

Third Quarter 2011 3

Management's Discussion and Analysis
For the quarter ended September 30, 2011

Intact Financial Corporation

Intact Financial Corporation

Management's Discussion and Analysis – third quarter 2011

November 1, 2011

The following Management's Discussion and Analysis ("MD&A"), which was approved by the Board of Directors for the quarter ended September 30, 2011, is intended to enable the reader to assess the Company's results of operations and financial conditions for the three and nine-month periods ended September 30, 2011, compared to the corresponding periods in 2010. It should be read in conjunction with the Company's unaudited interim Consolidated financial statements and accompanying notes, as well as the MD&A and the audited Consolidated financial statements in the Company's 2010 Annual Report. All amounts herein are expressed in Canadian dollars.

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

International Financial Reporting Standards

The Q3-2011 MD&A reflects the Company's adoption of IFRS as issued by the International Accounting Standards Board. Certain 2010 comparative figures have been restated in accordance with IFRS except as noted otherwise. Section 10.3 of this MD&A provides details on the impact of adopting IFRS, while Tables 31 and 32 present a reconciliation of the Company's key performance indicators from those previously prepared under Canadian GAAP to those prepared under IFRS.

Note 17 of the Company's unaudited interim Consolidated financial statements contains a detailed description of our conversion to IFRS, including accounting policies adopted and a line-by-line reconciliation of financial statements previously prepared under Canadian GAAP to those under IFRS for the three and nine months ended September 30, 2010 and for the year ended December 31, 2010.

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

Forward-looking statements

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

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

Important notes:

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

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Section 1 - Intact Financial Corporation

Overview

On September 23, 2011, Intact Financial Corporation acquired AXA Canada Inc. ("AXA Canada"), the 6th largest provider of home, auto and business insurance in the country. The acquisition confirms IFC's position in the Canadian market and will accelerate IFC's effort towards building a world-class P&C insurer.

Intact Financial Corporation is the largest provider of property and casualty ("P&C") insurance in Canada, insuring more than five million individuals and businesses through our insurance subsidiaries. With an estimated 16.5% market share in Canada, including AXA Canada, we are the largest private sector provider of P&C insurance in Ontario, Québec, Alberta and Nova Scotia. We distribute insurance under the Intact Insurance brand through a wide network of brokers and our wholly-owned subsidiary, BrokerLink. We also distribute insurance direct to consumers through our belairdirect and GP Car and Home brands. We manage our own investment portfolio of approximately \$11.8 billion.

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Section 2 - Overview of consolidated performance

Third quarter highlights

- Net operating income per share of \$0.97, driven by very strong underwriting results from our auto businesses
- Q3 combined ratio of 94.2%, 2.4 points better than last year, despite \$53 million in catastrophe losses
- Operating ROE of 14.0% with a 13% increase in book value per share in the last 12 months
- Integration well under way: AXA Canada policies now being written on IFC systems

Consolidated financial results

The acquisition of AXA Canada closed on September 23, 2011. The \$3.8 million benefit from the addition of AXA Canada's underwriting results for the week ended September 30 has been reflected in Other income, net (Table 3), while net investment income for the quarter includes \$2.1 million related to AXA Canada.

Table 1 – Key components of net income

(in millions of dollars, except as otherwise noted)	Q3-2011	Q3-2010	Change	YTD 2011	YTD 2010	Change
Direct premiums written (excluding pools)	1,226	1,206	2%	3,523	3,438	2%
Net underwriting income (excluding MYA) (table 5)	65	37	76%	155	172	(10)%
Combined ratio (excluding MYA)	94.2%	96.6%	(2.4)pts	95.2%	94.5%	0.7 pts
Net investment income (table 10)	74	74	-	223	223	-
Finance costs	11	7	57%	26	21	24%
Preferred share dividends	3	-	n/a	3	-	n/a
Total gains excluding fair-value-through-profit-or-loss ("FVTPL") fixed income securities (table 13)	19	34	(44)%	147	111	32%
Integration and restructuring costs	29	-	n/a	29	-	n/a
Net income before income tax expenses	118	137	(14)%	478	501	(5)%
Income tax expense	17	28	(39)%	97	110	(12)%
Effective income tax rate	15.0%	20.3%	(5.3) pts	20.4%	22.0%	(1.6) pts
Net income	101	109	(7)%	381	391	(3)%
Net operating income (table 3)	111	90	23%	308	322	(4)%
Earnings to common shareholders per share ("EPS") – basic and diluted (in dollars)	0.87	0.96	(9)%	3.41	3.37	1%
Adjusted earnings to common shareholders per share - basic and diluted (in dollars)¹	1.11	0.98	13%	3.69	3.42	8%
Net operating income to common shareholders per share (in dollars)	0.97	0.79	23%	2.75	2.78	(1)%
Return on common shareholders equity ("ROE") for the last 12 months/YTD annualized²	16.8%	n/a²	n/a	17.2%	18.0%	(0.8) pts
Adjusted return on common shareholders equity for the last 12 months/YTD annualized^{1,2}	17.8%	n/a²	n/a	18.5%	18.2%	0.3 pts
Operating return on common shareholders equity for the last 12 months /YTD annualized²	14.0%	n/a²	n/a	14.6%	16.1%	(1.5) pts
Book value per share (in dollars)	28.97	25.61	13%			

¹ Adjusted earnings to common shareholders per share and adjusted return on common shareholders equity exclude the impact of integration and restructuring costs, as well as the amortization of intangible assets recognized in business combinations. The Company believes that these metrics more accurately reflect its underlying business performance.

² ROE, adjusted ROE and Operating return on common shareholders equity (OROE) are not presented for the comparative period due to the adoption of IFRS in 2011. ROE, adjusted ROE and OROE as reported in Q3-2010 under Canadian GAAP were 14.2%, 14.3% and 14.1% respectively. In Q3-2011, for the purposes of ROE, adjusted ROE and OROE, the average equity calculation has been adjusted on a pro rata basis to account for the \$921 million of common shares issued as at September 23, 2011. There were no impacts to prior comparative figures due to this adjustment.

Third quarter 2011

Our underwriting performance was solid in Q3-2011 with a combined ratio of 94.2%, 2.4 points improved versus Q3-2010, on significant improvements in personal auto. Catastrophe losses remained elevated at \$53 million, approximately twice the estimated normal quarterly run-rate. The losses were driven by Tropical Storm Irene in Quebec and numerous wind and hailstorms across the country, negatively impacting our property lines. The underlying current year loss ratio (excluding catastrophes and prior year claims development) improved 2.5 points year-over-year.

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Our market-based yield declined more than 30 basis points to 3.8% as the low yield environment continued to impact our investment income. Net investment income of \$74 million in the third quarter was in line with Q3-2010, but included an incremental \$2.1 million related to AXA Canada. Cash and investments amounted to \$11.8 billion, including \$3.6 billion from the addition of AXA Canada's investment portfolio, up \$3.2 billion from one year ago.

Direct premiums written growth was 2% year-over-year. Growth of 1% in personal lines reflects slower growth in our direct businesses, notably in Ontario, while commercial lines grew 5% year-over-year with improving unit growth in both auto and P&C.

The Company's financial position remained strong at the end of Q3-2011, with an MCT of 202%, \$534 million in excess capital and book value per share of \$28.97, 13% higher than a year ago. We believe our capital levels are appropriate given potential headwinds from volatility in equity markets and interest rates, both of which could negatively impact earnings and capital in the near term. Our operating return on equity reached 14.0% for the last 12 months, while strong investment gains from continued portfolio rebalancing resulted in an adjusted return on equity of 17.8%.

Year to date 2011

Underwriting income declined by \$17 million in the first nine months of the year, with a combined ratio of 95.2%, versus 94.5% during the same period of 2010. The change was driven by unusually mild weather conditions in the first quarter of 2010 and a significant increase in catastrophe losses, which grew from \$69 million in 2010 to \$176 million in 2011, attributable to the Slave Lake wildfires, Tropical Storm Irene and a number of other severe storms. Improved underlying current year results in our personal auto business and higher favourable prior year claims development offset much of the decline. The underlying current year loss ratio (excluding catastrophes and prior year claims development) improved 1.6 points in year-to-date versus the same period of 2010. Overall, improved results in our auto businesses were offset by declines in personal property and commercial P&C.

Net operating income was \$308 million, down approximately 4% reflecting the lower underwriting results. The market yield of the investment portfolio has come under pressure from the low interest rate environment, falling from 4.2% last year to 4.0%, resulting in \$223 million of net investment income for the first nine months of 2011, in line with the same period in 2010.

The decrease in underwriting income and \$29 million of integration and restructuring costs was partly offset by a significant improvement in investment gains, resulting in net income for the first nine months of 2011 of \$381 million, down 3% from \$391 million in the comparable period last year.

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

IFC is well-positioned to continue outperforming the P&C insurance industry in the current environment due to its pricing and underwriting discipline, claims management capabilities, prudent investment and capital management practices, and strong financial position. Synergies from the acquisition of AXA Canada should further improve our financial results.

	P&C insurance industry	IFC's strategy
Pricing and claims environment (12-month outlook)	<ul style="list-style-type: none"> Industry premiums are likely to increase at a similar rate as in 2010, with mid single digit growth in personal auto (driven by Ontario), upper single digit growth in personal property (reflecting the impact of water related losses and more frequent and/or severe storms) and low single digit growth in commercial lines. Loss ratio improvement is expected from personal auto (from rate increases, and as Ontario reforms bring the anticipated cost savings and are effective at slowing claims inflation) and personal property (as a result of the benefit from continued premium increases). We do not anticipate loss ratio improvement in commercial lines, but expect pricing conditions to improve at a moderate pace over time, following several years of soft industry pricing. 	<ul style="list-style-type: none"> IFC maintains its disciplined pricing strategy while capitalizing on its strong position to grow organically in the prevailing market conditions. IFC restarted its growth efforts in the Ontario auto market as the results of the reforms unfold in a positive manner and our efforts to curb fraud and abuse prove successful. In home insurance, we maintain our focus on the actions already taken, and continue to monitor and adapt to the increasing level of severe weather occurrences, to create a sustainable competitive advantage. In commercial lines, we intend to build on our 5-point historical loss ratio advantage, and to accelerate our penetration in small to mid-sized businesses. The addition of AXA Canada has bolstered our product offering and enables us to meaningfully grow in the mid-sized segment.
Capital markets	<ul style="list-style-type: none"> Capital markets remain volatile, as economic data (particularly outside of Canada) raise questions about the sustainability of the global recovery. Recent economic data and comments from the Bank of Canada lead us to believe that interest rates, which are currently very low, might remain low for the foreseeable future. As a result, we estimate that the industry's pre-tax investment yield will decline, given its asset mix and duration, which could influence higher premiums across the industry. Debt and equity capital markets are in a state of flux, with periodic windows of opportunity for companies to raise capital at reasonable rates. Global capital requirements are evolving quickly and generally becoming more stringent. This is also true in Canada where the Office of the Superintendent of Financial Institutions Canada ("OSFI") recently published 2012 MCT guidelines which could reduce industry capital ratios. 	<ul style="list-style-type: none"> IFC secured long-term financing for the \$2.6 billion acquisition of AXA Canada with proceeds from the issuance of subscription receipts, preferred shares and medium term notes in an aggregate amount of approximately \$1.8 billion. The balance was funded from IFC's excess capital and \$400 million drawn down under the terms of a credit facility arranged in connection with the acquisition. IFC maintains a strong financial position with \$534 million in excess capital and a debt to total capital ratio of 23.4% as at the end of Q3-2011. IFC intends to allocate a portion of the \$300 million proceeds from the sale of AXA Canada's life insurance business towards the term loan facility used to partially finance the acquisition. As a result, the debt to total capital ratio of IFC is expected to be back in line with its target of 20% once the transaction closes in early 2012. Our \$11.8 billion cash and investment portfolio is largely Canadian dollar-denominated with minimal U.S. exposure. We expect our market-based yield to continue to decline, offsetting the growth in our investment portfolio and negatively impacting our net investment income levels. We expect the new MCT guidelines to be capital neutral in 2012, but slightly negative in 2013, based on the current composition of our investment portfolio.
Overall	<ul style="list-style-type: none"> The industry's return on equity was approximately 7% in 2010 and 8% in H1-2011. Although the combined ratio may improve, we believe this would be offset by a reduction in the level of investment income. Consequently, we do not expect material improvement in ROEs in the near term. 	<ul style="list-style-type: none"> We strongly believe the Company is likely to outperform the industry's ROE by at least 500 basis points in the next 12 months, due to the following: <ul style="list-style-type: none"> Our 2010 outperformance was approximately 700 basis points (and 1,100 basis points in H1-2011). We expect to maintain a combined ratio advantage, due to continued robust action plans across all lines of business, and the addition of AXA Canada.

Section 4 - Business developments and operating environment**AXA Canada acquisition**

On September 23, 2011, IFC completed the \$2.6 billion acquisition of AXA Canada. The completion of this transaction represents a defining milestone in the history of the Company, and with it we have strengthened our product offerings, improved our capabilities to support insurance brokers, expanded our distribution platform, reinforced competencies in risk selection and deepened the quality of our management team.

With the acquisition, IFC has enhanced its leading position in Canada by increasing its market share to approximately 16.5% and its premiums to \$6.5 billion. The company has solidified its top market positions in Alberta, Ontario, Quebec and Nova Scotia and expanded its presence in British Columbia, New Brunswick and Newfoundland. It is expected that the acquisition will ultimately allow IFC to expand its growth potential, solidify its industry outperformance and, through greater product and geographic diversification, increase the stability of its earnings.

We estimate an internal rate of return ("IRR") from the acquisition – our primary metric when measuring potential targets – of at least 20%. We also expect the deal to be accretive to net operating income per share in 2012, and more importantly, to provide 15% accretion annually in the mid-term. Annual synergies amounting to \$100 million after-tax are expected from a combination of systems-related costs savings, external loss adjustment expense reductions, shared services savings, and operational and claims efficiencies.

As we progressed with the integration, we identified a need to increase our reinsurance coverage to bring the combined entity's coverage back up to IFC's standard. We expect to more than offset this with short-term supply chain benefits which will materialize more quickly than anticipated. In total, we maintain our \$100 million target and expect to reach this run-rate progressively within 18-24 months of the close. In addition, we continue to believe further opportunities for benefits exist in the mid-term related to actuarial and additional supply chain benefits.

Integration and restructuring costs are included in net income and include amounts related to system conversions, severance and other employee-related charges as well as other integration amounts, such as consulting fees and marketing costs related to customer communications and rebranding activities. We recorded \$29 million of such expenses in the current quarter.

Since the announcement of the acquisition in May, IFC secured long-term financing at attractive rates, despite a volatile capital market environment. The \$2.6 billion acquisition was financed with the proceeds from the issuance of subscription receipts, preferred shares and medium term notes in an aggregate amount of approximately \$1.8 billion. The balance was funded from IFC's excess capital and \$400 million drawn down under the terms of a credit facility arranged in connection with the acquisition. As a result of the acquisition funding structure, IFC ended the third quarter of 2011 with a debt to total capital ratio of 23.4%, temporarily above its stated target of 20%.

On September 26, 2011, IFC announced it had entered into a share purchase agreement to sell AXA Canada's life insurance business to SSQ Life Insurance Company Inc. for \$300 million. IFC intends to allocate a portion of the \$300 million proceeds from the sale of this business towards the term loan facility used to partially finance the acquisition of AXA Canada. As a result, the debt to total capital ratio of IFC is expected to be back in line with its target of 20% once the transaction closes in early 2012, subsequent to the receipt of regulatory approvals.

Significant progress has been made toward assembling a management team that we believe is world-class. Early signs are very encouraging, as the two companies had similar sets of values, which facilitated a collaborative environment and ultimately eased the integration process. Since early June, teams from both IFC and AXA Canada have reviewed the activities, processes and systems and developed prospective action plans. Since the integration planning is now complete, IFC anticipates a smooth transition and expects to reap the benefits of the transaction as teams are now in place, and the formal integration has started in earnest as AXA Canada policies are now being written on IFC systems.

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Canadian P&C insurance industry results – H1-2011 comparison

The Canadian P&C insurance results for H1-2011 are available. Highlights are as follows:

Table 2

	P&C industry ¹	Top 20 Benchmark ²	IFC
DPW growth	3.9%	4.0%	2.7%
Combined ratio ³	99.0%	99.7%	96.7%
Return on equity (YTD annualized)	7.9%	6.9%	18.9%

Industry data source: MSA Research Inc.

¹ Excludes Lloyd's, ICBC, SGI, SAF, MPI and Genworth

² Excludes Lloyd's, Genworth and IFC

³ Combined ratio includes MYA

We continued to outperform the Canadian P&C insurance industry's 20 largest companies ("Top 20 Benchmark") in H1-2011. While our direct premiums written growth was below the Top 20 Benchmark, we delivered a combined ratio 3.0 percentage points better than the Top 20 Benchmark during the first half of 2011. The combination of superior underwriting results, investment results and capital management led to a return on equity outperformance of 12 percentage points versus our industry Top 20 Benchmark, despite having over \$758 million of excess capital, prior to the close of the acquisition.

Ontario auto

In September of 2010, the Ontario government's auto reforms were implemented, offering greater choice for consumers while creating a more stable cost environment. The reforms also directly targeted abuse and fraud in the auto insurance system, which increase costs and lead to higher premiums. As time has elapsed following implementation, the initial encouraging signs have gained credibility, and indicate that results for that line of business should improve in the coming 9-12 months. We are more optimistic that the benefits from the reforms will materialize as originally outlined (six points of loss ratio improvement for the industry). Apart from the government reforms, the Company has taken actions to combat fraud and abuse in the system. Initial signs are encouraging and we believe we can generate additional loss ratio improvement from these actions.

According to industry results, the loss ratio in Ontario auto for H1-2011, excluding IFC, was 86.0%, improved from 95.6% a year earlier and 101.6% in 2010, aided by continued rate increases and as the benefits from auto reforms began to take hold. In the third quarter of 2011, the Financial Services Commission of Ontario ("FSCO") approved rate increases of 1.2% (40% of companies filed a request with an average increase of 3.1%). In total, industry rate increases have amounted to 5.7% since September 2010, despite the beneficial impact of the reforms.

Capital markets

The Canadian equity market continued its slide in the third quarter, as the S&P/TSX Index decreased 12.6% while the preferred share index fell 1.8%. Movements in our equity investment values are generally in line with the equity markets' performance, although our exposures to individual sectors may be different. For example, we do not have significant exposure to materials. The \$52 million positive development on our unrealized gain position for fixed income securities in Q3-2011 was largely due to the 5-year Government of Canada rate decreasing approximately 94 basis points but was partly mitigated by spreads on 5-year AA corporate bonds widening by an estimated 25 basis points. Overall, the decline in equity markets resulted in a lower unrealized gain position on our equity investment portfolios. Tables 13, 17 and 18 provide detailed information on the net investment gains (losses), and unrealized gains (losses) of our investment portfolio.

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Industry pools

Industry pools consist of the “residual market” (or Facility Association) as well as risk-sharing pools (“RSP”) in Alberta, Ontario, Québec, New Brunswick and Nova Scotia. In the third quarter, the net impact of industry pools negatively impacted personal auto net underwriting income by \$7.7 million year-over-year, excluding MYA. This variance reflects less favourable prior year claims development in Q3-2011, versus significant favourable development related to expected improvement from reforms in Ontario in Q3 of last year. Results for industry risk sharing pools tend to fluctuate between periods.

Weather conditions

Overall weather conditions were challenging during the third quarter of 2011. The July to September period experienced storms that resulted in catastrophic losses, including hailstorms in Alberta, windstorms in Ontario and the effects of Tropical Storm Irene in Quebec, as well as non-cat weather events across the country. Our personal property business incurred the majority of the weather-related claims.

Seasonality of the business

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

Section 5 - Operating results

5.1 Net operating income

Table 3 - Components of net operating income

(in millions of dollars)	Q3-2011	Q3-2010	Change	YTD 2011	YTD 2010	Change
Net underwriting income (table 5)	65	37	76%	155	172	(10)%
Net investment income (table 10)	74	74	-	223	223	-
Other income, net	-	-	n/a	8	9	(11)%
Pre-tax operating income	139	111	25%	386	404	(4)%
Tax impact	(28)	(21)	n/a	(78)	(82)	n/a
Net operating income	111	90	23%	308	322	(4)%
Preferred share dividends	(3)	-	n/a	(3)	-	n/a
Net operating income to common shareholders (excluding MYA)	108	90	20%	305	322	(5)%
Average outstanding shares (millions)	111	114	(3)	111	116	(5)
Net operating income to common shareholders per share (in dollars)	0.97	0.79	0.18	2.75	2.78	(0.03)

The \$3.8 million benefit from the addition of AXA Canada's underwriting results for the week ended September 30 has been reflected in Other income, net. Similarly, net investment income includes \$2.1 million related to the addition of AXA Canada.

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

Table 4 - Changes in pre-tax operating income (year-over-year)

(in millions of dollars)	Q3-2011	YTD 2011
Pre-tax operating income, as reported in 2010 (IFRS adjusted)	111	404
Changes in net underwriting income :		
Change in favourable prior year claims development	6	45
Other changes in net underwriting income	25	45
Change in catastrophe losses	(3)	(107)
Total change in net underwriting income	28	(17)
Change in net investment income	-	-
Change in other income, net	-	(1)
Total change in pre-tax operating income	28	(18)
Pre-tax operating income, as reported in 2011	139	386

Operating income (net and pre-tax) and net operating income per share are non-IFRS measures. Net operating income is defined as net income excluding the market yield adjustment and total net gains, after tax. Pre-tax operating income is defined as net operating income before income taxes. Net operating income per share is equal to net operating income less preferred shared dividends for the period divided by the average outstanding number of common shares for the same period. These measures are used by management and financial analysts to assess the Company's performance; however, they may not be comparable to similar metrics published by other companies.

5.2 Underwriting results

Table 5 - Components of underwriting results

(in millions of dollars, except as otherwise noted)	Q3-2011	Q3-2010	Change	YTD 2011	YTD 2010	Change
Net premiums earned	1,121	1,067	5%	3,264	3,140	4%
Net claims:						
Current year claims (excluding catastrophes)	706	699	1%	2,124	2,091	2%
Current year loss ratio	63.0%	65.5%	(2.5) pts	65.0%	66.6%	(1.6) pts
Current year catastrophes	53	50	6%	176	69	155%
(Favourable) prior year claims development	(31)	(26)	n/a	(185)	(140)	n/a
Total net claims	728	723	1%	2,115	2,020	5%
Claims ratio	64.9%	67.8%	(2.9) pts	64.7%	64.3%	0.4 pts
Commissions, premium taxes, general expenses	328	307	7%	994	948	5%
Expense ratio	29.3%	28.8%	0.5 pts	30.5%	30.2%	0.3 pts
Net underwriting income	65	37	76%	155	172	(10)%
Combined ratio	94.2%	96.6%	(2.4) pts	95.2%	94.5%	0.7 pts

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Underwriting income of \$65 million in Q3-2011 was up 76% from the same period of 2010. The improvement was due to a 2.5 point improvement in the current year loss ratio, driven by improved results from our personal auto business. In addition, losses from catastrophes, including Tropical Storm Irene and numerous wind and hail storms across the country in the quarter, amounted to \$53 million and partly offset higher favourable prior year claims development.

Favourable prior year claims development, at 3.0% of opening reserves on an annualized basis, was higher than the 2.5% in Q3-2010 but in line with the Company's historical level of 3%-4%.

General expenses are higher than last year due to increased marketing initiatives and higher performance-related expenses, while commission expenses are down as a result of lower year-to-date profitability. The net impact is a 0.5 percentage point increase in the expense ratio.

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Net premiums earned were up 4% in the first nine months of the year due to the increase in written premiums over the past 12 months. The current year loss ratio was 1.6 points improved from the same period of 2010, largely driven by improved results from our auto businesses. Losses from catastrophes, including Slave Lake, Tropical Storm Irene and numerous wind and water events in Quebec and Ontario during the year, amounted to \$176 million and offset higher favourable prior year claims development, explaining the lower underwriting income compared to last year.

Based on a continued improved claims experience, favourable prior year claims development, at 5.9% of opening reserves on an annualized basis, was higher than the 4.6% in the first nine months of 2010, and above the Company's historical level of 3%-4%.

5.3 Underwriting results by lines of business – personal lines

Table 6 - Underwriting results for personal lines

(in millions of dollars, except as otherwise noted)	Q3-2011	Q3-2010	Change	YTD 2011	YTD 2010	Change
Direct premiums written						
Automobile	622	626	(1)%	1,755	1,742	1%
Property	312	302	3%	845	815	4%
Total	934	928	1%	2,600	2,557	2%
Written insured risks (thousands)						
Automobile	676	671	1%	1,945	1,933	1%
Property	446	452	(1)%	1,220	1,234	(1)%
Total	1,122	1,123	-	3,165	3,167	-
Net premiums earned						
Automobile	563	545	3%	1,652	1,602	3%
Property	263	246	7%	765	727	5%
Total	826	791	4%	2,417	2,329	4%
Net underwriting income (loss)						
Automobile	76	20	280%	167	59	183%
Property	(27)	(15)	n/a	(81)	14	n/a
Total (excluding MYA)	49	5	880%	86	73	18%
Market yield adjustment	(44)	(25)	n/a	(53)	(42)	n/a
Net underwriting income (loss) (including MYA)	5	(20)	(125)%	33	31	6%

Table 7 - Underwriting ratios for personal lines

	Q3-2011	Q3-2010	Change	YTD 2011	YTD 2010	Change
Personal auto						
Claims ratio	62.6%	73.1%	(10.5) pts	64.8%	71.1%	(6.3) pts
Expense ratio	23.8%	23.2%	0.6 pts	25.1%	25.2%	(0.1) pts
Combined ratio	86.4%	96.3%	(9.9) pts	89.9%	96.3%	(6.4) pts
Personal property						
Claims ratio	75.9%	71.5%	4.4 pts	75.4%	63.2%	12.2 pts
Expense ratio	34.4%	34.5%	(0.1) pts	35.2%	35.0%	0.2 pts
Combined ratio	110.3%	106.0%	4.3 pts	110.6%	98.2%	12.4 pts
Personal lines – total						
Claims ratio	66.8%	72.6%	(5.8) pts	68.1%	68.6%	(0.5) pts
Expense ratio	27.2%	26.7%	0.5 pts	28.3%	28.3%	-
Combined ratio	94.0%	99.3%	(5.3) pts	96.4%	96.9%	(0.5) pts

Third quarter 2011

Direct premiums written in personal auto declined 1%. Slower growth in our direct businesses, notably in Ontario, again impacted DPW in this segment of business. The combined ratio improved significantly from last year to 86.4%, on meaningful improvement in our loss ratio in several regions, notably in Ontario and Alberta, during the quarter and higher favourable prior year claims development. The initial encouraging signs from Ontario auto reforms have gained credibility, and indicate that results for that line of business should improve in the coming 9-12 months. We are more optimistic that the benefits from the reforms will

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materialize as originally outlined, but remain disciplined in this market despite the continued improvement in our loss ratio in Ontario auto in Q3-2011. The underlying current year loss ratio (excluding catastrophes and prior year claims development) was better by 5.5 points year-over-year.

Direct premiums written growth in personal property slowed to 3%, reflecting increases in rates and amounts insured, which was offset by a change in mix and a reduction of units. Growth in the segments where policies are sold as a bundle with auto was also impacted by our approach to growth in our Ontario auto business. Benefits from our actions were overshadowed by substantial losses from catastrophes in the quarter, resulting in a combined ratio of 110.3%, 4.3 points worse than Q3-2010, and well-above a level that we consider acceptable. The underlying current year loss ratio (excluding catastrophes and prior year claims development) was worse by 1.3 points year-over-year.

Year to date 2011

Personal auto underwriting results improved on a year-over-year basis with the combined ratio progressing from 96.3% to 89.9% in the first nine months of 2011, mainly due to the continued improvement in Ontario auto. Direct premiums written increased 1% versus the same period in 2010, reflecting the slower growth in our direct businesses.

The significant year-over-year drop in underwriting income in personal property was due to an elevated level of catastrophe losses in the first nine months of 2011, versus more favourable weather conditions in the same period of 2010. The overall combined ratio deteriorated from 98.2% in 2010 to 110.6% (from 91.4% to 92.2% excluding catastrophes) for the first nine months of 2011. Direct premiums written increased 4% reflecting higher premiums, partly offset by a 1% decline in written insured risks.

5.4 Underwriting results by lines of business – commercial lines

Table 8 - Underwriting results for commercial lines

(in millions of dollars, except as otherwise noted)	Q3-2011	Q3-2010	Change	YTD 2011	YTD 2010	Change
Direct premiums written						
Automobile	83	79	5%	266	250	6%
P&C	209	199	5%	658	630	4%
Total	292	278	5%	924	880	5%
Written insured risks (thousands)						
Automobile	68	65	5%	224	211	6%
P&C	61	59	3%	187	183	2%
Total	129	124	4%	411	394	4%
Net premiums earned						
Automobile	88	83	6%	254	242	5%
P&C	207	192	8%	593	569	4%
Total	295	275	7%	847	811	4%
Net underwriting income (loss)						
Automobile	15	16	(6)%	42	40	5%
P&C	-	15	n/a	27	59	(54)%
Total (excluding MYA)	15	31	(52)%	69	99	(30)%
Market yield adjustment	(23)	(13)	n/a	(28)	(22)	n/a
Net underwriting income (including MYA)	(8)	18	n/a	41	77	(47)%

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Table 9 - Underwriting ratios for commercial lines

	Q3-2011	Q3-2010	Change	YTD 2011	YTD 2010	Change
Commercial auto						
Claims ratio	54.5%	51.8%	2.7 pts	53.3%	53.1%	0.2 pts
Expense ratio	28.3%	28.7%	(0.4) pts	29.9%	30.1%	(0.2) pts
Combined ratio	82.8%	80.5%	2.3 pts	83.2%	83.2%	-
Commercial P&C						
Claims ratio	62.0%	54.9%	7.1 pts	56.1%	51.6%	4.5 pts
Expense ratio	38.0%	37.1%	0.9 pts	39.4%	38.0%	1.4 pts
Combined ratio	100.0%	92.0%	8.0 pts	95.5%	89.6%	5.9 pts
Commercial lines – total						
Claims ratio	59.8%	54.0%	5.8 pts	55.2%	52.1%	3.1 pts
Expense ratio	35.1%	34.6%	0.5 pts	36.6%	35.6%	1.0 pts
Combined ratio	94.9%	88.6%	6.3 pts	91.8%	87.7%	4.1 pts

Third quarter 2011

Insured risks were up 5% in commercial auto leading to a 5% increase in direct premiums written in Q3-2011 versus Q3-2010. The combined ratio at 82.8% was slightly higher than last year's very strong 80.5% on lower current accident year results.

In commercial P&C, direct premiums written growth of 5% was driven by both rate increases and unit growth in major markets, a sign that our actions are generating positive results. The combined ratio was 8.0 points worse than Q3-2010 as a result of lower favourable prior year claims development, coupled with the negative impact on current accident year results from higher catastrophe losses (including a non-weather related fire loss). The underlying current year loss ratio (excluding catastrophes and prior year claims development) was better by 0.6 points year-over-year.

Year to date 2011

Overall, direct premiums written in commercial lines increased 5% year-to-date with a 4% increase in written insured risks. The growth over the first nine months reflects the success of our strategies, which achieved growth in units in spite of rate increases.

The very strong year-to-date underwriting performance in commercial auto, with a combined ratio of 83.2%, is in line with last year as the drop in current year results was offset by higher favourable prior year claims development. In commercial P&C, underwriting results were less strong year-over-year, with a combined ratio of 95.5% as higher favourable prior year claims development was more than offset by the combination of higher catastrophe losses and lower current accident year results.

5.5 Investment income

Table 10

(in millions of dollars, except as otherwise noted)	Q3-2011	Q3-2010	Change	YTD 2011	YTD 2010	Change
Interest income	50	48	4%	146	144	1%
Dividend income	30	31	(3)%	95	94	1%
Investment income, before expenses	80	79	1%	241	238	1%
Expenses	(6)	(5)	n/a	(18)	(15)	n/a
Net investment income	74	74	-	223	223	-
Market-based yield	3.8%	4.1%	(0.3) pts	4.0%	4.2%	(0.2) pts

Our market-based yield declined more than 30 basis points to 3.8% as the low yield environment continued to impact our investment income. Underlying net investment income fell \$2 million in Q3-2011 versus 2010, but we benefited from an incremental \$2 million related to AXA Canada. The market-based yield is a non-IFRS measure defined as the annualized total pre-tax investment income (before expenses) divided by the average fair values of equity and fixed income securities held during the reporting period. The market-based yield may not be comparable to that of other companies since it is a non-IFRS measure.

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5.6 Reconciliation to IFRS net income

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

Table 11 - Reconciliation to net income

(in millions of dollars, except as otherwise noted)	Q3-2011	Q3-2010	Change	YTD 2011	YTD 2010	Change
Net income	101	109	(7)%	381	391	(3)%
Add losses (deduct gains) excluding FVTPL debt securities (table 13) and others	(19)	(34)	15	(147)	(111)	36
Add market yield effect (table 14)	8	5	3	18	7	11
Add amortization of intangible assets recognized in business combinations	3	3	-	8	7	1
Add integration and restructuring costs	29	-	29	29	-	29
Add tax impact	(11)	7	(18)	19	28	(9)
Net operating income (excluding MYA)	111	90	23%	308	322	(4)%

Section 6 - Non operating results

6.1 Net income before income tax expenses

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

Table 12 - Changes in net income before income tax expenses (year-over-year)

(in millions of dollars, except as otherwise noted)	Q3-2011	YTD 2011
Net income before income tax expenses, as reported in 2010 (IFRS adjusted)	137	501
Change in pre-tax operating income (table 4)	28	(18)
Change in net investment gains (losses) excluding FVTPL debt securities (table 13)	(14)	36
Change in market yield effect (table 14)	(4)	(12)
Change in restructuring and integration costs	(29)	(29)
Net income before income tax expenses, as reported in Q3-2011	118	478
Income tax	17	97
Net income reported in 2011	101	381
Preferred share dividends	3	3
Net income to common shareholders	98	378
Average outstanding shares (millions)	111	111
Net income to common shareholders per share (in dollars)	0.87	3.41

6.2 Net investment gains (losses)

Table 13

(in millions of dollars)	Q3-2011	Q3-2010	Change	YTD 2011	YTD 2010	Change
Debt securities						
Gains on available for sale ("AFS") securities	11	14	(3)	14	21	(7)
Losses on derivatives	(12)	1	(13)	(15)	(1)	(14)
Gains (losses) on fixed income securities and related derivatives	(1)	15	(16)	(1)	20	(21)
Equity securities						
Gains, net of stand-alone derivatives	33	31	2	179	96	83
Impairment losses	(29)	-	(29)	(35)	(8)	(27)
Gains (losses) on embedded derivatives	16	(13)	29	4	3	1
Gains on equity securities and related derivatives	20	18	2	148	91	57
Total gains excluding FVTPL debt securities	19	33	(14)	147	111	36
Gains (Losses) on FVTPL debt securities	59	33	26	64	58	6
Total net gains, before income taxes	78	66	12	211	169	42

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The Company recorded net investment gains of \$19 million excluding FVTPL bonds, compared to gains of \$33 million in Q3-2010. The variance versus 2010 is largely the result of impairment losses related to equity securities recorded in Q3-2011.

6.3 Market yield effect

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

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

Table 14 - Market yield effect

(in millions of dollars, except as otherwise noted)	Q3-2011	Q3-2010	Change	YTD 2011	YTD 2010	Change
Negative impact of MYA on underwriting	(67)	(38)	(29)	(81)	(65)	(16)
Net gains on FVTPL debt securities	59	33	26	63	58	5
Market yield effect	(8)	(5)	(3)	(18)	(7)	(11)

Section 7 - Investments

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

7.1 Investment mix

Table 15 - Investment mix including AXA Canada (in accordance with IFRS)

(in millions of dollars, except as otherwise noted)	Fair value of AXA Canada Investments as at			December 31, 2010	As a % of Total
	September 23, 2011	September 30, 2011	As a % of Total		
Short-term notes, including cash and cash equivalents	125	237	2%	501	6%
Fixed income securities	3,026	7,593	65%	4,458	52%
Preferred shares	214	1,655	14%	1,503	17%
Common shares	121	1,937	16%	1,877	22%
Loans	79	405	3%	314	3%
Total investments	3,565	11,827	100%	8,653	100%

The Company's investment mix fluctuation is mainly explained by the addition of investments resulting from the AXA Canada acquisition.

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

Table 16 - Investment mix including AXA Canada (net of hedging positions)

(in millions of dollars, except as otherwise noted)	AXA Canada Investments as at			December 31, 2010	As a % of Total
	September 23, 2011	September 30, 2011	As a % of Total		
Short-term notes, including cash and cash equivalents	125	237	2%	501	6%
Fixed income securities	3,026	8,153	73%	4,857	61%
Preferred shares	214	1,321	12%	1,252	16%
Common shares	121	977	9%	1,027	13%
Loans	79	405	4%	314	4%
Total investments	3,565	11,093	100%	7,951	100%

7.2 Quality of the investment portfolio

The investment portfolio includes high-quality government and corporate bonds, as well as Canadian equity securities of large, publicly-traded, dividend-paying companies. Approximately 95.6% of the bonds are rated 'A' or better and 84.2% of the preferred shares are highly-rated as 'P1' or 'P2'. In addition, IFC does not invest in leveraged securities and the exposure to the U.S. market is minimal. IFC manages its investments prudently to protect capital and generate superior after-tax returns.

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

Table 17

(in millions of dollars)	IFRS				Canadian GAAP	
	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	December 31, 2010
Debt securities	91	40	19	37	73	37
Common shares	(43)	56	101	139	98	117
Preferred shares	156	245	281	262	244	(46)
Total net pre-tax unrealized gains (losses) position	204	341	401	438	415	108

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

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

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Impairment recognition

Under IFRS, the Company determines, at each balance sheet date, whether there is objective evidence that available-for-sale equity instruments are impaired. Objective evidence for an available-for-sale equity instrument also includes a significant or prolonged decline in fair value of the instrument below its cost.

Table 18 - Aging of unrealized losses on AFS common shares

(in millions of dollars, except as otherwise noted)	IFRS				Canadian GAAP	
	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	December 31, 2010
Less than 25% below book value	50	24	8	10	15	13
More than 25% below book value for less than 6 consecutive months	44	3	2	-	2	-
More than 25% below book value for more than 6 consecutive months	-	4	-	1	5	1
Net unrealized losses on AFS common shares	94	31	10	11	22	14

Section 8 - Selected quarterly information

Table 19

(in millions of dollars, except as otherwise noted)	IFRS							Canadian GAAP	
	Q3-2011	Q2-2011	Q1-2011	Q4-2010	Q3-2010	Q2-2010	Q1-2010	Q4-2009	Q3-2009
Written insured risks (thousands)	1,251	1,379	946	1,054	1,247	1,369	944	1,046	1,244
Direct premiums written (excluding pools)	1,226	1,354	943	1,060	1,206	1,318	914	1,011	1,144
Total revenues	1,329	1,247	1,225	1,196	1,225	1,220	1,148	1,125	1,116
Net premiums earned	1,121	1,075	1,068	1,092	1,067	1,054	1,019	1,037	1,019
(Favourable) unfavourable prior year claims development	(31)	(72)	(81)	(53)	(25)	(39)	(75)	(66)	(14)
Net underwriting income (loss)	65	33	58	22	37	66	69	56	(53)
Combined ratio (%)	94.2%	97.0%	94.6%	98.0%	96.6%	93.7%	93.2%	94.6%	105.2%
Net operating income	111	95	101	80	90	119	113	98	22
Net income (loss)	101	123	157	106	109	141	141	97	(8)
EPS basic/diluted (dollars)	0.87	1.12	1.42	0.95	0.96	1.22	1.19	0.81	(0.07)
Net operating income per share (dollars)	0.97	0.87	0.91	0.71	0.79	1.04	0.95	0.82	0.18

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Section 9 - Financial condition

9.1 IFRS Balance sheet highlights

The table below shows the significant balance sheet captions as at September 30, 2011, December 31, 2010 and January 1, 2010.

Table 20

(in millions of dollars, except as otherwise noted)	Additions to the balance sheet from AXA Canada acquisition	As at		
		September 30, 2011	December 31, 2010	January 1, 2010
Investments				
Cash and cash equivalents	75	173	138	60
Debt securities	3,076	7,657	4,821	4,784
Preferred shares	214	1,655	1,503	1,582
Common shares	121	1,937	1,877	1,312
Loans	79	405	314	319
Total investments	3,565	11,827	8,653	8,057
Premiums receivables	679	2,548	1,762	1,640
Deferred acquisition costs	211	660	420	396
Reinsurance assets	130	435	235	261
Intangible assets and goodwill	1,298	1,824	381	338
AXA Canada life business assets classified as held for sale	1,463	1,463	-	-
Other assets	264	1,009	624	619
Total assets	7,610	19,766	12,075	11,311
Claims liabilities	2,193	6,858	4,379	4,270
Unearned premiums	1,148	3,876	2,586	2,464
Debt outstanding	-	1,293	496	398
Financial liabilities related to investments	40	856	715	406
AXA Canada life business liabilities classified as held for sale	1,170	1,170	-	-
Other liabilities	438	1,471	930	856
Total liabilities	4,989	15,524	9,106	8,394
Share capital and contributed surplus		2,486	1,089	1,144
Retained earnings		1,746	1,596	1,527
Accumulated other comprehensive income		10	284	246
Shareholders' equity		4,242	2,969	2,917
Book value per common share (dollars)		28.97	26.47	24.33

Cash and cash equivalents

See Section 9.3 - *Liquidity and capital resources*.

Investments

See Section 7 - *Investments*.

Shareholders' equity

See Section 9.2 - *Shareholders' equity*.

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Prior year claims development (excluding MYA)

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

Table 21

(in millions of dollars, except as otherwise noted)	Total	Accident year									2001 & earlier
		2010	2009	2008	2007	2006	2005	2004	2003	2002	
Original reserve ¹		1,488	1,430	1,376	1,282	1,178	1,119	1,118	973	839	1,924
(Favourable) unfavourable development during Q3-2011 excluding MYA	(31)	(16)	10	(8)	(10)	(2)	(2)	-	-	(1)	(2)
(Favourable) unfavourable development during YTD-2011 excluding MYA	(185)	(116)	3	(10)	(20)	(14)	(11)	(5)	(6)	(4)	(2)
Cumulative development As a % of original reserve		(7.8)%	(5.4)%	(4.4)%	(4.3)%	(7.0)%	(14.9)%	(26.1)%	(22.7)%	(6.6)%	2.8%
AXA Canada reserves acquired as at September 23, 2011		516	306	200	133	100	56	35	36	23	80

¹ Table excludes AXA Canada reserves.

Table 22 - Annualized rate of favourable prior year claims development

(annualized rate)	Q3-2011	Q3-2010	Full year 2010
(Favourable) unfavourable prior year claims development as a % of opening reserves	(3.0)%	(2.5)%	(4.8)%

Q3-2011 favourable prior year claims development was an annualized 3.0%. Excluding MYA, favourable prior year claims development was \$31 million in Q3-2011 (compared to \$26 million in Q3-2010).

9.2 Shareholders' equity

Share capital

As at November 1, 2011 there were 129,553,665 common shares issued and outstanding. Refer to the Company's Annual Information Form for more detailed information on the rights of common shareholders.

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

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

See section 9.3 - *Liquidity and capital resources* for more information.

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Long-term incentive plan

Members of Management and certain key employees participate in the long term incentive program of the Company ("LTIP"). Under the initial LTIP, these employees were granted share units each year as a portion of their remuneration. Each such award vests and is paid out in shares at the end of a three-year performance cycle based on determined Company metrics relative to the Canadian P&C insurance industry (the "industry"); such shares are restricted and cannot be traded for an additional period of two years after vesting.

The Board of Directors approved a change to the LTIP in 2010. Under this new program, participants are awarded notional share units referred to as Performance Stock Units ("PSUs") and Restricted Stock Units ("RSUs"). The payout for the PSUs is based on a specific target composed of the difference between the three-year average return on equity of the Company and that of the Canadian P&C industry. RSUs automatically vest three years from the year of the grant. Vesting for RSUs is not linked to the Company's performance.

The Company re-estimates the number of awards that are expected to vest at each reporting date. At the time of the payout, the Company purchases on the market an amount of common shares based upon the performance targets achieved with respect to the vesting of the PSUs and an amount of common shares equal to the amount of RSUs with respect to the vesting of RSUs. This type of compensation is measured at the fair value of the award at the grant date and recognized as an expense over the vesting period with a corresponding increase reported in contributed surplus.

As at September 30, 2011, the number of PSUs and RSUs accrued by participants was 729,891 and 264,712, respectively for a total outstanding of 994,603 units.

Accumulated other comprehensive income (loss)

AOI reflects the net unrealized gains related to AFS assets, futures contracts designated as cash flow hedges and the net actuarial gains or losses related to employee future benefit plans. The Company entered into futures contracts to manage the interest rate risk on a portion of the notes for the period between the acquisition announcement and the offering closing.

Table 23

(in millions of dollars)	September 30, 2011		
	Pre-tax	Taxes	After-tax
Opening net unrealized gains (losses) on January 1, 2011 (IFRS adjusted)	396	(112)	284
Available-for-sale securities:			
Change in fair values during the period	(54)	10	(44)
Realized net gains (losses) reclassified to income during the period	(178)	49	(129)
Derivatives designated as cash flow hedges:			
Net changes in unrealized gains (losses)	(16)	4	(12)
Net actuarial gains (losses) on employee future benefit plans	(120)	31	(89)
Net unrealized AFS, unrealized derivatives designated as cash flow hedges and actuarial gains (losses) at September 30, 2011	28	(18)	10

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9.3 Liquidity and capital resources

Cash flows

Table 24 - Cash flow and liquidity

(in millions of dollars)	Q3-2011	Q3-2010	Change	YTD 2011	YTD 2010	Change
Selected inflows (outflows)						
Operating activities:						
Cash provided by operating activities	359	258	101	435	427	8
Investing activities:						
Business combination	(2,546)	-	(2,546)	(2,546)	-	(2,546)
Net cash inflows (outflows) from sales (purchases) of investments	216	3	213	262	134	128
Net purchases of brokerages and books of business and property and equipment	(17)	(13)	(4)	(55)	(51)	(4)
Financing activities:						
Dividends paid	(44)	(38)	(6)	(125)	(118)	(7)
Net proceeds from debt issuance	797	-	797	797	99	698
Proceeds from issuance of common shares	911	-	911	911	-	911
Proceeds from issuance of preferred shares	485	-	485	485	-	485
Common shares repurchased for cancellation	-	(62)	62	(129)	(304)	175
Change in cash and cash equivalents during the period	161	148	13	35	187	(152)

Capital management

As at September 30, 2011, the Company had a total of \$534 million in excess capital over an MCT of 170% compared to total excess capital of \$808.5 million at the end of 2010. The decline in excess capital position mainly reflects \$393 million of this capital used to fund the acquisition of AXA Canada.

The capital of the Company is managed on a consolidated basis as well as individually for each regulated subsidiary. The P&C insurance subsidiaries of the Company are subject to the regulatory capital requirements defined by OSFI, the Autorité des marchés financiers ("AMF") and the Insurance Companies Act ("ICA"). OSFI has established an MCT guideline which sets out 100% as the minimum and 150% as the supervisory target MCT standards for P&C insurance companies.

All of Intact's and AXA Canada's insurance subsidiaries remained well capitalized on an individual basis and above their respective internal target.

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The following table presents Intact's combined MCT ratio including all its Canadian subsidiaries as well as AXA Canada's insurance subsidiaries. The Company's MCT level at September 30, 2011 remained strong at 202.0%. The decrease from December 31, 2010 mainly reflects decreased capital available due to partial funding of the AXA Canada acquisition, partly offset by the associated decrease of capital requirements on Balance Sheet assets and the contribution of AXA entities MCT levels.

Table 25 - MCT – Combined MCT

(in millions of dollars, except as otherwise noted)		Total
At September 30, 2011		
Total capital available		3,362
Total capital required		1,664
Excess capital		1,698
MCT %		202.0%
Excess at 150%		866
Excess at 170%		533
At December 31, 2010		
Total capital available		2,969
Total capital required		1,272
Excess capital		1,697
MCT %		233.4%
Excess at 150%		1,062
Excess at 170%		807

Total capital available and total capital required represent amounts applicable to the Company's P&C insurance subsidiaries and are determined in accordance with prescribed regulatory rules. Total capital available mostly represents total equity less specific deductions for disallowed assets including goodwill and intangibles. Total capital required is calculated by classifying assets and liabilities into categories and applying prescribed risk factors to each category. As at September 30, 2011, the Company's P&C insurance subsidiaries were in compliance with both OSFI, AMF and ICA requirements as well as being above internal targets.

MCT sensitivity

The MCT is impacted by many factors including changes in equity market performance, interest rates and underwriting profitability. Based on IFC's MCT of 202.0% as at September 30, 2011, the following table sets out the estimated immediate impact or sensitivity of the Company's MCT ratio to certain sudden but independent changes in interest rates and equity market prices as at September 30, 2011. Actual results can differ materially from these estimates for a variety of reasons and therefore these sensitivities should be considered as directional estimates of the underlying factors.

Table 26 - MCT Sensitivity

	Interest Rate ¹ 1% Increase	Equity Markets ² 10% Decline
MCT Impact ⁽³⁾	(6)	(4)

¹ The yield curve experiences an instantaneous parallel shift.

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

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

Credit ratings

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

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Table 27 - Financial strength ratings and credit ratings

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

Financing

Common shares

On the date of the acquisition of AXA Canada, the Company converted its 20,125,000 subscription receipts ("receipts") into 20,125,000 common shares. The Company had completed its offering of the 20,125,000 receipts at \$47.80 per receipt for gross proceeds of \$962 million on June 9, 2011. The Company incurred \$41 million in share issuance costs, net of \$10 million of taxes, which were accounted for as a reduction in common shares.

Preferred shares

Series 1 Preferred

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

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

Series 3 Preferred

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

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

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Medium Term Notes (“Notes”)

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

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

The following table details the series of the Company's Notes outstanding as at September 30, 2011:

Table 28

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

Credit Facilities

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

Effective September 23, 2011, the Company obtained a four year unsecured revolving term facility of \$250 million which matures on September 23, 2015 in replacement of a previous revolving term facility of \$250 million that was expected to mature on December 20, 2013. This credit facility may be drawn as prime loans at the prime rate plus a margin or as bankers' acceptances at the bankers' acceptance rate plus a margin. As at September 30, 2011, the Company had not drawn down under this facility (December 31, 2010 - nil).

As part of the covenants of the loans under the credit facilities, the Company is required to maintain certain financial ratios which were fully met as at September 30, 2011.

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Table 29 - Fair value and carrying value of debt outstanding

	As at September 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	273	249	265	249	253
Medium term notes, series 2	247	270	247	269	149	147
Medium term notes, series 3	99	105	-	-	-	-
Medium term notes, series 4	298	305	-	-	-	-
Tranche A Facility	100	100	-	-	-	-
Tranche B Facility	300	300	-	-	-	-
Total debt outstanding	1,293	1,353	496	534	398	400

Base Shelf Prospectus and MTN Supplement

On July 5, 2011, IFC obtained a receipt for a final short form base shelf prospectus filed with the securities regulatory authorities in each of the provinces and territories of Canada that will allow the Company to offer up to \$2.5 billion in any combination of debt, preferred or common share securities, subscription receipts, warrants, share purchase contracts and units over the next 25 months. This prospectus replaces a similar one filed in May 2009, which expired in June 2011. The Company also filed a supplement to its base shelf prospectus to establish a medium term note ("MTN") program that would allow the Company to issue up to \$750 million in unsecured medium term notes. The Series 3 Preferred Shares and the Series 4 Notes offerings were completed under the base shelf prospectus and the MTN supplement.

Common share dividend increase

On February 8, 2011, the Board of Directors increased the quarterly dividend by 9%, or three cents, to 37 cents per share on its outstanding common shares. The decision reflected the Company's objective of returning value to shareholders, the strength of the Company's financial position and quality of operating earnings. This is the sixth consecutive year the Company has increased its dividend. A quarterly dividend of \$40 million was paid on September 30, 2011 to common shareholders of record on September 15, 2011.

Preferred share dividends

A quarterly dividend of \$2 million and \$1 million was paid on September 30, 2011 to Series 1 and Series 3 Preferred Shares shareholders, respectively, of record on September 15, 2011.

Normal course issuer bid

On February 22, 2010, the Company commenced a normal course issuer bid ("NCIB") to purchase during the next 12 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 12-month period. We have suspended the NCIB following our announcement of the AXA Canada acquisition and there were no repurchases during Q3-2011.

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As at September 30, 2011, 2.8 million (September 30, 2010 – 7.0 million) common shares had been repurchased year-to-date for cancellation under the NCIB at an average price of \$47.03 per share (September 30, 2010 - \$43.64 per share) for a total consideration of \$129 million (September 30, 2010 - \$304 million). Total cost paid, including fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased for cancellation and the excess of \$105 million (September 30, 2010 - \$242 million) was charged to retained earnings.

Table 30 – Normal course issuer bid

	Maximum shares to be purchased (in units)	YTD September 30, 2011	From inception to September 30, 2011
February 22, 2010 to February 21, 2011 Program	11,955,826		
Number of common shares repurchased for cancellation (in units)		1,979,500	9,706,502
Weighted-average price per share (in dollars)		\$46.69	\$44.61
Consideration paid (in millions of dollars)		\$91	\$433
February 22, 2011 to February 21, 2012 Program	5,523,548		
Number of common shares repurchased for cancellation (in units)		771,400	771,400
Weighted-average price per share (in dollars)		\$47.89	\$47.89
Consideration paid (in millions of dollars)		\$38	\$38
Total for the period			
Number of common shares repurchased for cancellation (in units)		2,750,900	n/a
Weighted-average price per share (in dollars)		\$47.03	n/a
Consideration paid (in millions of dollars)		\$129	n/a

Off-balance sheet arrangements

Securities lending

The Company participates in a securities lending program to generate fee income. This program is managed by the Company's custodian, a major Canadian financial institution, whereby the Company lends securities it owns to other financial institutions to allow them to meet their delivery commitments. As at September 30, 2011, the Company had loaned securities (which are reported in Investments on the Company's unaudited interim Consolidated balance sheet) with a fair value of \$899 million (compared to \$1,332 million as at December 31, 2010). Collateral is provided by the counterparty and is held in trust by the custodian for the benefit of the Company until the underlying security has been returned to the Company. The collateral cannot be sold or re-pledged externally by the Company, unless the counterparty defaults on its financial obligations. Additional collateral is obtained or refunded on a daily basis as the market value of the loaned securities fluctuates. The collateral consists of government securities with an estimated fair value of 105% of the fair value of the loaned securities and amounts to \$944 million at September 30, 2011 (compared to \$1,399 million as at December 31, 2010).

Section 10 - Accounting and disclosure matters

10.1 Internal controls over financial reporting

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

Management has limited the scope of design of the Company's disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR) to exclude the controls, policies and procedures of AXA Canada, which was acquired by IFC on September 23, 2011. AXA Canada's contribution to our consolidated financial statements for the quarter ended September 30, 2011 was 0.4% of consolidated revenues and 4% of consolidated earnings. Additionally, at September 30, 2011, AXA Canada's total assets and total liabilities were approximately 39% and 32% of consolidated total assets and total liabilities, respectively. Management is committed to removing this limitation within the timeframe permitted by regulation.

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To facilitate the adoption of IFRS, the Company has implemented a one-time control over the transition to IFRS. However, no significant changes were made to the Company's on-going internal controls over financial reporting during the period ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

10.2 Critical accounting estimates and assumptions

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

10.3 International Financial Reporting Standards

The Company's unaudited interim Consolidated financial statements have been prepared in accordance with IFRS. The Company's principal accounting policies under IFRS are included in Note 2 to the unaudited interim Consolidated financial statements as at and for the period ending September 30, 2011. Those policies which have been significantly impacted by transition to IFRS are summarized below.

Employee future benefits – Net actuarial gains and losses

Under Canadian GAAP, net actuarial gains and losses resulting from the fluctuation of the benefit plan obligation present value and the fair value of the benefit plan assets were subject to amortization under the "corridor" approach. Under IFRS, entities have the choice of recognizing ongoing actuarial gains and losses in the income statement over time similar to the "corridor" approach, or alternatively, immediately recognizing actuarial gains and losses in OCI in the period in which they occur.

The Company has elected to recognize actuarial gains and losses immediately in OCI. The present value of the accrued benefit obligations, net of the fair value of plan assets are, therefore, recognized on the unaudited interim Consolidated balance sheet. The Company believes this accounting policy provides greater transparency to shareholders and stakeholders. The transition adjustment under IFRS for this accounting policy choice was a net reduction in shareholders' equity of \$101 million after-tax as at December 31, 2010 (see Table 32).

Financial instruments

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

Under IFRS, the impairment assessment is similar but is less judgmental as determination of whether an available-for-sale equity instruments decline is "other than temporary" is not required. Therefore, impairment losses under IFRS will likely be recognized earlier than under Canadian GAAP. In addition, under IFRS perpetual preferred shares are assessed for impairment using the equity impairment rules, whereas under Canadian GAAP debt impairment rules were appropriate.

At the transition date to IFRS, retrospective application of these rules was required. This resulted in reclassification from OCI to opening retained earnings for impairments which would have occurred prior to January 1, 2010 under IFRS rules. This reclassification has no overall impact on the Company's shareholders' equity (see Table 32). Net investment gains (losses) reported under Canadian GAAP for the financial year 2010 were restated under IFRS as these prior period IFRS impairments impact the measurement of realized gains and losses in 2010 under IFRS (see Table 31).

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

Table 31 - Reconciliation of the key profitability indicators for the three- and nine-month periods ended September 30, 2010 and December 31, 2010.

(in millions of dollars, except as otherwise noted)	Canadian GAAP	Employee future benefits and other adjustments	Financial instruments	IFRS
For the three months ended September 30, 2010				
Net income	82	-	27	109
Net operating income	89	1	-	90
Earnings to common shareholders per share – basic and diluted (in dollars)	0.72	-	0.24	0.96
Net operating income to common shareholders per share (in dollars)	0.78	0.01	-	0.79
Return on common shareholders equity ("ROE") YTD annualized				n/a
Operating return on common shareholders equity YTD annualized				n/a
For the nine months ended September 30, 2010				
Net income	322	(3)	72	391
Net operating income	320	2	-	322
Earnings to common shareholders per share ("EPS") – basic and diluted (in dollars)	2.78	(0.03)	0.62	3.37
Net operating income to common shareholders per share (in dollars)	2.76	0.02	-	2.78
Return on common shareholders equity ("ROE") YTD annualized				15.0%
Operating return on common shareholders equity YTD annualized				12.6%
For the year ended December 31, 2010				
Net income	420	(4)	81	497
Net operating income	399	3	-	402
Earnings to common shareholders per share ("EPS") – basic and diluted (in dollars)	3.65	(0.03)	0.70	4.32
Net operating income to common shareholders per share (in dollars)	3.47	0.03	-	3.50
Return on common shareholders equity ("ROE") YTD annualized	13.9%	0.2 pts	2.8 pts	16.9%
Operating return on common shareholders equity YTD annualized	13.2%	1.8 pts	-	15.0%

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Table 32 - Reconciliation of the key financial position indicators as at January 1, 2010 and December 31, 2010.

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

10.4 New accounting standards and policies

Future accounting changes

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

Standards issued but not yet effective

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

Financial instruments: Classification and Measurement

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

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

The standard is effective for years beginning on or after January 1, 2013. However, on August 4, 2011, the IASB issued an exposure draft proposing to change the mandatory effective date of IFRS 9 to years beginning on or after January 1, 2015. The comment period of the exposure draft closed on October 21, 2011.

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Consolidated financial statements

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

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

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

Joint arrangements

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

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

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

Disclosure of interests in other entities

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

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

Fair value measurement

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

- defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date,
- the fair value measurement requires an entity to determine the following:
 - the particular asset or liability being measured;
 - for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand alone basis;
 - the market in which an orderly transaction would take place for the asset or liability; and

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- the appropriate valuation technique(s) to use when measuring fair value. The technique(s) should maximize the use of relevant observable inputs and minimize unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability, and
- the entity is to disclose those valuation techniques and inputs used to develop the fair value measurements.

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

Employee benefits

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

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

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

10.5 Related-party transactions

All related-party transactions are with entities associated with the Company’s distribution channels.

Section 11 - Risk management

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

11.1 Estimated impact of changes in interest rates and equity prices

Impact of changes in interest rates and common equity prices

For our AFS fixed income or preferred securities, a 100 basis point increase in interest rates would increase income before taxes by approximately \$41 million, as a result of marking to market the written call option liabilities embedded in the Company’s redeemable preferred shares and the marking to market of derivative positions. A 100 basis point increase would also decrease OCI by approximately \$226 million. Conversely, a 100 basis point decrease in interest rates would decrease income before taxes and increase OCI by the same amounts, respectively. The impacts described here are approximately linearly related to the change in interest rates.

Furthermore, a 10% increase in equity markets and a 5% increase in preferred shares would decrease income before taxes by \$17 million, as a result of marking to market the written call option liabilities embedded in the Company’s redeemable preferred shares. However, it would result in a linear increase of OCI by \$181 million. Conversely, a 10% decrease in equity prices and a 5% decrease in preferred shares would increase income before taxes and decrease OCI by the same amounts, respectively. The impacts described here are approximately linearly related to the change in the equity market.

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

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

Section 12 - Other matters**12.1 Cautionary note regarding forward-looking statements**

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

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

All of the forward-looking statements included in this MD&A are qualified by these cautionary statements and those made in the "Risk Management" section of our MD&A for the year ended December 31, 2010. These factors are not intended to represent a complete list of the factors that could affect the Company. These factors should, however, be considered carefully. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. When relying on forward-looking statements to make decisions, investors should ensure the preceding information is carefully considered. Undue reliance should not be placed on forward-looking statements made herein. The Company and management have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.