87</b>	<b>(31)</b>	<b>56</b>	<b>2,018</b>
<b>Loans</b>	-	331	-	-	-	331
<b>Total investments</b>	<b>3,682</b>	<b>4,602</b>	<b>377</b>	<b>(36)</b>	<b>341</b>	<b>8,625</b>
As at December 31, 2010						
Cash and cash equivalents	-	138	-	-	-	138
<b>Debt securities</b>	-	363	-	-	-	363
Short-term notes	-	363	-	-	-	363
Fixed income						
Investment grade						
Government	1,591	1,320	26	(1)	25	2,936
Corporate	832	627	12	(1)	11	1,470
Asset-backed	-	51	1	-	1	52
<b>Total debt securities</b>	<b>2,423</b>	<b>2,361</b>	<b>39</b>	<b>(2)</b>	<b>37</b>	<b>4,821</b>
<b>Preferred shares</b>						
Investment grade						
Retractable	25	239	6	(4)	2	266
Fixed rate perpetual	75	418	147	-	147	640
Other perpetual	85	396	110	-	110	591
Non rated						
Fixed rate perpetual	-	3	3	-	3	6
<b>Total preferred shares</b>	<b>185</b>	<b>1,056</b>	<b>266</b>	<b>(4)</b>	<b>262</b>	<b>1,503</b>
<b>Common shares</b>	<b>856</b>	<b>882</b>	<b>150</b>	<b>(11)</b>	<b>139</b>	<b>1,877</b>
<b>Loans</b>	-	314	-	-	-	314
<b>Total investments</b>	<b>3,464</b>	<b>4,751</b>	<b>455</b>	<b>(17)</b>	<b>438</b>	<b>8,653</b>
As at January 1, 2010						
Cash and cash equivalents	-	60	-	-	-	60
<b>Debt securities</b>	-	211	-	-	-	211
Short-term notes	-	211	-	-	-	211
Fixed income						
Investment grade						
Government	1,631	1,625	13	(10)	3	3,259
Corporate	689	506	16	-	16	1,211
Asset-backed	-	100	3	-	3	103
<b>Total debt securities</b>	<b>2,320</b>	<b>2,442</b>	<b>32</b>	<b>(10)</b>	<b>22</b>	<b>4,784</b>
<b>Preferred shares</b>						
Investment grade						
Retractable	17	307	10	(13)	(3)	321
Fixed rate perpetual	45	609	168	-	168	822
Other perpetual	48	310	81	-	81	439
<b>Total preferred shares</b>	<b>110</b>	<b>1,226</b>	<b>259</b>	<b>(13)</b>	<b>246</b>	<b>1,582</b>
<b>Common shares</b>	<b>585</b>	<b>650</b>	<b>80</b>	<b>(3)</b>	<b>77</b>	<b>1,312</b>
<b>Loans</b>	-	319	-	-	-	319
<b>Total investments</b>	<b>3,015</b>	<b>4,697</b>	<b>371</b>	<b>(26)</b>	<b>345</b>	<b>8,057</b>

<sup>1</sup> Fair value through profit or loss.

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As at June 30, 2011, asset-backed securities consisted of auto loan receivables, credit card receivables and commercial mortgage-backed securities. All of these asset-backed securities are AAA rated as of June 30, 2011 and December 31, 2010.

As at June 30, 2011, the fair value of the loans was \$348 (December 31, 2010 - \$330). The fair value was established using valuation techniques that used both input parameters based on observable market data and input parameters not based on observable market data.

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

**4.1 Equities sold short**

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

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

Table 4.3 - Long and short positions

	<b>As at June 30, 2011</b>		As at December 31, 2010		As at January 1, 2010	
	<b>Fair value</b>	<b>Debt securities pledged as collateral</b>	Fair value	Debt securities pledged as collateral	Fair value	Debt securities pledged as collateral
Long positions	<b>393</b>	-	398	-	184	-
Short positions	<b>(395)</b>	<b>405</b>	(397)	407	(183)	183

The following table details the Company's financial liabilities.

Table 4.4 - Details of the Company's financial liabilities

<b>As at</b>	<b>June 30, 2011</b>	December 31, 2010	January 1, 2010
Accounts payable to investment brokers on unsettled trades	<b>22</b>	10	13
Equities sold short positions (Table 4.3)	<b>395</b>	397	183
Derivative liabilities	<b>4</b>	16	16
Embedded derivatives	<b>73</b>	67	67
Net asset value attributable to third party unit holders	<b>307</b>	225	127
<b>Total financial liabilities</b>	<b>801</b>	715	406

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

Table 4.5 - Details of the Company's net investment income and net investment gains (losses)

For the periods ended June 30,	Three months		Six months	
	2011	2010	2011	2010
<b>Amounts reported in Net investment income</b>				
Interest income from:				
Financial instruments at fair value through profit or loss	25	24	50	48
Available-for-sale financial instruments	18	19	36	38
Loans and receivables	5	5	10	10
<b>Total interest income</b>	<b>48</b>	<b>48</b>	<b>96</b>	<b>96</b>
Dividend income (expense) from:				
Dividends paid on equities sold short	(2)	(2)	(5)	(4)
Financial instruments at fair value through profit or loss, net	7	6	14	12
Available-for-sale financial instruments	28	28	55	53
Dividends from long term investments	-	1	1	2
<b>Total dividend income</b>	<b>33</b>	<b>33</b>	<b>65</b>	<b>63</b>
Expenses	(6)	(5)	(12)	(10)
<b>Net investment income</b>	<b>75</b>	<b>76</b>	<b>149</b>	<b>149</b>
<b>Amounts reported in Net investment gains (losses)</b>				
Net realized gains (losses) from:				
Financial instruments classified as fair value through profit or loss	(4)	(15)	(7)	(10)
Financial instruments designated as fair value through profit or loss	17	(14)	23	6
Derivative financial instruments	2	37	(27)	11
Available-for-sale financial instruments	61	34	164	88
Embedded derivatives	1	26	(12)	16
Impairment losses on:				
Common share equity securities	(4)	(5)	(6)	(8)
Other net gains (losses)	(2)	-	(2)	-
<b>Net investment gains (losses)</b>	<b>71</b>	<b>63</b>	<b>133</b>	<b>103</b>

Table 4.6 - Fair values and notional amounts of derivatives

As at June 30, 2011	Fair value		Notional amount
	positive	negative	
<b>Held for non-trading purposes</b>			
Foreign currency exposure			
Forwards	-	-	36
Swaps	4	-	27
Interest rate exposure			
Futures	-	-	75
Swaps	-	1	130
Equity exposure			
Total return swaps	11	2	530
Options	1	-	12
Credit default swaps	-	1	10
<b>Total</b>	<b>16</b>	<b>4</b>	
As at December 31, 2010			
Held for non-trading purposes			
Foreign currency exposure			
Forwards	-	-	32
Swaps	4	-	27
Interest rate exposure			
Futures	-	-	75
Equity exposure			
Total return swaps	-	15	412
Options	-	-	13
Credit default swaps	-	1	50
<b>Total</b>	<b>4</b>	<b>16</b>	

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**Note 5 - Claims liabilities**

**5.1 Movement of claims liabilities**

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

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

Table 5.1 - Movement of the Company's claims liabilities

	<b>Direct claims liabilities</b>	<b>Ceded claims liabilities</b>	<b>Net claims liabilities</b>
<b>For the three months ended June 30, 2011</b>			
Balance, beginning of period	4,393	201	4,192
Current period claims	862	91	771
Prior year (favourable) unfavourable claims development	(66)	6	(72)
Total claims incurred	796	97	699
Increase (decrease) due to changes in discount rate	33	2	31
Claims paid	(681)	(10)	(671)
<b>Balance, end of period</b>	<b>4,541</b>	<b>290</b>	<b>4,251</b>
For the three months ended June 30, 2010			
Balance, beginning of period	4,232	226	4,006
Current period claims	702	2	700
Prior year (favourable) unfavourable claims development	(46)	(7)	(39)
Total claims incurred	656	(5)	661
Increase (decrease) due to changes in discount rate	32	2	30
Claims paid	(650)	(23)	(627)
Balance, end of period	4,270	200	4,070
<b>For the six months ended June 30, 2011</b>			
Balance, beginning of period	4,379	216	4,163
Current period claims	1,634	94	1,540
Prior year (favourable) unfavourable claims development	(147)	7	(154)
Total claims incurred	1,487	101	1,386
Increase (decrease) due to changes in discount rate	15	1	14
Claims paid	(1,340)	(28)	(1,312)
<b>Balance, end of period</b>	<b>4,541</b>	<b>290</b>	<b>4,251</b>
For the six months ended June 30, 2010			
Balance, beginning of period	4,270	243	4,027
Current period claims	1,414	3	1,411
Prior year (favourable) unfavourable claims development	(118)	(4)	(114)
Total claims incurred	1,296	(1)	1,297
Increase (decrease) due to changes in discount rate	29	2	27
Claims paid	(1,325)	(44)	(1,281)
Balance, end of period	4,270	200	4,070

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**Note 6 - Revenue**

**6.1 Total revenue**

Table 6.1 - Total revenue

For the periods ended June 30,	Three months		Six months	
	2011	2010	2011	2010
Net premium earned	1,075	1,054	2,143	2,073
Interest income	48	48	96	96
Dividend income	33	33	65	63
Net investment gains (losses)	71	63	133	103
Share of profit from investments in associates	6	8	9	10
Other revenues	14	14	28	23
<b>Total revenue for the periods</b>	<b>1,247</b>	<b>1,220</b>	<b>2,474</b>	<b>2,368</b>

Table 6.2 - Premiums written and earned

For the periods ended June 30,	Three months		Six months	
	2011	2010	2011	2010
Premiums written				
Direct	1,355	1,319	2,297	2,237
Ceded	(50)	(27)	(78)	(52)
Net	1,305	1,292	2,219	2,185
Changes in unearned premiums	(230)	(238)	(76)	(112)
<b>Net premiums earned</b>	<b>1,075</b>	<b>1,054</b>	<b>2,143</b>	<b>2,073</b>

**Note 7 - Income taxes**

**7.1 Income tax expense (benefit)**

The following table shows the major components of income tax expense (benefit) for the periods ended June 30, 2011 and 2010.

Table 7.1 - Unaudited interim Consolidated statement of comprehensive income

For the periods ended June 30,	Three months		Six months	
	2011	2010	2011	2010
<b>Current tax expense (benefit)</b>				
Current year	1	7	100	103
Prior year adjustment	-	(1)	-	(3)
	1	6	100	100
<b>Deferred tax expense (benefit)</b>				
Origination and reversal of temporary differences	28	34	(20)	(18)
	28	34	(20)	(18)
<b>Income tax expense (benefit)</b>	<b>29</b>	<b>40</b>	<b>80</b>	<b>82</b>
<b>Income tax recorded in OCI</b>				
Net actuarial gains (losses) on employee future benefit plans	(13)	(10)	(11)	(16)
Net changes in unrealized gains (losses) on available-for-sale instruments	2	(10)	18	(1)
Reclassification to income of net (gains) losses on available-for-sale instruments	(15)	(7)	(43)	(19)
<b>Total income tax expense (benefit) recorded in OCI</b>	<b>(26)</b>	<b>(27)</b>	<b>(36)</b>	<b>(36)</b>

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Table 7.2 - Effective tax rate reconciliation

	Three months		Six months	
	2011 %	2010 %	2011 %	2010 %
<b>For the periods ended June 30,</b>				
Income tax expense calculated at statutory tax rates	28.0	30.2	28.0	30.2
Increase (decrease) in income tax rates resulting from:				
Non-taxable dividend income	(7.0)	(5.6)	(5.5)	(5.3)
Other	(1.6)	(2.2)	(0.3)	(2.2)
<b>Effective income tax rate</b>	<b>19.4</b>	<b>22.4</b>	<b>22.2</b>	<b>22.7</b>

**7.2 Components of deferred tax assets and liabilities**

Table 7.3 - Components of deferred income tax assets and liabilities

	Unaudited interim Consolidated balance sheet			Unaudited interim Consolidated Statement of comprehensive income			
	As at			Three months		Six months	
	June 30, 2011	December 31, 2010	January 1, 2010	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
<b>Deferred tax assets</b>							
Net claims liabilities	56	56	58	-	-	-	-
Investments	-	-	3	-	-	-	-
Expenses deferred for tax purposes	33	35	36	-	1	(2)	1
Property and equipment	3	3	4	-	-	-	-
Losses available for carry forward	5	16	15	(1)	(4)	(11)	(1)
Post employment benefit plans	24	10	3	14	10	14	17
Other	1	1	1	(1)	2	(1)	2
<b>Total deferred tax assets</b>	<b>122</b>	<b>121</b>	<b>120</b>	<b>12</b>	<b>9</b>	<b>-</b>	<b>19</b>
<b>Deferred tax liabilities</b>							
Deferred income for tax purposes	23	77	42	17	10	(54)	(32)
Deferred gains and losses on specified debt obligations	22	23	28	(1)	(1)	(1)	(2)
Investments	5	2	-	3	8	3	(1)
Property and equipment	8	8	6	-	-	-	-
Other	9	10	9	(4)	(1)	(2)	-
<b>Total deferred tax liabilities</b>	<b>67</b>	<b>120</b>	<b>85</b>	<b>15</b>	<b>16</b>	<b>(54)</b>	<b>(35)</b>
Reported in:							
Deferred tax assets	77	29	56				
Deferred tax liabilities	22	28	21				
Income tax expense (benefit) reported to net income				28	34	(20)	(18)
Income tax expense (benefit) reported in OCI				(25)	(27)	(34)	(36)

The Company recognized a deferred tax asset for all of its unused non-capital losses as at June 30, 2011, December 31, 2010 and January 1, 2010. A deferred tax liability has not been recognized in respect of the investments in associates.

As at June 30, 2011, the Company had allowable capital losses of \$56 (December 31, 2010 – \$56), which had not been recognized when computing the deferred tax asset. These losses, which have no expiry date, can be used to reduce future taxable capital gains.

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**Note 8 - Other assets and other liabilities**

**8.1 Components of other assets**

Table 8.1 - Components of other assets

<b>As at</b>	<b>June 30, 2011</b>	December 31, 2010	January 1, 2010
Other receivables	<b>244</b>	248	245
Pension asset (Note 9)	<b>50</b>	56	60
Long-term investments, at cost	<b>9</b>	19	21
Prepays	<b>33</b>	9	8
Other	<b>4</b>	3	2
<b>Total other assets</b>	<b>340</b>	335	336

During the three-month and six-month periods ended June 30, 2011, there were no events or changes in circumstances that indicated that the carrying values of the long-term investments may not be recoverable. Total dividends received from investments carried at cost amounted to \$1 for the six-month period ended June 30, 2011 (June 30, 2010 - \$2) and are reported in Net investment income.

**8.2 Components of other liabilities**

Table 8.2 - Components of other liabilities

<b>As at</b>	<b>June 30, 2011</b>	December 31, 2010	January 1, 2010
Premium and sale taxes payable	<b>88</b>	104	93
Commissions payable	<b>133</b>	170	119
Industry pools payable	<b>210</b>	216	229
Employee future benefit obligation	<b>129</b>	96	71
Other payables	<b>214</b>	238	221
<b>Total other liabilities</b>	<b>774</b>	824	733

**Note 9 - Employee future benefits**

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

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

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**9.1 Plan movements**

Table 9.1 - Pension plan movements

	Expenses (revenue)	Present value of benefit obligation	Fair value of plan assets	Net actuarial gains (losses) recognized in OCI
<b>For the three months ended June 30, 2011</b>				
<b>Balance as at March 31, 2011</b>		(702)	689	8
Current service cost	8	(8)	-	-
Interest costs on benefit obligation	10	(10)	-	-
Expected return on assets	(10)	-	10	-
Expense recognized on the unaudited interim Consolidated statement of comprehensive income	8			
Net actuarial gains (losses) recognized in OCI		(57)	8	(49)
Employees contributions		(2)	2	-
Employer contributions		-	8	-
Benefit payments		6	(6)	-
<b>Balance as at June 30, 2011</b>		(773)	711	(41)
<b>For the three months ended June 30, 2010</b>				
Balance as at March 31, 2010		(608)	593	(23)
Current service cost	6	(6)	-	-
Interest costs on benefit obligation	9	(9)	-	-
Expected return on assets	(10)	-	10	-
Expense recognized on the unaudited interim Consolidated statement of comprehensive income	5			
Net actuarial gains (losses) recognized in OCI		(27)	(12)	(39)
Employees contributions		(1)	1	-
Employer contributions		-	9	-
Benefit payments		5	(5)	-
<b>Balance as at June 30, 2010</b>		(646)	596	(62)
<b>For the six months ended June 30, 2011</b>				
<b>Balance as at January 1, 2011</b>		(705)	682	-
Current service cost	16	(16)	-	-
Interest costs on benefit obligation	19	(19)	-	-
Expected return on assets	(21)	-	21	-
Expense recognized on the unaudited interim Consolidated statement of comprehensive income	14			
Net actuarial gains (losses) recognized in OCI		(41)	-	(41)
Employees contributions		(4)	4	-
Employer contributions		-	16	-
Benefit payments		12	(12)	-
<b>Balance as at June 30, 2011</b>		(773)	711	(41)
<b>For the six months ended June 30, 2010</b>				
Balance as at January 1, 2010		(566)	570	-
Current service cost	12	(12)	-	-
Interest costs on benefit obligation	18	(18)	-	-
Expected return on assets	(20)	-	20	-
Expense recognized on the unaudited interim Consolidated statement of comprehensive income	10			
Net actuarial gains (losses) recognized in OCI		(57)	(5)	(62)
Employees contributions		(3)	3	-
Employer contributions		-	18	-
Benefit payments		10	(10)	-
<b>Balance as at June 30, 2010</b>		(646)	596	(62)

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**9.2 Funding status**

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

Table 9.2 - Funding status

As at	Pension plans			Post retirement benefits		
	June 30, 2011	December 31, 2010	January 1, 2010	June 30, 2011	December 31, 2010	January 1, 2010
Benefit obligation	(773)	(705)	(566)	(14)	(14)	(13)
Fair value of plan assets	711	682	570	-	-	-
<b>Surplus (deficit)</b>	<b>(62)</b>	<b>(23)</b>	<b>4</b>	<b>(14)</b>	<b>(14)</b>	<b>(13)</b>
Reported on the unaudited interim Consolidated balance sheet in:						
Pension assets	50	56	60	-	-	-
Pension benefit obligation	(112)	(79)	(56)	(14)	(14)	(13)

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

**9.3 Composition of pension plan assets**

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

Table 9.3 - Composition of pension plan assets

As at	June 30, 2011	December 31, 2010	January 1, 2010
Equity securities	39.4%	40.3%	50.3%
Debt securities	58.2%	58.5%	45.1%
Other investments	2.4%	1.2%	4.6%

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

**9.4 Assumptions used**

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

Table 9.4 - Assumptions

	Pension plans			Post retirement benefit plans		
	June 30, 2011	December 31, 2010	January 1, 2010	June 30, 2011	December 31, 2010	January 1, 2010
<b>To determine benefit obligation, end of period</b>						
Discount rate	5.1%	5.3%	6.1%	4.9%	4.9%	5.6%
Rate of increase in future compensation	3.5%	3.5%	3.5%	n/a	n/a	n/a
Health care cost trend rate	n/a	n/a	n/a	9.0%	9.0%	8.5%
Dental care cost trend rate	n/a	n/a	n/a	4.5%	4.5%	4.5%
<b>To determine benefit expense for the period</b>						
Discount rate	6.1%	6.1%	6.7%	5.6%	5.6%	6.0%
Rate of increase in future compensation	3.5%	3.5%	3.5%	n/a	n/a	n/a
Expected long-term rate of return on plan assets	6.8%	6.8%	7.0%	n/a	n/a	n/a
Health care cost trend rate	n/a	n/a	n/a	8.5%	8.5%	9.0%
Dental care cost trend rate	n/a	n/a	n/a	4.5%	4.5%	4.5%

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

**9.5 Effect of a change in the health and dental care cost trend**

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

**Note 10 - Debt outstanding**

**10.1 Medium term notes**

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

The following tables present details of debt outstanding:

Table 10.1 - Medium term notes offerings

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

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

	As at June 30, 2011		As at December 31, 2010		As at January 1, 2010	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Medium term notes, series 1	249	267	249	265	249	253
Medium term notes, series 2	247	268	247	269	149	147
Total debt outstanding	496	535	496	534	398	400

The medium term notes are accounted for at amortized cost which equals the carrying value as shown in the table above.

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

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

**10.2 Credit facility**

Effective December 20, 2010, the Company obtained a three year unsecured revolving term facility of \$250 which matures on December 20, 2013 in replacement of a previous revolving term facility of \$150. This credit facility may be drawn as prime loans at the prime rate plus a margin or as bankers' acceptances at the bankers' acceptance rate plus a margin. As at June 30, 2011, the Company had not drawn down under the facility (December 31, 2010 - \$nil).

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**Note 11 - Share capital**

**11.1 Authorized, issued and outstanding**

Table 11.1 - Components of share capital

Classes of shares	As at June 30, 2011			As at December 31, 2010			As at January 1, 2010		
	Authorized (in shares)	Issued and outstanding (in shares)	Amount	Authorized (in shares)	Issued and outstanding (in shares)	Amount	Authorized (in shares)	Issued and outstanding (in shares)	Amount
Common	Unlimited	109,428,665	969	Unlimited	112,179,565	993	Unlimited	119,906,567	1,061
Class A	Unlimited	-	-	Unlimited	-	-	Unlimited	-	-

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

Table 11.2 - Reconciliation of shares outstanding

For the periods ended June 30,	Three months		Six months	
	2011 (in shares)	2010 (in shares)	2011 (in shares)	2010 (in shares)
Balance, beginning of the period	109,555,665	115,997,183	112,179,565	119,906,567
Shares repurchased for cancellation	127,000	1,640,800	2,750,900	5,550,184
Balance, end of the period	109,428,665	114,356,383	109,428,665	114,356,383

**11.2 Normal course issuer bid**

On February 22, 2010, the Company commenced a normal course issuer bid ("NCIB") to purchase during the next twelve months ending February 21, 2011, up to 5% of its public float. On August 5, 2010, the Company announced an increase in the maximum number of shares it could repurchase under the NCIB from 5% to 10% of its public float. On February 9, 2011 the Company announced that it would renew its NCIB program to repurchase approximately 5% of its outstanding shares. The new program began on February 22, 2011 for a twelve-month period. As at June 30, 2011, 2.8 million of (June 30, 2010 - 5.6 million of) common shares have been repurchased for cancellation under the NCIB at an average price of \$47.03 per share (June 30, 2010 - \$43.43 per share) for a total consideration of \$129 (June 30, 2010 - \$241). Total cost paid, including fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased for cancellation and the excess of \$105 (June 30, 2010 - \$192) was charged to retained earnings.

Table 11.3 - Normal course issuer bid history

	Maximum shares to be purchased	Three-month period ended June 30, 2011	Six-month period ended June 30, 2011	From inception to June 30, 2011
<b>February 22, 2010 to February 21, 2011 Program</b>	11,955,826			
Number of common shares repurchased for cancellation	-	-	1,979,500	9,706,502
Weighted-average price per share (in dollars)	-	-	46.69	44.61
Total consideration paid (in millions)	-	-	91	433
<b>February 22, 2011 to February 21, 2012 Program</b>	5,523,548			
Number of common shares repurchased for cancellation	-	127,000	771,400	771,400
Weighted-average price per share (in dollars)	-	49.73	47.89	47.89
Total consideration paid (in millions)	-	7	38	38
<b>Total for the period</b>				
Number of common shares repurchased for cancellation	-	127,000	2,750,900	n/a
Weighted-average price per share (in dollars)	-	49.73	47.03	n/a
Total consideration paid (in millions)	-	7	129	n/a

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**Note 12 - Share-based payments**

**12.1 Long-term incentive plans**

The following table shows the movement in the Long-term incentive plans ("LTIP") share units during the period.

Table 12.1 - Movement in LTIP

For the periods ended June 30,	Three months		Six months	
	2011	2010	2011	2010
LTIP (share equivalents)				
Outstanding, beginning of period	<b>681,168</b>	476,034	<b>629,637</b>	163,060
Net change in estimate during the period	<b>198,637</b>	(61,477)	<b>250,168</b>	251,497
<b>Outstanding, end of period</b>	<b>879,805</b>	414,557	<b>879,805</b>	414,557
LTIP (restricted common shares)				
<b>Outstanding, end of period</b>	<b>50,719</b>	53,495	<b>50,719</b>	53,495

The amount charged to compensation expense for LTIP was \$3 (June 30, 2010 - \$2) for the three-month period ended June 30, 2011 and \$7 (June 30, 2010 - \$3) for the six-month period ended June 30, 2011.

**12.2 Employee share purchase plan**

The following table shows the movement in the Employee share purchase plan ("ESPP") restricted common shares during the period.

Table 12.2 - Movement in ESPP

For the periods ended June 30,	Three months		Six months	
	2011	2010	2011	2010
ESPP (restricted common shares)				
Outstanding, beginning of period	<b>108,452</b>	111,136	<b>107,562</b>	108,546
Awarded during the period	<b>25,833</b>	23,124	<b>52,801</b>	48,568
Vested or forfeited during the period	<b>(21,115)</b>	(25,503)	<b>(47,193)</b>	(48,357)
Outstanding, end of period	<b>113,170</b>	108,757	<b>113,170</b>	108,757

The amount charged to compensation expense for the ESPP was \$1 (June 30, 2010 - \$1) for the three-month period ended June 30, 2011 and \$2 (June 30, 2010 - \$2) for the six-month period ended June 30, 2011.

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**Note 13 - Additional information on the unaudited interim Consolidated statement of cash flows**

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

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

<b>For the periods ended June 30,</b>	<b>Six months</b>	
	<b>2011</b>	<b>2010</b>
<b>Adjustments for non-cash items</b>		
Net investment gains (losses)	(133)	(103)
Deferred income tax expense (benefit)	(20)	(18)
Depreciation of property and equipment	6	8
Amortization of intangible assets	17	15
Net premiums on debt securities classified as available-for-sale	6	5
Other	(1)	5
<b>Total as reported on the unaudited interim Consolidated statement of cash flows</b>	<b>(125)</b>	<b>(88)</b>
<b>Changes in other operating assets and liabilities</b>		
Unearned premiums, net	75	112
Change in deferred acquisition costs, net	(16)	(17)
Premium and other receivables	(85)	(182)
Income taxes payable, net	(6)	(11)
Other operating assets	(24)	7
Other operating liabilities	(111)	22
<b>Total as reported on the unaudited interim Consolidated statement of cash flows</b>	<b>(167)</b>	<b>(69)</b>
<b>Composition of cash and cash equivalents</b>		
Cash, net of bank overdrafts	1	77
Cash equivalents	11	22
<b>Total cash and cash equivalents</b>	<b>12</b>	<b>99</b>
<b>Other relevant cash flow disclosures</b>		
Interest paid	15	15
Interest received	95	97
Dividends received	65	64
Income taxes paid (recovered)	105	112

**Note 14 - Related-party transactions**

The Company enters into transactions with associated in the normal course of business. Transactions with related parties are at normal market prices and mostly comprise of commissions for insurance policies and interest and principal payments on loans.

Table 14.1 - Revenues and expenses with related parties

<b>For the periods ended June 30,</b>	<b>Three months</b>		<b>Six months</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Reported in:</b>				
<b>Income</b>				
Net investment income	1	1	2	2
<b>Expenses</b>				
Underwriting expenses	40	26	72	55

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Table 14.2 - Unaudited interim Consolidated balance sheet amounts with related parties

As at	June 30, 2011	December 31, 2010
<b>Reported in:</b>		
<b>Assets</b>		
Loans	69	70
<b>Liabilities</b>		
Other liabilities	46	41

**Note 15 - First-time adoption of IFRS**

**15.1 Accounting policies – basis of preparation**

The unaudited interim Consolidated financial statements represent the second unaudited interim financial statements of the Company prepared in accordance with IFRS, as issued by the IASB. Prior to 2011, the Company prepared its Consolidated financial statements in accordance with Canadian GAAP. The 2010 comparative statements have been restated to conform with IFRS.

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

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

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

**15.2 IFRS optional exemptions**

The Company has applied the following applicable optional exemptions:

**a) Business combinations**

IFRS 1 provides the option to apply IFRS 3 - *Business combinations*, retrospectively or prospectively from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its transition date and such business combinations have not been restated. As a result of applying this exemption, any goodwill and intangible assets arising from such business combinations before the transition date have not been adjusted from the carrying value previously determined under Canadian GAAP.

**b) Employee benefits**

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

**c) Property and equipment**

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

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**d) Designation of financial assets and financial liabilities**

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

**15.3 IFRS mandatory exceptions**

The Company has applied the following applicable mandatory exceptions:

**a) Hedge accounting**

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

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

**b) Estimates**

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

**15.4 On-transition changes in accounting policies**

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

**a) Employee future benefits**

**Actuarial gains and losses**

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

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

**b) Financial instruments**

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

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

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

**c) Income taxes**

**Income tax effect on reconciling differences between Canadian GAAP and IFRS**

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

**15.5 Reconciliations of Canadian GAAP to IFRS**

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

Table 15.1 - Legend to tables below

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

Table 15.2 - Reconciliation of the unaudited interim Consolidated shareholders’ equity as at December 31, 2010, June 30, 2010 and January 1, 2010

<b>As at</b>	<b>December 31, 2010</b>	<b>June 30, 2010</b>	<b>January 1, 2010</b>
Shareholders’ equity under Canadian GAAP	3,070	2,895	2,982
Differences increasing (decreasing) reported shareholders’ equity:			
a) Employee future benefits	(136)	(154)	(88)
b) Financial instruments	-	-	-
c) Income taxes	35	40	23
<b>Shareholders’ equity under IFRS</b>	<b>2,969</b>	<b>2,781</b>	<b>2,917</b>

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Table 15.3 - Reconciliation of the unaudited interim Consolidated statement of comprehensive income for the three months ended June 30, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS reclass adjustments	Subtotal	IFRS measurement adjustments	IFRS balance	IFRS accounts
				<i>Ref.</i>		
<b>Revenues</b>						
Premiums written						
Direct	\$ 1,319	-	1,319	-	\$ 1,319	Direct premiums written
Ceded	(27)	27	-	-	-	
Net	1,292	(1,292)	-	-	-	
Changes in unearned premiums	(238)	238	-	-	-	
<b>Net premiums earned</b>	<b>1,054</b>	<b>-</b>	<b>1,054</b>	<b>-</b>	<b>1,054</b>	Net premiums earned
	-	(661)	(661)	-	(661)	Net claims incurred
	-	(327)	(327)	-	(327)	Underwriting expenses
	<b>1,054</b>	(988)	66	-	<b>66</b>	
	-	(30)	(30)	-	(30)	Impact of change in net claims discount rate
	<b>1,054</b>	(1,018)	36	-	<b>36</b>	<b>Underwriting income (loss)</b>
Interest income	46	30	76	-	76	Net investment income
Dividend income	35	(35)	-	-	-	
Net investment gains	33	-	33	(b) 30	63	Net investment gains (losses)
	-	8	8	-	8	Share of profit from investments in associates
Distribution income and other	22	(8)	14	-	14	Other revenues
<b>Expenses</b>						
Underwriting						
Claims	(691)	691	-	-	-	
Commissions, premium taxes and general expenses	(327)	327	-	-	-	
Investment expenses	(5)	5	-	-	-	
Distribution expenses and other	(7)	-	(7)	(a) (1)	(8)	Other expenses
Interest on debt outstanding	(8)	-	(8)	-	(8)	Finance costs
						Net income (loss) before income tax expense (benefit)
Income before income taxes	152	-	152	29	181	
Income tax expense (benefit)	32	-	32	(c) 8	40	Income tax expense (benefit)
						<b>Net income (loss) attributable to shareholders</b>
<b>Net income</b>	<b>\$ 120</b>	<b>-</b>	<b>120</b>	<b>21</b>	<b>\$ 141</b>	
Earnings per share, basic and diluted (dollars)	<b>1.04</b>				<b>1.22</b>	Earnings per share, basic and diluted (dollars)
	-	-	-	(a) (39)	(39)	Net actuarial gains (losses) on employee future benefits Available-for-sale securities:
Net decrease (increase) in unrealized losses on available-for-sale securities	(32)	-	(32)	-	(32)	Changes in net unrealized gains
Income taxes	9	(9)	-	-	-	
Reclassification to income of net (gains) losses on available-for-sale securities	4	-	4	(b) (30)	(26)	Reclassification to income of net (gains) losses
Income taxes	(1)	9	8	(c) 19	27	Income tax benefit (expense)
Other comprehensive income (loss)	(20)	-	(20)	(50)	(70)	Other comprehensive income (loss)
<b>Comprehensive income (loss)</b>	<b>\$ 100</b>	<b>-</b>	<b>100</b>	<b>(29)</b>	<b>\$ 71</b>	<b>Total comprehensive income (loss) attributable to shareholders</b>

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Table 15.4 - Reconciliation of the unaudited interim Consolidated statement of comprehensive income for the six months ended June 30, 2010

Canadian GAAP accounts	Canadian GAAP balance	IFRS reclass adjustments	Subtotal	IFRS measurement adjustments	IFRS balance	IFRS accounts
				Ref.		
<b>Revenues</b>						
Premiums written						
Direct	\$ 2,237	-	2,237	-	\$ 2,237	Direct premiums written
Ceded	(52)	52	-	-	-	
Net	2,185	(2,185)	-	-	-	
Changes in unearned premiums	(112)	112	-	-	-	
<b>Net premiums earned</b>	<b>2,073</b>	-	2,073	-	<b>2,073</b>	Net premiums earned
	-	(1,297)	(1,297)	-	(1,297)	Net claims incurred
	-	(641)	(641)	-	(641)	Underwriting expenses
	<b>2,073</b>	(1,938)	135	-	<b>135</b>	
	-	(27)	(27)	-	(27)	Impact of change in net claims discount rate
	<b>2,073</b>	(1,965)	108	-	<b>108</b>	<b>Underwriting income (loss)</b>
Interest income	92	57	149	-	149	Net investment income
Dividend income	67	(67)	-	-	-	
Net investment gains	39	-	39	(b) 64	103	Net investment gains (losses)
	-	10	10	-	10	Share of profit from investments in associates
Distribution income and other	33	(10)	23	-	23	Other revenues
<b>Expenses</b>						
Underwriting						
Claims	(1,324)	1,324	-	-	-	
Commissions, premium taxes and general expenses	(641)	641	-	-	-	
Distribution expenses and other	(12)	-	(12)	(a) (3)	(15)	Other expenses
Investment expenses	(10)	10	-	-	-	
Interest on debt outstanding	(14)	-	(14)	-	(14)	Finance costs
	303	-	303	61	364	Net income (loss) before income tax expense (benefit)
Income before income taxes	63	-	63	(c) 19	82	Income tax expense (benefit)
Income tax expense (benefit)	<b>240</b>	-	240	42	<b>282</b>	<b>Net income (loss) attributable to shareholders</b>
<b>Net income</b>	<b>\$ 240</b>	-	240	42	<b>\$ 282</b>	
Earnings per share, basic and diluted (dollars)	<b>2.05</b>				<b>2.40</b>	Earnings per share, basic and diluted (dollars)
	-	-	-	(a) (62)	(62)	Net actuarial gains (losses) on employee future benefits
						Available-for-sale securities:
Net decrease (increase) in unrealized losses on available-for-sale securities	(3)	-	(3)	-	(3)	Changes in net unrealized gains
Income taxes	-	-	-	-	-	
Reclassification to income of net (gains) losses on available-for-sale securities	(9)	-	(9)	(b) (64)	(73)	Reclassification to income of net (gains) losses
Income taxes	-	-	-	(c) 36	36	Income tax benefit (expense)
Other comprehensive income (loss)	(12)	-	(12)	(90)	(102)	Other comprehensive income (loss)
<b>Comprehensive income (loss)</b>	<b>\$ 228</b>	-	228	(48)	<b>\$ 180</b>	<b>Total comprehensive income (loss) attributable to shareholders</b>