Intact Financial Corporation

Consolidated financial statements

For the year ended December 31, 2016

Management's responsibility for financial reporting

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

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

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

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

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

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

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

February 7, 2017

Charles Brindamour
Chief Executive Officer

Louis Marcotte
Senior Vice President and
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Intact Financial Corporation

We have audited the accompanying consolidated financial statements of Intact Financial Corporation, which comprise the consolidated balance sheets as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2016 and 2015, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Intact Financial Corporation as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
February 7, 2017

[1] CPA auditor, CA, public accountancy permit no A114960

INTACT FINANCIAL CORPORATION

Consolidated financial statements
For the year ended December 31, 2016

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INTACT FINANCIAL CORPORATION

Consolidated balance sheets

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

As at December 31,	Note	2016	Restated (see Note 4) 2015
Assets			
Investments	**5**		
Cash and cash equivalents		**$ 168**	$ 141
Debt securities		**8,801**	8,709
Preferred shares		**1,377**	1,235
Common shares		**3,635**	2,971
Loans		**405**	448
Investments		**14,386**	13,504
Accrued investment income		**63**	67
Premium receivables		**3,057**	2,868
Reinsurance assets	**12**	**482**	274
Income taxes receivable		**116**	24
Deferred tax assets	**24**	**142**	146
Deferred acquisition costs		**747**	720
Other assets	**17**	**611**	655
Investments in associates and joint ventures	**14**	**543**	396
Property and equipment	**15**	**139**	104
Intangible assets	**16**	**1,302**	1,285
Goodwill	**16**	**1,403**	1,272
Total assets		**$ 22,991**	$ 21,315
Liabilities			
Claims liabilities	**10**	**$ 8,536**	$ 8,094
Unearned premiums	**11**	**4,573**	4,390
Financial liabilities related to investments	**6**	**529**	378
Income taxes payable		**10**	101
Deferred tax liabilities	**24**	**404**	190
Other liabilities	**17**	**1,458**	1,295
Debt outstanding	**18**	**1,393**	1,143
		16,903	15,591
Shareholders' equity			
Common shares	**19**	**2,082**	2,090
Preferred shares	**19**	**489**	489
Contributed surplus		**129**	119
Retained earnings		**3,197**	3,047
Accumulated other comprehensive income (loss)		**191**	(21)
		6,088	5,724
Total liabilities and shareholders' equity		**$ 22,991**	$ 21,315

See accompanying notes to the Consolidated financial statements.

On behalf of the Board:

Charles Brindamour
Director

Eileen Mercier
Director

Consolidated statements of comprehensive income (loss)

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

For the years ended December 31,	Note		2016		2015
Direct premiums written		**$**	**8,197**	$	7,893
Net premiums earned	**21**		**7,902**		7,490
Other underwriting revenues			**122**		122
Total underwriting revenues			**8,024**		7,612
Net claims incurred	**10**		**(5,108)**		(4,659)
Underwriting expenses			**(2,533)**		(2,417)
Underwriting results			**383**		536
Net investment income	**22**		**414**		423
Net investment losses	**23**		**(70)**		(64)
Share of profit from investments in associates and joint ventures			**16**		26
Other revenues			**143**		121
Other expenses			**(128)**		(103)
Finance costs			**(72)**		(64)
Income before income taxes			**686**		875
Income tax expense	**24**		**(145)**		(169)
Net income attributable to shareholders		**$**	**541**	$	706
Weighted-average number of common shares outstanding (in millions)	**25**		**131.2**		131.5
Earnings per common share, basic and diluted (in dollars)	**25**	**$**	**3.97**	$	5.20
Dividends paid per common share (in dollars)	**19**	**$**	**2.32**	$	2.12
Net income attributable to shareholders		**$**	**541**	$	706
Other comprehensive income (loss)					
Available-for-sale securities:					
Net changes in unrealized gains (losses)			**378**		(339)
Reclassification to income of net losses (gains)			**(105)**		123
Derivatives designated as cash flow hedges:					
Net changes in unrealized gains (losses)			**1**		(1)
Income tax benefit (expense)	**24**		**(65)**		54
Share of other comprehensive income (loss) from investments in associates and joint ventures			**3**		(3)
Items that may be reclassified subsequently to net income attributable to shareholders			**212**		(166)
Net actuarial gains (losses) on employee future benefits	**27**		**(35)**		48
Income tax benefit (expense)	**24**		**9**		(13)
Items that will not be reclassified subsequently to net income attributable to shareholders			**(26)**		35
Other comprehensive income (loss)			**186**		(131)
Total comprehensive income attributable to shareholders		**$**	**727**	$	575

See accompanying notes to the Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Consolidated statements of changes in shareholders' equity

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

	Note	Common shares	Preferred shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance as at January 1, 2016		**$ 2,090**	**$ 489**	**$ 119**	**$ 3,047**	**$ (21)**	**$ 5,724**
Net income attributable to shareholders		**-**	**-**	**-**	**541**	**-**	**541**
Other comprehensive income (loss)		**-**	**-**	**-**	**(26)**	**212**	**186**
Total comprehensive income (loss)		**-**	**-**	**-**	**515**	**212**	**727**
Common shares repurchased for cancellation	**19**	**(8)**	**-**	**-**	**(36)**	**-**	**(44)**
Dividends declared on:							
Common shares	**19**	**-**	**-**	**-**	**(304)**	**-**	**(304)**
Preferred shares	**19**	**-**	**-**	**-**	**(20)**	**-**	**(20)**
Share-based payments	**26**	**-**	**-**	**10**	**(5)**	**-**	**5**
Balance as at December 31, 2016		**$ 2,082**	**$ 489**	**$ 129**	**$ 3,197**	**$ 191**	**$ 6,088**
Balance as at January 1, 2015		$ 2,090	$ 489	$ 115	$ 2,616	$ 145	$ 5,455
Impact of change in accounting policy	**4**	-	-	-	(4)	-	(4)
Balance as at January 1, 2015 - restated		$ 2,090	$ 489	$ 115	$ 2,612	$ 145	$ 5,451
Net income attributable to shareholders		-	-	-	706	-	706
Other comprehensive income (loss)		-	-	-	35	(166)	(131)
Total comprehensive income (loss)		-	-	-	741	(166)	575
Dividends declared on:							
Common shares	**19**	-	-	-	(279)	-	(279)
Preferred shares	**19**	-	-	-	(21)	-	(21)
Share-based payments	**26**	-	-	4	(6)	-	(2)
Balance as at December 31, 2015		$ 2,090	$ 489	$ 119	$ 3,047	$ (21)	$ 5,724

See accompanying notes to the Consolidated financial statements.

INTACT FINANCIAL CORPORATION

Consolidated statements of cash flows

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

For the years ended December 31,	Note	2016	2015
Operating activities			
Income before income taxes		$ 686	$ 875
Income taxes received (paid), net		(158)	(265)
Contributions to the pension plans	27	(61)	(50)
Share-based payment		(3)	(7)
Net investment losses	23	70	64
Adjustments for non-cash items	30	208	187
Changes in other operating assets and liabilities	30	(31)	38
Changes in net claims liabilities	10	214	47
Net cash flows provided by operating activities		925	889
Investing activities			
Proceeds from sale of investments		8,152	6,499
Purchases of investments		(8,497)	(6,666)
Business combinations, net of cash acquired	29	(19)	(187)
Purchases of brokerages and other equity investments, net		(275)	(77)
Purchases of intangibles and property and equipment, net		(120)	(89)
Net cash flows used in investing activities		(759)	(520)
Financing activities			
Proceeds from issuance of debt	18	248	-
Common shares repurchased for cancellation	19	(44)	-
Common shares repurchased for share-based payments	26	(19)	(17)
Dividends paid on common shares	19	(304)	(279)
Dividends paid on preferred shares	19	(20)	(21)
Net cash flows used in financing activities		(139)	(317)
Net increase in cash and cash equivalents		27	52
Cash and cash equivalents, beginning of year		141	89
Cash and cash equivalents, end of year		$ 168	$ 141
Composition of cash and cash equivalents			
Cash		167	98
Cash equivalents		1	43
Cash and cash equivalents, end of year		168	141

See accompanying notes to the Consolidated financial statements.

Note 1 – Status of the Company

Intact Financial Corporation (the "Company"), incorporated under the *Canada Business Corporations Act*, is domiciled in Canada and its shares are publicly traded on the Toronto Stock Exchange (TSX: IFC). The Company has investments in wholly-owned subsidiaries which operate principally in the Canadian property and casualty ("P&C") insurance market. The Company, through its operating subsidiaries, principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses.

These Consolidated financial statements include the accounts of the Company and its subsidiaries. The Company's significant operating subsidiaries are: Intact Insurance Company, Belair Insurance Company Inc., The Nordic Insurance Company of Canada, Novex Insurance Company, Jevco Insurance Company, Canadian Direct Insurance Inc. ("CDI"), Trafalgar Insurance Company of Canada, Equisure Financial Network Inc., Canada Brokerlink Inc., Intact Farm Insurance Inc. and IB Reinsurance Inc.

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

Note 2 – Summary of significant accounting policies

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

Glossary of abbreviations

AFS	Available for sale	**IASB**	International Accounting Standards Board
AMF	Autorité des marchés financiers	**IBNR**	Insurance claims incurred but not reported by policyholders
AOCI	Accumulated other comprehensive income	**IFRS**	International Financial Reporting Standards
CGU	Cash generating unit	**LTIP**	Long-term incentive plan
CIA	Canadian Institute of Actuaries	**MCT**	Minimum capital test
DPW	Direct premiums written	**OCI**	Other comprehensive income
DSU	Deferred share unit	**OSFI**	Office of the Superintendent of Financial Institutions
EPS	Earnings per share to common shareholders	**P&C**	Property and casualty
ESPP	Employee share purchase plan	**PfAD**	Provision for adverse deviations
FA	Facility Association	**PSU**	Performance stock units
FVTOCI	Fair value through OCI	**RSP**	Risk sharing pools
FVTPL	Fair value through profit and loss	**RSU**	Restricted stock units

2.1 Basis of presentation

These Consolidated financial statements are prepared in accordance with IFRS, as issued by the IASB. These Consolidated financial statements and the accompanying notes were authorized for issue in accordance with a resolution of the Board of Directors on February 7, 2017.

The key accounting policies applied in the preparation of these Consolidated financial statements are described below. These policies have been applied consistently to all periods presented. Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

2.2 Basis of consolidation

These Consolidated financial statements include the accounts of the Company and its subsidiaries.

Table 2.1 – *Basis of consolidation*

Investment category	Generally a shareholding of:	Accounting policies
Subsidiaries Entities over which the Company: 1. has the power over the relevant activities of the investee; 2. is exposed, or has rights to variable returns from its involvement with the investee; and 3. has the ability to affect those returns through its power over the investee.	more than 50% of voting rights	All subsidiaries are fully consolidated from the date control is transferred to the Company. They are deconsolidated from the date control ceases and any gain or loss is recognized in Net investment gains (losses).
Associates Entities over which the Company: 1. has the power to participate in the decisions over the relevant activities of the investee, but 2. does not have control.	20% to 50% of voting rights	Equity method ***Refer to Note 2.7 for details***
Joint ventures Joint arrangements whereby the parties have: 1. joint control of the arrangements, requiring unanimous consent of the parties sharing control for strategic and operating decision making; and 2. rights to the net assets of the arrangements.	equal percentage of voting rights from each party to the joint arrangement	Equity method ***Refer to Note 2.7 for details***

In some cases, voting rights in themselves are not sufficient to assess power or significant influence over the relevant activities of the investee or the sharing of control in a joint arrangement. In such cases, judgment is applied through the analysis of management agreements, the effectiveness of voting rights, the significance of the benefits to which the Company is exposed and the degree to which the Company can use its power to affect its returns from investees.

Acquisitions or disposals of equity interests in a subsidiary that do not result in the Company obtaining or losing control are treated as equity transactions.

All balances, transactions, income and expenses and profits and losses resulting from intercompany transactions and dividends are eliminated on consolidation.

2.3 Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when the Company agrees to compensate a policyholder on the occurrence of an adverse specified uncertain future event. As a general guideline, the Company determines whether it has significant insurance risks, by comparing the benefits that could become payable under various possible scenarios relative to the premium received from the policyholder for insuring the risk.

a) Revenue recognition and premium receivables

Premiums written are reported net of cancellations, promotional returns and sale taxes. Premiums written are recognized on the date coverage begins. They are deferred as Unearned premiums and recognized in Underwriting results as premiums earned, net of reinsurance, on a pro rata basis over the terms of the underlying policies, usually 12 months. Premium receivables consist of the premiums due for the remaining months of the contracts.

Fees collected from policyholders in connection with the costs incurred for the Company’s yearly billing plans are recognized over the terms of the underlying policies and are reported in Other underwriting revenues.

Commission revenues received from external insurance providers by consolidated brokers are recognized on an accrual basis and included in Other revenues.

b) Claims liabilities

Claims liabilities represent the amounts required to provide for the estimated ultimate expected cost of settling claims related to insured events, both reported and unreported, that have occurred on or before the balance sheet date. They also include a provision for adjustment expenses representing the estimated ultimate expected costs of investigating, resolving and processing these claims.

Claims liabilities are first determined on a case-by-case basis as insurance claims are reported. They are reassessed as additional information becomes known. Also included in claims liabilities is a provision to account for the future development of these insurance claims, including IBNR, as required by the CIA.

Claims liabilities are estimated by the appointed actuary using generally accepted Canadian actuarial standard techniques and are based on assumptions that represent best estimates of possible outcomes, such as historical loss development factors and payment patterns, claims frequency and severity, inflation, reinsurance recoveries, expenses, changes in the legal environment, changes in the regulatory environment and other matters, taking into consideration the circumstances of the Company and the nature of the insurance policies.

Claims liabilities are discounted to take into account the time value of money, using a rate that reflects the estimated market yield of the underlying assets backing these claims liabilities at the reporting date. Anticipated payment patterns are revised from time to time to reflect the most recent trends and claims environment. This ensures getting the most accurate and representative market yield-based discount rate.

The ultimate amount of these liabilities will vary from the best estimate made for a variety of reasons, including additional information with respect to facts and circumstances of the insurance claims incurred. To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the actuarial liabilities are sufficient to pay future benefits, actuaries are required to include margins in some assumptions. A range of allowable margins is prescribed by the CIA relating to claims development, reinsurance recoveries and investment income variables. The aggregate of these margins is referred to as the PfAD.

On the Consolidated balance sheets, claims liabilities are reported gross of the reinsurers' share, which is included in Reinsurance assets. Changes in claims liabilities, net of reinsurance, are reported in Net claims incurred. Claims liabilities are considered to be settled when the contract expires, is discharged or cancelled.

c) Reinsurance assets

Reinsurance assets include the reinsurers' share of claims liabilities and unearned premiums. The Company reports third party reinsurance balances on the Consolidated balance sheets on a gross basis to indicate the extent of credit risk related to third party reinsurance. The estimates for the reinsurers' share of claims liabilities are presented as an asset and are determined on a basis consistent with the related claims liabilities. Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period.

d) Deferred acquisition costs

Policy acquisition costs incurred in acquiring insurance premiums include commissions and premium taxes directly related to the writing or renewal of insurance policies. These acquisition costs are deferred and amortized on the same basis as the unearned premiums and are reported in Underwriting expenses. Deferred acquisition costs are written off when the corresponding contracts are settled or cancelled.

e) Liability adequacy test

At the end of each reporting period, a liability adequacy test is performed to validate the adequacy of unearned premiums and deferred acquisition costs. A premium deficiency would exist if unearned premiums were deemed insufficient to cover the estimated future costs associated with the unexpired portion of written insurance policies. A premium deficiency would be recognized immediately as a reduction of deferred acquisition costs to the extent that unearned premiums plus anticipated investment income are not considered adequate to cover for all deferred acquisition costs and related insurance claims and expenses. If the premium deficiency is greater than the unamortized deferred acquisition costs, a liability is accrued for the excess deficiency.

f) Industry pools

When certain automobile owners are unable to obtain insurance via the voluntary insurance market, they are insured via the FA. In addition, entities can choose to cede certain risks to the FA administered RSP. The related risks associated with FA insurance policies and policies ceded to the RSP are aggregated and shared by the entities in the Canadian P&C insurance industry, generally in proportion to market share and volume of business ceded to the RSP. The Company applies the same accounting policies to FA and RSP insurance it assumes as it does to insurance policies issued by the Company directly to policyholders. In accordance with the OSFI guidelines, assumed and ceded RSP premiums are reported in DPW.

The Company acts as a "facility carrier" responsible for the administration of a portion of the FA policies. In exchange for providing these services, the Company receives fees, which are reported in Other underwriting revenues. Policy issuance fees are earned immediately while claims handling fees are deferred and earned over the servicing life of the claims.

g) Structured settlements

The Company enters into annuity agreements with various Canadian life insurance companies to provide for fixed and recurring payments to claimants. When the annuity agreements are non-commutable, non-assignable and non-transferable, the Company is released by the claimant for the settlement of the claim amount. As a result, the liability to its claimants is substantially discharged and the Company removes that liability from its Consolidated balance sheet. However, the Company remains exposed to the credit risk that life insurers may fail to fulfill their obligations. When the annuity agreements are commutable, assignable or transferable, the Company keeps the liability and the corresponding asset on its financial statements.

2.4 Financial instruments

a) Classification and measurement of financial assets and financial liabilities

For the purpose of initial and subsequent measurement, the Company has classified or designated its financial assets and financial liabilities in the following categories.

Table 2.2 – *Classification of the Company's most significant financial assets and financial liabilities*

Category	Financial instruments	Description
AFS	Debt securities	Intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or changes in market conditions.
	Common shares and preferred shares	Neither classified nor designated as FVTPL.
Financial assets and financial liabilities		
• ***Classified as FVTPL***	Common shares	Purchased with the intention of generating profits in the near term.
	Derivative financial instruments	Used for economic hedging purposes and for the purpose of modifying the risk profile of the Company's investment portfolio as long as the resulting exposures are within the investment policy guidelines.
	Embedded derivatives	Related to the Company's perpetual preferred shares. Treated as separate derivative financial instruments when their economic characteristics and risks are not clearly and closely related to those of the host instrument.
	Long and short positions	A market neutral investment strategy, where the objective is to maximize the value added from active equity portfolio management while at the same time using short positions to mitigate overall equity market volatility.
	Investments in mutual funds	Third party investment funds (mainly in equities). When the Company is deemed to control such vehicles, they are consolidated and the third party units are recorded as a liability at fair value and disclosed as Net asset value attributable to third party unit holders.
• ***Designated as FVTPL***	Debt securities backing the Company's claims liabilities and some common shares	A portion of the Company's investments backing its claims liabilities has been voluntarily designated as FVTPL to reduce the volatility caused by fluctuations in fair values of underlying claims liabilities due to changes in discount rates. To comply with regulatory guidelines, the Company ensures that the weighted-dollar duration of debt securities designated as FVTPL is approximately equal to the weighted-dollar duration of claims liabilities.
Cash and cash equivalents, loans and receivables	Cash and cash equivalents	Consist of highly liquid investments that are readily convertible into a known amount of cash, are subject to insignificant risk of changes in value and have an original maturity of three months or less.
	Loans and receivables	Financial assets with fixed or determinable payments not quoted in an active market.
Other financial liabilities	Debt outstanding	The Company's medium-term notes net of associated issuance costs.

The table below summarizes the Company's initial and subsequent measurement basis of financial assets and financial liabilities based on their respective classification. It also indicates when and where their related changes in fair value are recognized in the Consolidated statements of comprehensive income.

Table 2.3 – *Measurement of financial assets and financial liabilities and recognition of related changes in fair value*

Category	Initial measurement	Subsequent measurement	Changes in fair value
Financial assets			
AFS	**Fair value** using bid prices at the trade date	**Fair value** using bid prices at end of period	Reported in OCI when unrealized or in Net investment gains (losses) when realized or impaired
FVTPL	**Fair value** using bid prices at the trade date	**Fair value** using bid prices at end of period	Reported in Net investment gains (losses)
Cash and cash equivalents, loans and receivables	**Fair value** at the issuance date	**Amortized cost** using the effective interest method	Reported in Net investment gains (losses) when realized or impaired
Financial liabilities			
FVTPL	**Fair value** using ask prices at the trade date	**Fair value** using ask prices at end of period	Reported in Net investment gains (losses)
Other financial liabilities	**Fair value** at the issuance date	**Amortized cost** using the effective interest method	Reported in Net investment gains (losses) when the liability is extinguished

b) Fair value measurement

The fair value of financial instruments on initial recognition is normally the transaction price, being the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments is determined based on available information and categorized according to a three-level fair value hierarchy.

Table 2.4 – *Three-level fair value hierarchy*

Levels	Description	Type of financial instruments normally classified as such
Level 1	Quoted prices in active markets for identical assets or liabilities	• Most Government bonds[1] • Some Corporate bonds[1] • Common shares and Preferred shares • Investments in mutual funds • Short-term notes • Exchange-traded derivatives
Level 2	Valuation techniques for which all inputs that have a significant effect on the fair value are observable (either directly or indirectly)	• Some Government bonds[1] • Some Corporate bonds[1] • Unsecured medium-term notes[2] • Asset-backed securities • Over-the-counter derivatives
Level 3	Valuation techniques for which inputs that have a significant effect on the fair value are not based on observable market data	• Loans[2] • Gross-up component of the Company's perpetual preferred shares and related embedded derivatives

[1] Categorized as Level 1 or Level 2 instruments depending on the market trading statistics of the last month for each reporting period.
[2] Measured at amortized cost with fair value disclosed.

Level 1
A financial instrument is regarded as quoted in an active market if quoted prices for that financial instrument are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2
Where the fair values of financial assets and financial liabilities reported on the Consolidated balance sheets cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models.

For discounted cash flow models, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics.

- Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments, currencies, market liquidity and financial condition of counterparties.
- Discount rates are influenced by risk free interest rates and credit risk.

The inputs to these models are derived from observable market data where possible. Inputs used in valuations include:

- prevailing market rates for bonds with similar characteristics and risk profiles;
- closing prices of the most recent trade date subject to liquidity adjustments; or
- average brokers' quotes when trades are too sparse to constitute an active market.

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

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

c) Classification as investment grade

The Company uses data from various rating agencies to rate debt securities and preferred shares. When there are two ratings for the same instrument, the Company uses the lower of the two. When there are three ratings for the same instrument, the Company uses the median. Debt securities with a rating equal to or above 'BBB-' are classified as investment grade. Preferred shares with a rating equal to or above 'P3L' are classified as investment grade.

d) Revenue and expense recognition

Net investment income

- Interest income from debt securities and loans are recognized on an accrual basis.
- Premiums and discounts on debt securities classified as AFS, as well as premiums earned or discounts incurred for loans and AFS securities are amortized using the effective interest method.
- Dividends are recognized when the shareholders' right to receive payment is established, which is the ex-dividend date.

Net investment gains (losses)

- Gains and losses on the sale of AFS debt and equity securities are generally calculated on a first in, first out basis and on a specific lot basis, respectively.
- Transaction costs associated with the acquisition of financial instruments classified or designated as FVTPL are expensed as incurred; otherwise, transaction costs are capitalized on initial recognition and amortized using the effective interest method.
- Transaction costs incurred at the time of disposition of a financial instrument are expensed as incurred.
- Foreign exchange gains and losses are recognized in income with the exception of AFS equity securities where unrealized foreign exchange gains and losses are recognized in OCI until the security is sold or becomes impaired.
- If a business combination is achieved in stages, any previously held equity interest is remeasured as at its acquisition date fair value and any resulting gain or loss is recognized in income.

e) Impairment of financial assets

The Company determines, at each balance sheet date, whether there is objective evidence that a financial asset or a group of financial assets, other than those classified or designated as FVTPL, are impaired. Those financial assets are impaired according to either a debt, equity, or loans and receivables impairment model. The appropriate impairment model is determined based on:

- the characteristics of each instrument;
- the capacity of the issuer to pay dividends or interest; and
- the Company's intention to either hold the shares for the long term or sell them.

Debt impairment model

A financial asset is impaired if there is objective evidence of impairment, as a result of one or more loss events (a payment default for example) that occurred after initial recognition and that loss event has an impact on the estimated future cash flows of the financial asset. Under the debt impairment model, a security is impaired when it is probable that the future cash flows will not be recovered based on credit considerations rather than based on the fair value of that security.

The debt model is used to assess impairments for debt securities, preferred shares that are redeemable at the option of the holder, and perpetual preferred shares which have been purchased with the intent of holding for the long-term. Since the business model of the Company is to purchase preferred shares for the purpose of earning dividend income, with the intent of holding them for the long-term, virtually all perpetual preferred shares are assessed for impairment using a debt impairment model.

Equity impairment model

Objective evidence of impairment includes a significant, a prolonged, or a significant and prolonged decline in the fair value of an investment below cost. It also includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which an issuer operates, indicating that the cost of an equity instrument may not be recovered.

The equity model is used to assess impairment for the Company's common shares, as well as any perpetual preferred shares not impaired using the debt impairment model.

Table 2.5 – *Objective evidence of impairment for equity impairment model*

Unrealized loss position	Common shares	Perpetual preferred shares which are not evaluated for impairment under the debt model
Significant	Unrealized loss of 50% or more	Unrealized loss of 50% or more
Prolonged	Unrealized loss for 15 consecutive months or more	Unrealized loss for 18 consecutive months or more
Significant and prolonged	Unrealized loss for 9 consecutive months or more and unrealized loss of 25%	Unrealized loss for 12 consecutive months or more and unrealized loss of 25%

Loans and receivables impairment model

Loans and receivables that are individually significant are tested for impairment when there is a payment default or when there are objective indications that the counterparty will not honour its obligations. Loans and receivables which have not been individually impaired are grouped by similar characteristics to be tested for impairment.

Measurement and recognition of impairment losses
The following table summarizes the measurement and recognition of impairment losses for each type of financial asset, other than those classified or designated as FVTPL.

Table 2.6 – *Measurement and recognition of financial asset impairment*

Category	Loss measurement	Reported loss	Subsequent fair value increases
Debt impairment model	Difference between amortized cost and current fair value less any unrealized loss on that security previously recognized	Impairment loss removed from OCI and recognized in Net investment gains (losses)	Recognized in Net investment gains (losses) when there is observable positive development on the original impairment loss event. Otherwise, recognized in OCI.
Equity impairment model	Difference between acquisition cost and current fair value less any impairment loss on that security previously recognized	Impairment loss removed from OCI and recognized in Net investment gains (losses)	Recognized directly in OCI. Impairment losses are not reversed.
Loans and receivables impairment model	Difference between amortized cost and the present value of the estimated future cash flows	Impairment loss recognized in Net investment gains (losses)	Provision can be reversed when the event that gave rise to its recognition subsequently disappears. Recognized in Net investment gains (losses) when there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

f) Recognition and offsetting of financial assets and financial liabilities

Financial assets are no longer recorded when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are no longer recorded when they have expired or have been cancelled. Financial assets lent by the Company in the course of securities lending operations remain on the balance sheet because the Company has not substantially transferred the risks and rewards related to the lent assets.

Financial assets and financial liabilities are offset and the net amount is reported on the Consolidated balance sheets only when there is:
- a legally enforceable right to offset the recognized amounts; and
- an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.5 Business combinations

Business combinations are accounted for using the acquisition method. The purchase consideration is measured at fair value at acquisition date. At that date, the identifiable assets acquired and liabilities assumed are estimated at their fair value. Acquisition-related costs are expensed as incurred. When the Company acquires a business, it assesses financial assets acquired and financial liabilities assumed for appropriate classification and designation in accordance with the contractual term, economic circumstances and relevant conditions at the acquisition date.

If a business combination is achieved in stages, any previously held equity interest is re-measured as at its acquisition date fair value and any resulting gain or loss is recognized in Net investment gains (losses).

2.6 Goodwill and intangible assets

a) Goodwill

Goodwill is initially measured at cost, being the excess of the fair value of the consideration transferred over the Company's share in the net identifiable assets acquired and liabilities assumed in a business combination. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested at least annually for impairment.

Gains and losses calculated on the disposal of a business include the carrying value of goodwill relating to the business sold.

b) Intangible assets

The Company's intangible assets consist of distribution networks, customer relationships and internally developed software.

- Distribution networks represent the contractual agreements between the Company and unconsolidated brokers for the distribution of its insurance products.
- Customer relationships represent the relationships that exist with the policyholders, either directly (as a direct insurer) or indirectly (through consolidated brokers).

Intangible assets are initially measured at cost, except for intangible assets acquired in a business combination which are recorded at fair value as at the date of acquisition.

The useful lives of intangible assets are assessed to be either finite or indefinite. For each distribution network acquired, that assessment depends on the nature of the distribution network. When the related cash flows are expected to continue indefinitely, the distribution network acquired is assessed as having an indefinite useful life.

Intangible assets with finite lives are amortized over their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with indefinite lives, as well as those intangible assets that are under development, are not subject to amortization, but are tested for impairment on an annual basis.

The amortization method and terms of intangible assets assessed as having finite useful lives are shown below.

Table 2.7 – *Amortization methods and terms of intangible assets – finite useful life*

Intangible assets	Method	Term
Distribution networks	Straight-line	25 years
Customer relationships	Straight-line	10 years
Internally developed software	Straight-line	3 to 10 years

2.7 Investments in associates and joint ventures

The Company's investments in associates and joint ventures are initially recorded at the amount of consideration paid, which includes the fair value of tangible assets, intangible assets and goodwill identified on acquisition, plus post-acquisition changes in the Company's share of their net assets. They are subsequently measured using the equity method.

The Company's profit or loss from such investments is shown in Share of profit from investments in associates and joint ventures and reflects the after-tax share of the results of operations of the associates and joint ventures. The Company determines at each reporting date whether there is any objective evidence that investments in associates and joint ventures are impaired.

2.8 Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation terms are established to depreciate the cost of the assets over their estimated useful lives. Depreciation methods and terms are shown below.

Table 2.8 – *Depreciation methods and terms of property and equipment*

Property and equipment	Method	Term
Buildings	Straight-line	15 to 40 years
Furniture and equipment	Straight-line	2 to 7 years
Leasehold improvements	Straight-line	Over the terms of related leases

2.9 Leases

Leases which do not transfer to the Company substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Payments made under operating leases are recognized on a straight-line basis over the lease term and reported in Underwriting expenses.

2.10 Income taxes

a) Income tax expense (benefit)

Income tax is recognized in Net income, except to the extent that it relates to items recognized in OCI, or directly in equity where it is recognized in OCI or equity. Income tax expense (benefit) comprises current and deferred tax.

- Current income tax is based on current year's results of operations, adjusted for items that are not taxable or not deductible. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

- Deferred income tax is provided using the liability method on temporary differences between the carrying value of assets and liabilities and their respective tax values. Deferred tax is calculated using income tax laws and rates enacted or substantively enacted as at the balance sheet date, which are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Deferred tax assets are recognized for all deductible temporary differences as well as unused tax losses and tax credits to the extent that it is probable that taxable profit will be available against which the losses can be utilized.

b) Recognition and offsetting of current tax assets and liabilities

For each legal entity consolidated, current tax assets and liabilities are offset when they relate to the same taxation authority, which allows the legal entity to receive or make one single net payment, and when it intends to settle the outstanding balances on a net basis. Upon consolidation, a current tax asset of one entity is offset against a current tax liability of another entity if, and only if, entities concerned have a legally enforceable right to make or receive a single net payment and entities intend to make or receive such net payment or to recover the asset or settle the liability simultaneously.

2.11 Share-based payments

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

a) Long-term incentive plan (LTIP)

Certain key employees are eligible to participate in the LTIP. Participants are awarded notional share units referred to as PSUs and RSUs. The payout for the PSUs is based on a specific target composed of the difference between the three-year average adjusted return on equity of the Company and that of the Canadian P&C industry. Most RSUs automatically vest three years from the year of the grant. Vesting for RSUs is not linked to the Company's performance.

Certain participants meeting a defined share ownership threshold ("eligible participants") can elect annually to receive cash in lieu of shares of the Company, subject to the Company's Board of Directors' approval. At the time of the payout, the plan administrator purchases in the market the amount of common shares based upon the vested PSUs and RSUs, and elections of eligible participants.

The awards are estimated and valued at fair value at grant date, which corresponds to the average share price of the Company over the last quarter of the preceding year.

The LTIP is accounted for as an equity-settled plan, except for the participants that are eligible to receive cash in lieu of shares of the Company (accounted for as a cash-settled plan).

Equity-settled plan

The cost of the awards is recognized as an expense over the vesting period, with a corresponding entry to Contributed surplus. The value of each award is not revalued subsequently, but the Company re-estimates the number of awards that are expected to vest at each reporting period. The difference between the market price of the shares purchased and the cumulative cost for the Company of these vested units, net of income taxes, is recorded in Retained earnings.

Cash-settled plan

The cost of the awards is recognized as an expense over the vesting period, with a corresponding entry to Other liabilities. The liability is re-measured at each reporting period based on the number of awards that are expected to vest and the current share price, with any fluctuations in the liability also recorded as an expense until it is settled.

b) Employee share purchase plan (ESPP)

Employees who are not eligible for the LTIP are entitled to make contributions to a voluntary ESPP. Effective January 1, 2016, the Company amended its ESPP to help encourage employee ownership. Under the new plan, eligible employees can contribute up to 10% of their annual base salary through a payroll deduction to purchase IFC common shares in the market. As an incentive to participate in the plan the Company matches, at the end of each year, a number of shares equal to 50% of the common shares purchased by the employees during the year (subject to certain conditions). During the following year, the common shares contributed by the Company are purchased by an independent broker at each pay period and deposited in the employee account evenly each pay. The common shares contributed by the Company are awarded and vested at the time they are deposited in the employee account.

Equity-settled plan

The ESPP is accounted for as an equity-settled plan. The fair value of awards is estimated at the grant date and is not revalued subsequently, but the Company re-estimates the number of awards that are expected to vest at each reporting period. The cost of awards is recognized as an expense over the vesting period, with a corresponding entry to Contributed surplus. The difference between the market price of the common shares purchased and the cumulative cost for the Company of these vested awards, net of income taxes, is recorded in Retained earnings.

c) Deferred share unit plan (DSU)

Non-employee directors of the Company are eligible to participate in the Company's DSU. A portion of the remuneration of non-employee directors of the Company must be received in DSUs or common shares of the Company. For the remainder of their compensation, the directors are given the choice of cash, common shares of the Company, DSUs or a combination of the three. Both DSUs and common shares vest at the time of the grant. The DSUs are redeemed upon director retirement or termination and are settled for cash after that time. When directors elect to receive shares, the Company makes instalments to the plan administrator for the purchase of shares of the Company on behalf of the directors.

Cash-settled plan

The DSUs are cash-settled awards which are expensed at the time of granting with a corresponding financial liability reported in Other liabilities. This liability is re-measured at each reporting date based on the current share price, with any fluctuations in the liability also recorded as an expense until it is settled.

2.12 Employee future benefits – pension

The defined benefit obligation, net of the fair value of plan assets, is recognized on the balance sheets as an asset, when the plan is in a surplus position, or as a liability, when the plan is in a deficit position. This classification is determined on a plan-by-plan basis. The actuarial determination of the defined benefit obligation uses the projected unit credit method and management's best estimate assumptions.

Cost recognized in Net income in the current period includes:

- service cost, which represent the benefits cost provided in exchange for employees' services rendered during the year or prior years;
- net interest expense, which represents the change in the defined benefit obligation and the plan assets as a result of the passage of time, determined by multiplying the net defined benefit liability (asset) by the discount rate in reference to market yields on high quality corporate bonds with cash flows that match the timing and amount of expected benefit payments, determined at the beginning of the year;
- interest on the asset ceiling, when applicable; and
- administrative expenses paid from the pension assets.

Re-measurements recognized directly in OCI in the period in which they occur include:

- return on plan assets, which represents the difference between the actual return on plan assets and the return based on the discount rate determined using high quality corporate bonds;
- actuarial gains and losses arising from plan experience;
- changes in actuarial methods and assumptions, such as discount rate; and
- changes in the asset ceiling.

Such re-measurements are also immediately reclassified to Retained earnings as they will not be reclassified to Net income in subsequent periods.

2.13 Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting date. Revenues and expenses denominated in foreign currencies are translated at the average exchange rate prevailing during the year. Non-monetary assets and liabilities are translated at historical exchange rates. Exchange gains and losses are recognized in income with the exception of AFS equity securities where unrealized foreign exchange gains and losses are recognized in OCI until the asset is sold or becomes impaired.

2.14 Current vs non-current

In line with industry practice for insurance companies, the Company's balance sheets are not presented using current and non-current classifications, but are rather presented broadly in order of liquidity. Most of the Company's assets and liabilities are considered current given they are expected to be realized or settled within the Company's normal operating cycle. All other assets and liabilities are considered as non-current and generally include: Investments in associates and joint ventures, Deferred tax assets, Property and equipment, Intangible assets, Goodwill, Deferred tax liabilities and Debt outstanding.

2.15 Operating segments

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

Note 3 – Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to use judgments, estimates and assumptions that can have a significant impact on the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as at the balance sheet date, as well as reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from these estimates.

The key estimates and assumptions that have a risk of causing a material adjustment to the carrying value of certain assets and liabilities within the next financial year are as follows:

3.1 Valuation of claims liabilities

The Company establishes claims liabilities to cover the estimated liability for the payment of all losses, including loss adjustment expenses incurred with respect to insurance contracts underwritten by the Company. The ultimate cost of claims liabilities is estimated by using a range of standard actuarial claims projection techniques in accordance with Canadian accepted actuarial practice.

The main assumption underlying these techniques is that a company's past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim (severity) and number of claims (frequency) based on the observed development of earlier years and expected loss ratios. Historical claims development is analyzed by accident years, by geographical area, as well as by significant business line and claim type. Large catastrophic events are separately addressed, either by being reserved at the face value of loss adjuster estimates in the case of very large losses or separately projected in order to reflect their future development which might differ from historical data in the case of catastrophic events. In most cases, no explicit assumptions are made regarding future rates of claims inflation. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgment is used to assess the extent to which past trends may not apply in the future, in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking into account all the uncertainties involved. ***See Note 13.4 for key assumptions and sensitivity analysis.***

3.2 Valuation of defined benefit obligation

The cost of the defined benefit plans and the defined benefit obligation are calculated by the Company's independent actuaries using assumptions determined by management. The actuarial valuation involves making assumptions about discount rates, future salary increases, future inflation, the employees' age upon termination and retirement, mortality rates, future pension increases, disability incidence and health and dental care cost trends. If actuarial experience differs from the assumptions used, the expected obligation could increase or decrease in future years.

Due to the complexity of the valuation and its long-term nature, the defined benefit obligation is highly sensitive to changes in the assumptions. Assumptions are reviewed at each reporting date. ***See Note 27.6 for key assumptions and sensitivity analysis.***

3.3 Business combinations

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

3.4 Impairment of financial assets

The Company determines, at each balance sheet date, whether there is objective evidence that financial assets, other than those classified or designated as FVTPL, are impaired. Considerations which form the basis of these objective evidence judgments include a significant or prolonged decline in fair value, a loss event that has occurred which has impaired the expected cash flows, as well as other considerations such as liquidity and credit risk. ***See Note 2.4 for objective evidence of impairment.***

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

3.5 Impairment of goodwill and intangible assets

The Company determines whether goodwill, intangible assets with indefinite useful lives and those under development (not subject to amortization) are impaired at least on an annual basis. Impairment testing of these intangibles requires an estimation of the recoverable amount at the CGU level. A CGU is the lowest level at which there are separately identifiable cash flows. The carrying value of these intangibles is essentially all allocated to the P&C insurance operations CGU, which is the Company's sole operating segment. No impairment loss for goodwill or intangible assets has been recognized for this CGU for the year ended December 31, 2016 or prior.

a) Company's P&C insurance operations

The most recent test was performed as at June 30, 2016. As at this date, the P&C insurance operations CGU was tested for impairment, calculating both the fair value less costs to sell and the value-in-use. The value-in-use calculation was based on the following key estimates and assumptions:

- Cash flow projections for the next three years are based on financial budgets approved by management and determined using budgeted margins based on past performance and management expectations for the Company and the industry.
- Cash flows beyond the three-year period are extrapolated using estimated growth rates of 3% as at June 30, 2016 and 2015, which do not exceed the industry long-term average past growth rate in which the Company operates.
- A Company specific risk adjusted pre-tax discount rate of 9.6% as at June 30, 2016 (June 30, 2015 – 10.2%).

The test results indicate that the recoverable amount of the P&C insurance operations CGU exceeds its carrying value. The Company is not aware of any reasonably possible change in any of the above key assumptions that would cause the carrying value of the CGU to exceed its recoverable amount.

3.6 Measurement of income taxes

Management exercises judgment in estimating the provision for income taxes. The Company is subject to federal income tax law and provincial income tax laws in the various jurisdictions where it operates. Various tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. To the extent that the Company's interpretations of tax laws differ from those of tax authorities or that the timing of realization of deferred tax assets is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.

Note 4 – Change in accounting policy

In November 2016, the IFRS Interpretations Committee ("IFRIC") published a summary of its discussions following a request to clarify how an entity determines the expected manner of recovery of an intangible asset with an indefinite useful life for the purpose of measuring deferred taxes in accordance with IAS 12 – *Income Taxes*. The IFRIC noted that the fact that an entity does not amortize an intangible asset with an indefinite useful life does not mean that it has an infinite life and that the entity will recover the carrying amount of that asset only through sale and not through use.

The benefits of the distribution network with an indefinite useful life will flow to the Company on an annual basis; therefore, the carrying amount will be recovered through use with a higher tax rate. In response to this clarification, the Company retrospectively changed its accounting policy for the deferred tax liabilities recorded in relation to its distribution network.

The following table summarizes the impact of this change in accounting policy on the Consolidated balance sheets. This change did not have an impact on the 2015 comparative figures reported in the Consolidated statements of comprehensive income (loss) and Consolidated statements of cash flows.

Table 4.1 – *Impact of change in accounting policy*

As at December 31,	2015
Increase (decrease) of previously reported balances	
Goodwill	104
Deferred tax assets	(25)
Deferred tax liabilities	83
Retained earnings	(4)

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

Note 5 – Investments

5.1 Classification of investments

Table 5.1 – *Classification of investments*

	AFS	Classified as FVTPL	Designated as FVTPL	Cash and cash equivalents, loans and receivables	Total
As at December 31, 2016					
Cash and cash equivalents	**-**	**-**	**-**	**168**	**168**
Short-term notes	**105**	**-**	**-**	**-**	**105**
Fixed income					
Investment grade					
Government	**2,029**	**-**	**3,329**	**-**	**5,358**
Corporate	**1,485**	**-**	**1,642**	**-**	**3,127**
Asset-backed[1]	**144**	**-**	**33**	**-**	**177**
Non-rated	**34**	**-**	**-**	**-**	**34**
Debt securities	**3,797**	**-**	**5,004**	**-**	**8,801**
Investment grade					
Retractable	**46**	**-**	**-**	**-**	**46**
Fixed-rate perpetual	**308**	**-**	**-**	**-**	**308**
Other perpetual	**1,023**	**-**	**-**	**-**	**1,023**
Preferred shares	**1,377**	**-**	**-**	**-**	**1,377**
Common shares	**2,184**	**420**[2]	**1,031**	**-**	**3,635**
Loans	**-**	**-**	**-**	**405**	**405**
	7,358	**420**	**6,035**	**573**	**14,386**
As at December 31, 2015					
Cash and cash equivalents	-	-	-	141	141
Short-term notes	210	-	-	-	210
Fixed income					
Investment grade					
Government	1,868	-	3,047	-	4,915
Corporate	1,604	-	1,730	-	3,334
Asset-backed[1]	211	-	39	-	250
Non-rated	-	-	-	-	-
Debt securities	3,893	-	4,816	-	8,709
Investment grade					
Retractable	69	-	-	-	69
Fixed-rate perpetual	328	-	-	-	328
Other perpetual	838	-	-	-	838
Preferred shares	1,235	-	-	-	1,235
Common shares	1,886	327[2]	758	-	2,971
Loans	-	-	-	448	448
	7,014	327	5,574	589	13,504

[1] Asset-backed securities consist of mortgage-backed securities and credit card receivables.
[2] Comprised of Long positions ***(Note 5.4)*** and Net asset value attributable to third party unit holders ***(Note 6)***.

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

5.2 Carrying value of investments

Table 5.2 – *Carrying value of investments*

	FVTPL investments	Other investments				Total investments
	At carrying value	Amortized cost	Unrealized gains	Unrealized losses	At carrying value	At carrying value
As at December 31, 2016						
Cash and cash equivalents	**-**	**168**	**-**	**-**	**168**	**168**
Short-term notes	**-**	**105**	**-**	**-**	**105**	**105**
Fixed income						
Investment grade						
Government	**3,329**	**1,958**	**76**	**(5)**	**2,029**	**5,358**
Corporate	**1,642**	**1,475**	**14**	**(4)**	**1,485**	**3,127**
Asset-backed	**33**	**142**	**2**	**-**	**144**	**177**
Non-rated	**-**	**34**	**-**	**-**	**34**	**34**
Debt securities	**5,004**	**3,714**	**92**	**(9)**	**3,797**	**8,801**
Investment grade						
Retractable	**-**	**45**	**1**	**-**	**46**	**46**
Fixed-rate perpetual	**-**	**291**	**24**	**(7)**	**308**	**308**
Other perpetual	**-**	**1,108**	**31**	**(116)**	**1,023**	**1,023**
Preferred shares	**-**	**1,444**	**56**	**(123)**	**1,377**	**1,377**
Common shares	**1,451**	**1,931**	**273**	**(20)**	**2,184[1]**	**3,635**
Loans	**-**	**405**	**-**	**-**	**405**	**405**
	6,455	**7,662**	**421**	**(152)**	**7,931**	**14,386**
As at December 31, 2015						
Cash and cash equivalents	-	141	-	-	141	141
Short-term notes	-	210	-	-	210	210
Fixed income						
Investment grade						
Government	3,047	1,762	106	-	1,868	4,915
Corporate	1,730	1,591	16	(3)	1,604	3,334
Asset-backed	39	209	2	-	211	250
Debt securities	4,816	3,772	124	(3)	3,893	8,709
Investment grade						
Retractable	-	69	-	-	69	69
Fixed-rate perpetual	-	316	21	(9)	328	328
Other perpetual	-	961	9	(132)	838	838
Preferred shares	-	1,346	30	(141)	1,235	1,235
Common shares	1,085	1,898	159	(171)	1,886[1]	2,971
Loans	-	448	-	-	448	448
	5,901	7,605	313	(315)	7,603	13,504

[1] Includes net foreign currency gains of $52 million as at December 31, 2016 ($90 million as at December 31, 2015).

The Company invests in high-quality non-financial U.S. corporate bonds and U.S. common shares as a means to provide geographic and sector diversification to its investment portfolio, which is mainly comprised of Canadian securities. As at December 31, 2016, the Company held $980 million in U.S. fixed-income securities (December 31, 2015: $986 million) and $638 million in U.S. common shares (December 31, 2015: $594 million). Foreign currency exposure in the U.S. fixed-income portfolio is mitigated through the use of foreign-currency forward contracts.

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

5.3 Market neutral equity investment strategy

The market neutral equity investment strategy consists of having both long and short equity positions. The objective of this strategy is to maximize the value added from active equity portfolio management while at the same time using short positions to mitigate overall equity market volatility. The Company has secured its short positions by pledging government debt securities as collateral.

Table 5.3 – *Market neutral equity investment strategy*

	2016		2015	
As at December 31,	**Fair value**	**Debt securities pledged as collateral**	**Fair value**	**Debt securities pledged as collateral**
Long positions				
Common shares	**324**	**-**	164	-
Short positions				
Financial liabilities related to investments	**(327)**	**338**	(166)	172

5.4 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. The Company lends securities it owns to other financial institutions to allow them to meet their delivery commitments. Collateral, mainly consisting of government securities, is provided by the counterparty and 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 underlying loaned securities fluctuates.

The Company loaned securities with a fair value of $0.7 billion as at December 31, 2016 (December 31, 2015 – $1.9 billion) that are reported in Investments. The collateral amounted to $0.8 billion as at December 31, 2016 (December 31, 2015 – $2.0 billion), representing approximately 105% of the securities loaned fair value as at December 31, 2016 and 2015.

Note 6 – Financial liabilities related to investments

Table 6.1 – *Financial liabilities related to investments*

As at December 31,	**2016**	**2015**
Equities sold short positions ***(Table 5.3)***	**327**	166
Net asset value attributable to third party unit holders	**96**	163
Embedded derivatives ***(Note 7.3)***	**39**	24
Accounts payable to investment brokers on unsettled trades	**29**	22
Derivative financial liabilities ***(Table 7.2)***	**38**	3
	529	378

Note 7 – Derivative financial instruments

7.1 Types of derivatives used

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

Derivative financial instruments are used for economic hedging purposes and for the purpose of modifying the risk profile of the Company's investments, as long as the resulting exposures are within the investment policy guidelines.

Table 7.1 – *Types of derivatives used*

Derivatives used	Description	Objective	Intent to hold instrument
Forwards	**Contractual obligations to exchange:**		
Currency	one currency for another on a predetermined future date	Mitigate risk arising from foreign currency fluctuations on the U.S. debt portfolio	Risk management purposes
Futures	**Contractual obligations to buy or sell:**		
Interest rate	an interest rate sensitive financial instrument on a predetermined future date at a specified price	Modify or mitigate exposure to interest rate fluctuations	Mostly for risk management purposes
Equity	a specified amount of stocks, a basket of stocks or an equity index at an agreed price on a specified date	Mitigate exposure to Canadian equity market	Risk management purposes
Swaps	**Over-the-counter contracts:**		
Swap agreements	in which two counterparties exchange a series of cash flows based on a basket of stocks, applied to a notional amount	Mitigate exposure to equity market fluctuations	Trading purposes
Credit default	that transfer credit risk related to an underlying financial instrument from one counterparty to another	Modify exposure to credit	Trading purposes
Options	**Contractual agreements under which the seller grants to the buyer the right, but not the obligation either to buy (call option) or sell (put option):**		
Inflation caps	an index at a predetermined price, at or by a specified future date	Mitigate exposure to inflation risk	Trading purposes

Refer to Table 7.2 hereafter for the net gain (loss), fair value and notional amount of derivatives

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

7.2 Fair value and notional amount of derivatives

Derivative financial assets are presented on the Consolidated balance sheets as part of Other assets and derivative financial liabilities are presented as part of Financial liabilities related to investments.

Table 7.2 – *Net gain (loss), fair value and notional amount of derivatives by term to maturity and nature of risk*

	For the years ended	As at		As at		
	Net gain (loss) on derivatives	Fair value		Notional amount: term to maturity		
		Positive (Asset)	Negative (Liability)	Less than 1 year	From 1 to 5 years	Over 5 years
December 31, 2016						
Foreign currency contracts						
Forwards	**23**	**6**	**-**	**1,098**	**-**	**-**
Interest rate contracts						
Futures and forwards	**(2)**	**-**	**-**	**949**	**-**	**-**
Equity contracts						
Swap agreements	**(239)**	**-**	**38**	**1,023**	**-**	**-**
Futures	**(29)**	**-**	**-**	**167**	**-**	**-**
Credit contracts						
Swap agreements	**-**	**1**	-	-	**39**	-
Inflation contracts						
Options	**-**	**-**	**-**	**29**	**64**	**-**
	(247)	**7**	**38**			
Foreign currency contracts	**23**					
Other contracts *(Table 23.1)*	**(270)**					
December 31, 2015						
Foreign currency contracts						
Forwards	(180)	5	-	1,069	-	-
Interest rate contracts						
Futures	(6)	-	-	986	-	-
Equity contracts						
Swap agreements	177	48	2	751	-	-
Futures	12	-	-	142	-	-
Credit Contracts						
Swap Agreements	-	1	1	-	69	-
Inflation contracts						
Options	-	-	-	42	97	-
	3	54	3			
Foreign currency contracts	(180)					
Other contracts *(Table 23.1)*	183					

7.3 Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that also includes a non-derivative host contract. Some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified financial variable.

The fair value of embedded derivatives amounted to $39 million as at December 31, 2016 (December 31, 2015 – $24 million) and is linked entirely to the Company's investment in perpetual preferred shares. The Company did not attempt to establish a notional amount for these embedded derivatives but a proxy for that amount could be the fair value of these perpetual preferred shares which amounted to $1,185 million as at December 31, 2016 (December 31, 2015 – $1,062 million). Embedded derivatives are reported in Financial liabilities related to investments.

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

Note 8 – Fair value measurement

8.1 Categorization of fair values

The Company categorizes its fair value measurements according to a three-level fair value hierarchy. ***Refer to Note 2.4b) for details.***

Table 8.1 – *Fair value hierarchy of financial assets and financial liabilities*

	Level 1	Level 2	Level 3	Total
	Valued using quoted (unadjusted) market prices	Valued using models (with observable inputs)	Valued using models (without observable inputs)	
As at December 31, 2016				
Short-term notes	**105**	**-**	**-**	**105**
Fixed income				
Investment grade				
Government	**4,134**	**1,224**	**-**	**5,358**
Corporate	**1,403**	**1,724**	**-**	**3,127**
Asset-backed	**-**	**177**	**-**	**177**
Non-rated	**-**	**-**	**34**	**34**
Debt securities	**5,642**	**3,125**	**34**	**8,801**
Preferred shares	**1,338**	**-**	**39**	**1,377**
Common shares	**3,635**	**-**	**-**	**3,635**
Derivative financial assets *(Table 7.2)*	**-**	**7**	**-**	**7**
Total financial assets measured at fair value	**10,615**	**3,132**	**73**	**13,820**
Total financial liabilities measured at fair value	**423**	**38**	**39**	**500**
As at December 31, 2015				
Short-term notes	210	-	-	210
Fixed income				
Investment grade				
Government	3,643	1,272	-	4,915
Corporate	1,484	1,850	-	3,334
Asset-backed	-	250	-	250
Debt securities	5,337	3,372	-	8,709
Preferred shares	1,211	-	24	1,235
Common shares	2,971	-	-	2,971
Derivative financial assets *(Table 7.2)*	-	54	-	54
Total financial assets measured at fair value	9,519	3,426	24	12,969
Total financial liabilities measured at fair value	329	3	24	356

The fair value of loans was $400 million as at December 31, 2016 (December 31, 2015 – $449 million). The fair value is determined using a valuation technique based on the income approach. Future inflows of principal and interest are discounted using a pre-tax risk-free rate from the Government of Canada bonds curve plus a risk premium that is based on the credit risk to which the Company would be exposed from the borrowers. The Company ensures that the discount rate is consistent with borrowing rates on similar loans issued by financial institutions. The Company receives guarantees for loans.

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

8.2 Reclassifications between Level 1 and Level 2

As at the end of each reporting period, the Company determines if reclassifications have occurred between levels in the hierarchy based on the application of the classification criteria.

Table 8.2 – *Reclassifications of debt securities between Level 1 and Level 2*

As at December 31, 2016	
From Level 1 to Level 2	**389**
From Level 2 to Level 1	**409**

Note 9 – Financial risk

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

Effective risk management consists in identifying, understanding and communicating all material risks that the Company is exposed to in the course of its operations. In order to make sound business decisions, both strategically and operationally, management must have continual direct access to the most timely and accurate information possible. Either directly or through its committees, the Board of Directors ensures that the Company's management has put appropriate risk management programs in place. The Board of Directors, directly and in particular through its Risk Management Committee, oversees the Company's risk management programs, procedures and controls and, in this regard, receives periodic reports from, among others, the Risk Management Department through the Chief Risk Officer and internal auditors.

The Company's exposure to financial risk arising from its financial instruments together with the Company's risk management policies and practices used to mitigate it are explained hereafter.

The majority of the investment portfolio is invested in well established, active and liquid markets.

Table 9.1 – *Financial risk*

	Market risk	**Basis risk**	**Credit risk**	**Liquidity risk**
Risk definition	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in equity market prices, interest rates or spreads, or foreign exchange rates.	Risk that offsetting investments in an economic hedging strategy will not experience price changes that entirely offset each other.	Possibility that counterparties may not be able to meet payment obligations when they become due.	Risk that the Company will encounter difficulty in raising funds to meet obligations associated with financial liabilities.
Reference	*Note 9.1*	*Note 9.2*	*Note 9.3*	*Note 9.4*

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

9.1 Market risk

The Company's exposure to market risk together with the Company's risk management policy and practices used to mitigate it are explained below.

Table 9.2 – *Market risk*

	Equity price risk	Currency risk	Interest rate risk
Risk definition	Risk of losses arising from changes in equity market prices.	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.	Risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates or spreads.
Risk exposure	Significant exposure to price changes for common shares and preferred shares.	Some exposure to foreign exchange risks arising from investments denominated in foreign currency, mainly U.S. dollars.	Significant exposure to changes in interest rates from debt securities and preferred shares.
Risk management investment policy	Set forth limits in terms of equity exposure.	Set forth limits in terms of currency exposure.	Set forth limits in terms of interest rate and credit spread duration.
Risk mitigation	Through asset class and economic sector diversification and, in some cases, the use of derivatives.	Foreign currency exposure in the U.S. debt portfolio is mitigated through the use of foreign-currency forward contracts.	Through the use of derivatives. Changes in the discount rate applied to the Company's claims liabilities offers a partial offset to the change in price of interest sensitive assets.

The Operational Investment Committee and Compliance Review and Corporate Governance Committee regularly monitor and review compliance, respectively, with the Company's investment policies.

a) Sensitivity analyses to market risk

Sensitivity analyses are one risk management technique that assists management in ensuring that risks assumed remain within the Company's risk tolerance level. Sensitivity analyses involve varying a single factor to assess the impact that this would have on the Company's results and financial condition, excluding any management action. Actual results can differ materially from these estimates for a variety of reasons and therefore, these sensitivities should be considered as directional estimates.

Table 9.3 – *Sensitivity analyses*

For the years ended December 31,	2016 Net income	2016 OCI	2015 Net income	2015 OCI
Equity price risk				
Common share prices (10% decrease)[1]	**9**	**(193)**	(5)	(156)
Preferred share prices (5% decrease)[2]	**8**	**(57)**	5	(50)
Interest rate risk[3] (100 basis point increase)				
Investments	**4**	**(75)**	7	(89)
Currency risk (strengthening of Canadian dollar by 10%)[4]				
Investments	**2**	**(47)**	2	(45)

[1] Net of any equity hedges, including the impact of any impairment.
[2] Including the impact on related embedded derivatives.
[3] The yield curve experiences an instantaneous parallel shift.
[4] After giving effect to forward-exchange contracts.

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

These sensitivity analyses were prepared using the following assumptions:

- Shifts in the yield curve are parallel.
- Interest rates, equity prices and foreign currency move independently.
- Credit, liquidity and basis risks have not been considered.
- Impact on the Company's pension plans has been considered.
- Risk reduction measures perform as expected, with no material basis risk and no counterparty defaults.
- For FVTPL debt securities, the estimated impact on Net income is assumed to be offset by the market-yield adjustment.
- AFS debt or equity securities in an unrealized loss position, as reflected in AOCI may, at some point in the future, be realized through sale.

A decline in the price of AFS perpetual preferred shares is recorded in OCI and would normally lead to a lower valuation for associated embedded derivative liabilities which are recorded as gains in Net income. Conversely, an increase in the price of these preferred shares is also recorded in OCI and would normally lead to a higher valuation for associated embedded derivative liabilities which are recorded as losses in Net income.

Gains and losses resulting from changes in interest rates vary depending on the Company's position on the interest rate risk.

b) Exposure to currency risk

The following table presents the net currency exposure on foreign-denominated investments.

Table 9.4 – *Net currency exposure on foreign-denominated investments*

As at December 31,	2016	2015
Investments denominated in U.S. dollars		
Fixed-income securities	**980**	986
Common shares	**638**	594
Other	**131**	44
Investments denominated in U.S. dollars	**1,749**	1,624
Less: U.S. dollar foreign-currency forward contracts, notional amount	**1,027**	1,029
Net currency exposure – U.S. dollar	**722**	595

The Company's net exposure to other currencies was not significant as at December 31, 2016 and 2015.

c) Exposure to interest rate risk

The Company's net exposure to the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates is detailed hereafter in Table 9.5.

Movements in short-term and long-term interest rates, including changes in credit spreads, cause changes in realized and unrealized gains and losses. Interest rate risk exposures are reported based on the earlier of the financial instruments contractual repricing date or maturity date.

The effective rates shown in Table 9.5 represent historical rates for fixed-rate instruments carried at amortized cost and current market rates for floating-rate instruments or instruments carried at fair value. The table below does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates.

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

Table 9.5 – *Contractual repricing and maturity schedule*

	Floating rates	Fixed rates: Less than 1 year	Fixed rates: From 1 to 5 years	Fixed rates: Over 5 years	Non-rate sensitive	Total
As at December 31, 2016						
Assets						
Cash and cash equivalents	**167**	**1**	**-**	**-**	**-**	**168**
Effective interest rate		***0.48%***				
Short-term notes	**-**	**105**	**-**	**-**	**-**	**105**
Effective interest rate		***0.66%***				
Fixed-income securities	**1**	**890**	**4,729**	**3,076**	**-**	**8,696**
Effective interest rate		***1.09%***	***1.55%***	***2.06%***		
Preferred shares	**54**	**24**	**952**	**347**	**-**	**1,377**
Effective interest rate		***4.80%***	***4.76%***	***5.32%***		
Common shares	**-**	**-**	**-**	**-**	**3,635**	**3,635**
Loans	**204**	**5**	**36**	**160**	**-**	**405**
Effective interest rate		***4.41%***	***5.34%***	***4.88%***		
Reinsurance assets	**-**	**193**	**195**	**94**	**-**	**482**
Effective interest rate		***1.84%***	***1.84%***	***1.84%***		
Other assets	**50**	**6**	**1**	**-**	**8,066**	**8,123**
	476	**1,224**	**5,913**	**3,677**	**11,701**	**22,991**
Liabilities and shareholders' equity						
Claims liabilities	**-**	**3,414**	**3,449**	**1,673**	**-**	**8,536**
Effective interest rate		***1.84%***	***1.84%***	***1.84%***		
Debt outstanding	**-**	**-**	**250**	**1,143**	**-**	**1,393**
Effective interest rate			***5.41%***	***5.10%***		
Other liabilities	**2**	**38**	**25**	**12**	**6,897**	**6,974**
Effective interest rate			***4.75%***	***5.33%***		
Shareholders' equity	**-**	**-**	**-**	**-**	**6,088**	**6,088**
	2	**3,452**	**3,724**	**2,828**	**12,985**	**22,991**
Net long (short) exposure	**474**	**(2,228)**	**2,189**	**849**	**(1,284)**	**-**
As at December 31, 2015						
Assets						
Cash and cash equivalents	98	43	-	-	-	141
Effective interest rate		*0.47%*				
Short-term notes	-	210	-	-	-	210
Effective interest rate		*0.45%*				
Fixed-income securities	5	1,019	4,286	3,189	-	8,499
Effective interest rate		*1.25%*	*1.45%*	*1.82%*		
Preferred shares	58	43	769	365	-	1,235
Effective interest rate		*4.85%*	*4.97%*	*5.37%*		
Common shares	-	-	-	-	2,971	2,971
Loans	219	1	37	191	-	448
Effective interest rate		*4.59%*	*5.57%*	*5.09%*		
Reinsurance assets	-	110	109	55	-	274
Effective interest rate		*1.67%*	*1.67%*	*1.67%*		
Other assets	96	-	-	-	7,441	7,537
	476	1,426	5,201	3,800	10,412	21,315
Liabilities and shareholders' equity						
Claims liabilities	-	3,262	3,221	1,611	-	8,094
Effective interest rate		*1.67%*	*1.67%*	*1.67%*		
Debt outstanding	-	-	249	894	-	1,143
Effective interest rate			*5.41%*	*5.47%*		
Other liabilities	2	-	13	12	6,327	6,354
Effective interest rate			*4.92%*	*5.37%*		
Shareholders' equity	-	-	-	-	5,724	5,724
	2	3,262	3,483	2,517	12,051	21,315
Net long (short) exposure	474	(1,836)	1,718	1,283	(1,639)	-

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

9.2 Basis risk

The Company's use of derivatives exposes it to a number of risks, including credit and market risks. The hedging of certain risks with derivatives results in basis risk. The imperfect correlation between the hedging instrument and hedged item creates the potential for excess gains or losses in a hedging strategy, thus adding risk to the position. The Company monitors the effectiveness of its economic hedges on a regular basis. Basis risk is controlled by limits prescribed in the investment policy, which are monitored regularly.

9.3 Credit risk

The Company's credit risk exposure is concentrated primarily in its debt securities and preferred shares and, to a lesser extent, in its premium receivables, reinsurance assets, and structured settlement agreements entered into with various life insurance companies. The Company is also subject to counterparty credit risk arising from reinsurance, over-the-counter derivatives, as well as securities lending and borrowing transactions. A counterparty is any person or entity from which cash or other forms of consideration are expected to extinguish a liability or obligation to the Company. These exposures and the Company's risk management policy and practices used to mitigate credit risk are explained below.

a) Maximum exposure to credit risk

The table below presents the Company's maximum exposure to credit risk without taking into account any collateral held or other credit enhancements available to the Company to mitigate this risk. For on-balance sheet exposures, maximum exposure to credit risk is defined as the carrying value of the asset.

Table 9.6 – *Maximum exposure to credit risk*

As at December 31,	2016	2015
Cash and cash equivalents	**168**	141
Debt securities	**8,801**	8,709
Preferred shares	**1,377**	1,235
Loans	**405**	448
Premium receivables	**3,057**	2,868
Reinsurance assets	**482**	274
Other financial assets[1]	**481**	493
On-balance sheet credit risk exposure	**14,771**	14,168
Structured settlements	**1,183**	1,116
Off-balance sheet credit risk exposure	**1,183**	1,116

[1]Include industry pools receivable, other receivables and recoverables, accrued investment income, restricted funds, and financial assets related to investments.

Structured settlements
The Company has obligations to pay certain fixed amounts to claimants on a recurring basis and has purchased annuities from life insurers to provide for those payments. In the event that the life insurers are in default, the Company may have to assume a financial guarantee obligation. Therefore, the net risk to the Company is any credit risk related to the life insurers. Since the Company deals with registered life insurers with credit rating of at least 'A-' at the inception of the contract, this credit risk is minimal.

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

b) Concentration of credit risk

Concentration of credit risk exists where a number of borrowers or counterparties are engaged in similar activities, are located in the same geographic area or have comparable economic characteristics. Their ability to meet contractual obligations may be similarly affected by changing economic, political or other conditions. The Company's investments could be sensitive to changing conditions in specific geographic regions or industries.

Investments

The Company has a significant concentration of its investments in the financial sector and in Canada; this risk concentration is closely monitored. As a means to provide geographic and sector diversification to its investment portfolio, the Company invests in high-quality non-financial U.S. corporate bonds and U.S. common shares.

Table 9.7 – *Investment breakdown by country of incorporation and by industry*

As at December 31,	2016	2015
By country of incorporation		
Canada	**87%**	87%
U.S.	**11%**	11%
Other	**2%**	2%
	100%	100%
By industry		
Government	**39%**	39%
Banks, insurance and diversified financial services	**33%**	34%
Energy	**8%**	7%
Other	**20%**	20%
	100%	100%

The Company's risk management strategy is to invest in debt securities and preferred shares of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer by imposing limits based upon credit quality. The Company's investment policy requires that, at the time of the investment, all debt securities have a minimum credit rating of 'BBB' and of 'P3' for preferred shares. This credit quality restriction excludes indirect investments through debt funds. In the case of funds, specific policy limits apply to manage the overall exposure to these investments. Management monitors subsequent credit rating changes on a regular basis.

For the Company's federally regulated subsidiaries, the assets invested in any entity or group of related entities are limited by OSFI to 5% of the subsidiaries' assets. The Company also monitors aggregate concentrations of credit risk by country of issuer and by industry regardless of the asset class ***(see Table 9.7).*** The Company applies limits against that aggregate exposure, which are more conservative than OSFI's limits. Investment portfolio diversification helps to mitigate credit risk and is monitored against established guidelines with respect to exposure to individual issuers.

c) Counterparty credit risk

Counterparty credit risk arises from reinsurance, over-the-counter derivatives, as well as security lending and borrowing transactions.

Reinsurance

The Company relies on reinsurance to manage underwriting risk. Under reinsurance programs, management considers that in order for a contract to reduce exposure to risk, it must be structured to ensure that the reinsurer assumes the significant insurance risk related to the underlying reinsured risks and it is reasonably possible that the reinsurer may realize a significant loss from the reinsurance.

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

The Company may also be subject to credit risk on potential future recoverables arising from catastrophes that could be subject to a non-payment (default). The Company's placement of reinsurance is diversified such that it is not dependent on a single reinsurer and the Company's operations are not substantially dependent upon any single reinsurance contract.

The Company assesses the financial soundness of the reinsurers before signing any reinsurance treaties and monitors their situation on a regular basis. The Company also has minimum rating requirements for its reinsurers. Substantially all reinsurers are required to have a minimum credit rating of 'A-' at inception of the contract. The Company also requires that its contracts include a special termination and security review clause allowing the Company to replace a reinsurer during the contract period should the reinsurer's credit rating fall below the level acceptable to the Company or for other reasons that might jeopardize the Company's ability to continue doing business with such reinsurer as intended at the time of entering into the reinsurance arrangement.

The Company has collateral in place to support amounts receivable and recoverable from unregistered reinsurers. The Company is the assigned beneficiary of collateral consisting of cash, security agreements and letters of credit totalling $127 million as at December 31, 2016 (December 31, 2015 – $133 million) as guarantees from unregistered reinsurers. This collateral is held in support of policy liabilities of $94 million as at December 31, 2016 (December 31, 2015 – $76 million) and could be used should these reinsurers be unable to meet their obligations.

Management concluded that the Company was not exposed to significant loss from reinsurers for potentially uncollectible reinsurance as at December 31, 2016 and 2015.

Over-the-counter derivatives, as well as security lending and borrowing transactions

Credit risk from over-the-counter derivative transactions reflects the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Company. Therefore, derivative-related credit risk is represented by the positive fair value of an over-the-counter instrument and is normally a small fraction of the contract's notional amount. In addition, the Company may be subject to wrong-way risk arising from certain derivative transactions. Wrong-way risk occurs when exposure to a counterparty is adversely correlated with the credit quality of that counterparty.

Credit risk from security lending and borrowing transactions arises when the counterparty is allowed to re-hypothecate or re-pledge the collateral externally. Credit risk from security borrowing is the potential for the counterparty to default when the value of the collateral posted is higher than the value of the security borrowed.

The Company subjects its derivative-related, as well as security lending and borrowing credit risk to the same credit approval, limit and monitoring standards that it uses for managing other transactions that create credit exposure. This includes evaluating the creditworthiness of counterparties, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a monthly review by the Operational Investment Committee. The Company has adopted a policy whereby, upon signing the derivative contract, the counterparty is required to have a minimum credit rating of 'A-' and an issuer credit spread below established thresholds, or has a guarantee from a company rated 'A-' or better.

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

The Company's rigorous collateral management process is another significant credit mitigation tool used to manage counterparty credit risk arising from over-the-counter derivative and security lending and borrowing transactions. Most of the Company's legal agreements allow for daily collateral movement. Consequently, the Company regularly validates that the collateral that it pledges is not too high and that mark-to-market provisions for derivatives are sufficient. Mark-to-market provisions provide the Company with the right to request that the counterparty pay down or collateralize the current market value of its derivative positions when the value exceeds a specified threshold amount.

The aggregate credit risk exposure was $90 million as at December 31, 2016 (December 31, 2015 – $133 million) and is the sum of the replacement cost plus an add-on amount for potential future credit exposure. The risk-weighted amount represents the credit risk equivalent, weighted according to the creditworthiness of the counterparty, as prescribed by OSFI.

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

9.4 Liquidity risk

The Company's liquidity management is governed by establishing a prudent policy that identifies oversight responsibilities as well as by setting limits and implementing effective techniques to monitor, measure and control exposure to liquidity risk. As a result of the nature of the Company's P&C insurance activities, cash flows may be highly volatile and unpredictable.

The Company's liquidity needs are rigorously managed by matching asset and liability cash flows and by establishing forecasts for cash inflows and outflows. The Company invests in various types of assets in order to match them to its liabilities. This method maps the obligations towards insured clients to asset life and performance. The Company reviews the matching status on a quarterly basis. To manage its cash flow requirements, a portion of the Company's investments is maintained in short-term (less than one year) highly liquid money market securities. A large portion of the investments are unencumbered and held in highly liquid federal and provincial government debt to protect against any unanticipated large cash requirements. In addition, the Company also has an unsecured committed credit facility, *see Note 18.3*.

a) Investments by contractual maturity

Table 9.8 – *Investments by contractual maturity*

	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
As at December 31, 2016					
Cash and cash equivalents	**168**	**-**	**-**	**-**	**168**
Debt securities	**995**	**4,695**	**3,077**	**34**	**8,801**
Preferred shares	**22**	**16**	**8**	**1,331**	**1,377**
Common shares	**-**	**-**	**-**	**3,635**	**3,635**
Loans	**6**	**49**	**350**	**-**	**405**
	1,191	**4,760**	**3,435**	**5,000**	**14,386**
As at December 31, 2015					
Cash and cash equivalents	141	-	-	-	141
Debt securities	1,233	4,286	3,190	-	8,709
Preferred shares	39	22	8	1,166	1,235
Common shares	-	-	-	2,971	2,971
Loans	1	51	396	-	448
	1,414	4,359	3,594	4,137	13,504

b) Financial liabilities by contractual maturity

Table 9.9 – *Financial liabilities by contractual maturity*

	Less than 1 year	From 1 to 5 years	Over 5 years	No specific maturity	Total
As at December 31, 2016					
Claims liabilities – undiscounted value	**3,295**	**3,328**	**1,614**	**-**	**8,237**
Debt outstanding	**-**	**250**	**1,143**	**-**	**1,393**
Other financial liabilities	**736**	**115**	**18**	**754**	**1,623**
	4,031	**3,693**	**2,775**	**754**	**11,253**
As at December 31, 2015					
Claims liabilities – undiscounted value	3,125	3,086	1,543	-	7,754
Debt outstanding	-	249	894	-	1,143
Other financial liabilities	670	96	9	585	1,360
	3,795	3,431	2,446	585	10,257

The expected maturity of claims liabilities is determined by estimating when claims liabilities will be settled. Unearned premiums have been excluded because they do not constitute actual obligations.

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

Note 10 – Claims liabilities

10.1 Movements in claims liabilities

Table 10.1 – *Movements in claims liabilities*

	Direct	Ceded	Net
For the year ended December 31, 2016			
Balance, beginning of year	**8,094**	**253**	**7,841**
Current year claims	**5,884**	**353**	**5,531**
Favourable prior-year claims development	**(396)**	**(6)**	**(390)**
Decrease due to changes in discount rate	**(34)**	**(1)**	**(33)**
Total claims incurred	**5,454**	**346**	**5,108**
Claims paid	**(5,028)**	**(134)**	**(4,894)**
Business combinations *(Note 29)*	**16**	**-**	**16**
Balance, end of year	**8,536**	**465**	**8,071**
For the year ended December 31, 2015			
Balance, beginning of year	8,021	314	7,707
Current year claims	5,144	64	5,080
Favourable prior-year claims development	(503)	(24)	(479)
Increase due to changes in discount rate	59	1	58
Total claims incurred	4,700	41	4,659
Claims paid	(4,717)	(105)	(4,612)
Business combinations *(Note 29)*	90	3	87
Balance, end of year	8,094	253	7,841

10.2 Claims liabilities by line of business

Table 10.2 – *Claims liabilities by line of business*

	Direct	Ceded	Net
As at December 31, 2016			
Personal Auto	**4,752**	**79**	**4,673**
Personal Property	**750**	**131**	**619**
Personal lines	**5,502**	**210**	**5,292**
Commercial Auto	**795**	**11**	**784**
Commercial P&C	**2,239**	**244**	**1,995**
Commercial lines	**3,034**	**255**	**2,779**
	8,536	**465**	**8,071**
As at December 31, 2015			
Personal Auto	4,638	64	4,574
Personal Property	581	10	571
Personal lines	5,219	74	5,145
Commercial Auto	731	8	723
Commercial P&C	2,144	171	1,973
Commercial lines	2,875	179	2,696
	8,094	253	7,841

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

10.3 Fair value of claims liabilities

The Company estimates that the fair value of its net claims liabilities approximate their carrying values. There was no premium deficiency as at December 31, 2016 and 2015.

Table 10.3 – *Carrying value of claims liabilities*

	Direct	Ceded	Net
As at December 31, 2016			
Undiscounted value	**8,237**	**447**	**7,790**
Effect of time value of money using a discount rate of 1.84%	**(344)**	**(9)**	**(335)**
Provision for adverse deviations (PfAD)	**643**	**27**	**616**
	8,536	**465**	**8,071**
As at December 31, 2015			
Undiscounted value	7,754	244	7,510
Effect of time value of money using a discount rate of 1.67%	(303)	(7)	(296)
Provision for adverse deviations (PfAD)	643	16	627
	8,094	253	7,841

10.4 Prior-year claims development

The following table presents the estimates of cumulative incurred claims, including IBNR, with subsequent developments during the periods and together with cumulative payments to date.

Table 10.4 – *Prior-year claims development – net*

		Accident year									
	Total	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007 & earlier**
Undiscounted claims liabilities outstanding at end of accident year		2,683	2,493	2,461	2,524	2,375	2,312	2,038	1,799	1,627	4,294
Revised estimates											
One year later		-	2,390	2,390	2,463	2,342	2,213	1,923	1,740	1,625	4,136
Two years later		-	-	2,384	2,427	2,262	2,142	1,896	1,739	1,596	3,985
Three years later		-	-	-	2,418	2,220	2,058	1,860	1,715	1,586	3,985
Four years later		-	-	-	-	2,194	2,018	1,836	1,679	1,562	3,910
Five years later		-	-	-	-	-	1,986	1,792	1,656	1,525	3,821
Six years later		-	-	-	-	-	-	1,768	1,628	1,511	3,807
Seven years later		-	-	-	-	-	-	-	1,602	1,493	3,794
Eight years later		-	-	-	-	-	-	-	-	1,482	3,753
Nine years later		-	-	-	-	-	-	-	-	-	3,731
Current estimate		2,683	2,390	2,384	2,418	2,194	1,986	1,768	1,602	1,482	3,731
Claims paid to date		-	(917)	(1,232)	(1,552)	(1,662)	(1,669)	(1,544)	(1,470)	(1,356)	(3,446)
Undiscounted claims liabilities	**7,790**	2,683	1,473	1,152	866	532	317	224	132	126	285
Discounting and PfAD	**281**										
Claims liabilities - net	**8,071**										

The original reserve estimates are evaluated quarterly for redundancy or deficiency. The evaluation is based on actual payments in full or partial settlement of claims and current estimates of claims liabilities for claims still open or claims still unreported.

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

Note 11 – Unearned premiums

11.1 Movements in unearned premiums

Table 11.1 – *Movements in unearned premiums*

	Direct	Ceded	Net
For the year ended December 31, 2016			
Balance, beginning of year	**4,390**	**21**	**4,369**
Business combinations *(Note 29)*	**104**	**-**	**104**
Premiums written	**8,197**	**212**	**7,985**
Premiums earned	**(8,118)**	**(216)**	**(7,902)**
Balance, end of year	**4,573**	**17**	**4,556**
For the year ended December 31, 2015			
Balance, beginning of year	4,110	21	4,089
Business combinations *(Note 29)*	71	-	71
Premiums written	7,893	194	7,699
Premiums earned	(7,684)	(194)	(7,490)
Balance, end of year	4,390	21	4,369

11.2 Unearned premiums by line of business

Table 11.2 – *Unearned premiums by line of business*

	Direct	Ceded	Net
As at December 31, 2016			
Personal Auto	**2,250**	**-**	**2,250**
Personal Property	**1,111**	**-**	**1,111**
Personal lines	**3,361**	**-**	**3,361**
Commercial Auto	**337**	**1**	**336**
Commercial P&C	**875**	**16**	**859**
Commercial lines	**1,212**	**17**	**1,195**
	4,573	**17**	**4,556**
As at December 31, 2015			
Personal Auto	2,131	-	2,131
Personal Property	990	-	990
Personal lines	3,121	-	3,121
Commercial Auto	338	1	337
Commercial P&C	931	20	911
Commercial lines	1,269	21	1,248
	4,390	21	4,369

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

Note 12 – Reinsurance

12.1 Company's reinsurance net retention and coverage limits by nature of risk

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

Table 12.1 – *Company's reinsurance net retention and coverage limits by nature of risk*

As at December 31,	2016	2015
Single risk events		
Retentions:		
On property policies	**7.5**	7.5
On liability policies	**3 - 10**	2 - 10
Multi-risk events and catastrophes		
Retention	**100**	100
Coverage limits	**3,575**	3,450

Single risk events
For certain special classes of business or types of risks, the retention may be lower through specific treaties or the use of facultative reinsurance.

Multi-risk events and catastrophes
The Company retains participations averaging 5.3% as at December 31, 2016 (December 31, 2015 – 5.5%) on reinsurance layers between the retention and coverage limits.

In 2015 and 2016, the Company entered into an aggregate reinsurance treaty, renewable on an annual basis, to protect for frequency of multi-risk events and catastrophes of $30 million or more. The above retention and coverage limits exclude this aggregate reinsurance treaty.

12.2 Components of reinsurance assets

Table 12.2 – *Components of reinsurance assets*

As at December 31,	2016	2015
Reinsurers' share of claims liabilities ***(Note 10.1)***	**465**	253
Reinsurers' share of unearned premiums ***(Note 11.1)***	**17**	21
	482	274

12.3 Net recovery (expense) from reinsurance

Table 12.3 – *Net recovery (expense) from reinsurance*

For the years ended December 31,	2016	2015
Ceded earned premiums ***(Note 10.1)***	**(216)**	(194)
Ceded claims incurred ***(Note 11.1)***	**346**	41
Commissions earned on ceded reinsurance	**20**	19
	150	(134)

The estimated gross loss related to the Fort McMurray wildfires amounted to $400 million, impacting ceded earned premiums by $27 million and ceded claims incurred by $252 million for a net recovery from reinsurance of $225 million for the year ended December 31, 2016.

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

Note 13 – Insurance risk

The Company principally underwrites automobile, home, as well as commercial P&C contracts to individuals and businesses. The majority of the insurance risk to which the Company is exposed is of a short-term nature. Policies generally cover a 12-month period. The average duration of claims liabilities is approximately 2.4 years as at December 31, 2016 and 2015.

Insurance contract risk is the risk that a loss arises from the following reasons:

- underwriting and pricing ***(Note 13.1)***;
- fluctuation in the timing, frequency and severity of claims relative to expectations ***(Note 13.2)***;
- inadequate reinsurance protection ***(Note 9.3c)***; and
- large unexpected losses arising from a single event such as a catastrophe ***(Note 13.3)***.

Insured events can occur at any time during the coverage period and can generate losses of variable amounts. An objective of the Company is to ensure that sufficient claims liabilities are established to cover future insurance claim payments related to past insured events. The Company's success depends upon its ability to accurately assess the risk associated with the insurance contracts underwritten by the Company. The Company establishes claims liabilities to cover the estimated liability for the payment of all losses, including loss adjustment expenses incurred with respect to insurance contracts underwritten by the Company. Claims liabilities do not represent an exact calculation of the liability. Rather, claims liabilities are the Company's best estimates of its expected ultimate cost of resolution and administration of claims. Expected inflation is taken into account when estimating claims liabilities, thereby mitigating inflation risk. The composition of the Company's insurance risk, as well as the methods employed to mitigate risks, are described hereafter.

13.1 Underwriting and pricing risks

The insurance business is cyclical in nature whereby the industry generally reduces insurance rates following periods of increased profitability, while it generally increases rates following periods of sustained loss. The Company's profitability tends to follow this cyclical market pattern and can also be affected by demand and competition. In addition, the Company is at risk from changes in automobile insurance legislation, the economic environment and climate patterns.

In order to properly monitor the Company's risk appetite, pricing targets are set by the Insurance Risk Department and distributed to each region. Pricing targets are established using an internal return on equity model and a risk-based capital model.

Risks associated with commercial P&C and personal property insurance contracts may vary in relation to the geographical area of the risk insured by the Company. The Company's exposure to concentration of insurance risk, in terms of type of risk and level of insured benefits, is mitigated by careful selection and implementation of underwriting strategies, which is in turn largely achieved through diversification across industry sectors and geographical areas. For automobile insurance, legislation is in place at a provincial level and this creates differences in the benefits provided among the provinces.

Table 13.1 – *Concentration of insurance contracts on the basis of DPW*

For the years ended December 31,	**2016**	**2015**
By line of business		
Personal Auto	**46%**	45%
Personal Property	**24%**	23%
Commercial P&C	**21%**	23%
Commercial Auto	**9%**	9%
	100%	100%
By province		
Ontario	**41%**	41%
Québec	**27%**	27%
Alberta	**18%**	18%
British Columbia	**7%**	6%
Other	**7%**	8%
	100%	100%

The Enterprise Risk Committee monitors the Company's overall risk profile, aiming for a balance between risk, return and capital and determines policies concerning the Company's risk management framework. Its mandate is to identify, measure and monitor risks, as well as avoid risks that are outside of the Company's risk tolerance level. Further, in order to minimize unforeseen risks, new products are subject to an internal product and approval review process. The Company also uses reinsurance under its strategy for managing the underwriting risk. The availability and cost of reinsurance are subject to prevailing market conditions, both in terms of price and available capacity, which can affect the Company's ceded premium volume and profitability. Reinsurance companies exclude some types of coverage from the contracts that the Company purchases from them or may alter the terms of such contracts from time to time. These gaps in reinsurance protection expose the Company to greater risk and greater potential loss and could adversely affect its ability to underwrite future business. Where the Company cannot successfully mitigate risk through reinsurance arrangements, consideration is given to reducing premiums written in order to lower its risk.

13.2 Risk related to the timing, frequency and severity of claims

The occurrence of claims being unforeseeable, the Company is exposed to the risk that the number and the severity of claims could exceed the estimates.

Strict claim review policies are in place to assess all new and ongoing claims. Regular detailed reviews of claims handling procedures and frequent investigations of possible fraudulent claims reduce the Company's risk exposure. Further, the Company enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that could negatively impact the business. The Company has established a Large Loss Committee responsible for analyzing large losses and contentious matters to ensure that appropriate claims liabilities are established and approved.

13.3 Catastrophe risk

Catastrophe risk is the risk of occurrence of a catastrophe defined as any one claim, or group of claims related to a single event such as large fires, hurricanes, earthquakes and hail or wind storms. Catastrophes can have a significant impact on the underwriting income of an insurer.

The Company has limited its exposure to catastrophe risk by imposing maximum claim amounts on certain contracts, as well as by using reinsurance arrangements. The placement of ceded reinsurance is almost exclusively on an excess-of-loss basis (per event or per risk). Ceded reinsurance complies with regulatory guidelines. Retention limits for the excess-of-loss reinsurance vary by product line.

Refer to Note 12 – Reinsurance for the Company's reinsurance net retention and coverage limits by nature of risk.

13.4 Exposure to insurance risk

The principal assumption underlying the claims liability estimates is that the Company's future claims development will follow a similar pattern to past claims development experience. Claims liabilities estimates are also based on various quantitative and qualitative factors, including:

- average claim costs, including claim handling costs (severity);
- average number of claims by accident year (frequency);
- trends in claims severity and frequency;
- payment patterns;
- other factors such as inflation, expected or in-force government pricing and coverage reforms, and level of insurance fraud;
- discount rate; and
- PfAD.

Most or all of the qualitative factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact the Company's ability to accurately assess the risk of insurance contracts that the Company underwrites. There may also be significant lags between the occurrence of the insured event and the time it is actually reported to the Company and additional lags between the time of reporting and final settlement of claims. The Company refines its claims liabilities estimates on an ongoing basis as claims are reported and settled. Establishing an appropriate level of claims liabilities is an inherently uncertain process. Reserving policies are overseen by the Company's Reserve Review Committee.

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

Key assumptions and sensitivity analysis
The claims liabilities' sensitivity to certain of these key assumptions is outlined below. It is not possible to quantify the sensitivity to certain assumptions such as legislative changes or uncertainty in the estimation process. The analysis is performed for possible movements in the assumptions with all other assumptions held constant, showing the impact on Net income. Movements in these assumptions may be non-linear and may be correlated with one another.

Table 13.2 – *Sensitivity analysis (claims liabilities)*

Sensitivity factors	Change in assumptions	Impact on Net income
As at December 31, 2016		
Average claim costs (severity)	**+5%**	**(279)**
Average number of claims (frequency)	**+5%**	**(53)**
Discount rate	**+1%**	**137**
As at December 31, 2015		
Average claim costs (severity)	+5%	(271)
Average number of claims (frequency)	+5%	(53)
Discount rate	+1%	134

Note 14 – Investments in associates and joint ventures

Table 14.1 – *Movement in investments in associates and joint ventures*

As at December 31,	2016	2015
Balance, beginning of year	**396**	313
Acquisitions, net of sales	**194**	75
Business combinations *(Note 29)*	**(45)**	-
Dividends received	**(21)**	(15)
Share of profit (loss) :		
recorded in net income	**16**	26
recorded in OCI	**3**	(3)
Balance, end of year	**543**	396
Of which:		
Associates	**382**	207
Joint ventures	**161**	189

During 2016, there were no events or changes in circumstances that indicated that the carrying values of Company's investments in associates and joint ventures, all of which are investments in private entities, may not be recoverable.

Note 15 – Property and equipment

15.1 Net carrying value of property and equipment

Table 15.1 – *Net carrying value of property and equipment*

As at December 31,	2016	2015
Land and buildings	**38**	10
Furniture and equipment	**47**	44
Leasehold improvements	**54**	50
	139	104

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

Note 16 – Goodwill and intangible assets

16.1 Summary of goodwill and intangible assets

Table 16.1 – *Reconciliation of the carrying value of goodwill and intangible assets*

		Intangible assets			
	Goodwill	**Distribution networks**	**Customer relationships**	**Internally developed software**	**Total intangible assets**
Cost					
Balance as at January 1, 2016	**1,272**	**910**	**345**	**426**	**1,681**
Acquisitions and costs capitalized	**82**	**-**	**26**	**69**	**95**
Business combinations *(Note 29)*	**63**	**-**	**-**	**-**	**-**
Disposals and write-off	**(14)**	**-**	**(6)**	**-**	**(6)**
Balance as at December 31, 2016	**1,403**	**910**	**365**	**495**	**1,770**
Accumulated amortization					
Balance as at January 1, 2016	**-**	**(11)**	**(143)**	**(242)**	**(396)**
Amortization expense	**-**	**(4)**	**(37)**	**(32)**	**(73)**
Disposals	**-**	**-**	**1**	**-**	**1**
Balance as at December 31, 2016	**-**	**(15)**	**(179)**	**(274)**	**(468)**
Net carrying value	**1,403**	**895**	**186**	**221**	**1,302**
Cost					
Balance as at January 1, 2015 *(Note 4)*	1,206	909	258	364	1,531
Acquisitions and costs capitalized	74	-	89	62	151
Business combinations *(Note 29)*	70	1	78	-	79
Disposals	(78)	-	(80)	-	(80)
Balance as at December 31, 2015	1,272	910	345	426	1,681
Accumulated amortization					
Balance as at January 1, 2015	-	(8)	(119)	(202)	(329)
Amortization expense	-	(3)	(33)	(40)	(76)
Disposals	-	-	9	-	9
Balance as at December 31, 2015	-	(11)	(143)	(242)	(396)
Net carrying value	1,272	899	202	184	1,285

The distribution network with indefinite useful life amounted to $820 million as at December 31, 2016 and 2015. Intangible assets under development amounted to $63 million as at December 31, 2016 (December 31, 2015 – $70 million). These intangible assets are not subject to amortization, but are tested for impairment on an annual basis.

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

Note 17 – Other assets and other liabilities

17.1 Components of other assets

Table 17.1 – *Components of other assets*

As at December 31,	2016	2015
Industry pools receivable	**233**	229
Other receivables and recoverables	**148**	123
Pension plans in a surplus position ***(Note 27.1)***	**62**	93
Investments, at cost	**54**	54
Restricted funds	**50**	42
Prepaids	**23**	31
Financial assets related to investments	**21**	64
Other	**20**	19
	611	655

During 2016, there were no events or changes in circumstances that indicated that the carrying values of Investments at cost may not be recoverable.

17.2 Components of other liabilities

Table 17.2 – *Components of other liabilities*

As at December 31,	2016	2015
Industry pools payable	**230**	230
Commissions payable	**228**	237
Premium and sale taxes payable	**215**	192
Accrued salaries and other short-term benefits	**162**	136
Pension plans in a deficit position and unfunded plans ***(Note 27.1)***	**95**	82
Deferred income	**72**	54
Accrued expenses	**52**	56
Deposits received from unregistered reinsurers	**32**	15
Unfunded other post-employment benefits and other post-retirement benefits	**29**	30
Other payables	**343**	263
	1,458	1,295

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

Note 18 – Debt outstanding

18.1 Summary of debt outstanding

On March 1, 2016, the Company completed an offering of $250 million of Series 6 unsecured medium term notes. These notes bear interest at a fixed annual rate of 3.77% until maturity on March 2, 2026, payable in semi-annual instalments commencing on September 2, 2016.

Table 18.1 – *Fair value and carrying value of debt outstanding*

	2016		2015	
As at December 31,	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Series 1	**250**	**275**	249	280
Series 2	**248**	**329**	248	319
Series 3	**99**	**134**	99	129
Series 4	**299**	**335**	298	336
Series 5	**249**	**286**	249	279
Series 6	**248**	**265**	-	-
	1,393	**1,624**	1,143	1,343

The term notes are accounted for at amortized cost which equals their carrying value. They may be redeemed at the option of the issuer, in whole or in part at any time, at a redemption price equal to the greater of Government of Canada Yield at the date of redemption plus a margin or their par value. Fair value is established using valuation data from a benchmark firm.

Interest expense on term notes is presented as Finance costs.

18.2 Unsecured medium term notes ("term notes")

Table 18.2 – *Term notes outstanding terms*

	Series 1	Series 2	Series 3	Series 4	Series 5	Series 6
Date issued	Aug. 31, 2009	Nov. 23, 2009	July 8, 2011	Aug. 18, 2011	June 15, 2012	March 1, 2016
Date of supplemental issue		March 23, 2010			Sept. 10, 2012	
Maturity date	Sept. 3, 2019	Nov. 23, 2039	July 8, 2061	Aug. 18, 2021	June 16, 2042	March 2, 2026
Principal amount outstanding	250	250	100	300	250	250
Fixed annual rate	5.41%	6.40%	6.20%	4.70%	5.16%	3.77%
Semi-annual coupon payment due each year on:	March 3 Sept. 3	May 23 Nov. 23	Jan. 8 July 8	Feb. 18 Aug. 18	June 16 Dec. 16	March 2 Sept. 2

18.3 Credit facility

The Company has a $300-million unsecured revolving term credit facility, which matures on December 5, 2020. This credit facility may be drawn as prime loans or base rate (Canada) advances at the prime or base rate plus a margin, as well as bankers' acceptances or Libor advances at the bankers' acceptance or Libor rate plus a margin. This facility was undrawn as at December 31, 2016 and 2015.

As part of the covenants of the loans under the credit facility, the Company is required to maintain certain financial ratios, which were fully met as at December 31, 2016 and 2015.

Note 19 – Common shares and preferred shares

19.1 Authorized

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

19.2 Issued and outstanding

On August 31, 2016, the Company announced that it did not intend to exercise its right to redeem the Company's non-cumulative Rate Reset Class A Series 3 Preferred Shares (the "Series 3 Preferred Shares") on September 30, 2016. Holders of 1,594,996 of these shares elected to convert their shares into non-cumulative Floating Rate Class A Series 4 Preferred Shares (the "Series 4 Preferred Shares").

Table 19.1 – *Issued and outstanding shares*

	2016		2015	
As at December 31,	**Number of shares**	**Amount (in millions)**	Number of shares	Amount (in millions)
Common shares	**131,050,134**	**2,082**	131,543,134	2,090
Class A Shares				
Series 1	**10,000,000**	**244**	10,000,000	244
Series 3	**8,405,004**	**206**	10,000,000	245
Series 4	**1,594,996**	**39**	-	-
Total Class A	**20,000,000**	**489**	20,000,000	489

Common shares

Table 19.2 – *Reconciliation of number of common shares outstanding*

As at December 31,	**2016 (in shares)**	**2015 (in shares)**
Balance, beginning of year	**131,543,134**	131,543,134
Common shares repurchased and cancelled *(Note 19.4)*	**(493,000)**	-
Balance, end of year	**131,050,134**	131,543,134

Class A shares

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

The holders of Series 1 Preferred Shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of Directors of the Company, on a quarterly basis for the initial fixed-rate period ending on December 31, 2017, based on an annual rate of 4.20%. The dividend rate will be reset on December 31, 2017 and every five years thereafter at a rate equal to the five-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.

The holders of Series 3 Preferred Shares are entitled to receive fixed non-cumulative preferential cash dividends, as and when declared by the Board of Directors of IFC, on a quarterly basis. The annual dividend rate for the Series 3 Preferred Shares for the five-year period from and including September 30, 2016 to but excluding September 30, 2021 will be 3.332%, as determined in accordance with the terms of the Series 3 Preferred Shares.

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

The holders of Series 4 Preferred Shares are entitled to receive floating rate non-cumulative preferential cash dividends on a quarterly basis, as and when declared by the Board of Directors of IFC. The dividend rate for the Series 4 Preferred Shares for the 3-month floating rate period from and including September 30, 2016 to but excluding December 31, 2016 was 0.79733% (3.172% on an annualized basis), as determined in accordance with the terms of the Series 4 Preferred Shares (the "Floating Quarterly Dividend Rate"). The Floating Quarterly Dividend Rate will be reset every quarter.

19.3 Dividends declared and paid per share

Table 19.3 – *Dividends declared and paid per share (in dollars)*

For the years ended December 31,	2016	2015
Common shares	**2.32**	2.12
Preferred Shares		
Series 1	**1.05**	1.05
Series 3	**1.00**	1.05
Series 4	**0.20**	n/a

19.4 Normal course issuer bid (NCIB)

On February 12, 2016, the Company commenced a NCIB to purchase for cancellation during the next twelve months up to 6,577,156 common shares, representing approximately 5% of its issued and outstanding common shares as at February 1, 2016.

As at December 31, 2016, 493,000 common shares had been repurchased and cancelled under the NCIB at an average price of $88.54 per share for a total consideration of approximately $44 million. The 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 $36 million was charged to Retained earnings.

Note 20 – Capital management

20.1 Capital management objectives

The Company's objectives when managing capital consist of:

- maintaining strong regulatory capital levels (see Regulatory capital section below) and ensuring policyholders are well protected; and
- maximizing long-term shareholder value by optimizing capital used to operate and grow the Company.

The Company seeks to maintain adequate excess capital levels to ensure the probability of breaching the regulatory minimum requirements is very low. Such levels may vary over time depending on the Company's evaluation of risks and their potential impact on capital. The Company also keeps higher levels of excess capital when it foresees growth or actionable opportunities in the near term. Furthermore, the Company intends to return excess capital to shareholders through annual dividend increases and, when excess capital levels permit, through share buybacks.

Regulatory capital

The Company manages regulatory capital on an aggregate basis, as well as individually for each regulated entity. Its federally chartered P&C insurance subsidiaries are subject to the regulatory capital requirements defined by OSFI and the *Insurance Companies Act,* while its Québec provincially chartered subsidiaries are subject to the requirements of the AMF and the *Act respecting insurance.*

Federal and Québec regulated P&C insurers are required, at a minimum, to maintain a MCT ratio of 100%. OSFI and the AMF have also established an industry-wide supervisory target capital ratio of 150%, which provides a cushion above the minimum requirement. To ensure that there is minimal risk of breaching the supervisory target, the Company has established a higher internal threshold in its principal insurance subsidiaries in excess of which, under normal circumstances, it will maintain its capital.

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 OSFI and AMF rules. Total capital available mostly represents total shareholders' equity less specific deductions for disallowed assets including goodwill and intangible assets, net of related deferred tax liabilities.

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

Total capital required is calculated by classifying assets and liabilities into categories and applying prescribed risk factors to each category. It is further increased by an operational risk margin, based on the overall riskiness of a P&C insurer (its capital required) and its premium volume. Capital required is then reduced by a credit for diversification between investment risk and insurance risk.

2016 MCT Guidelines
On November 30, 2015, OSFI issued a final 2016 MCT Guideline, which amends regulatory capital requirements. The most significant changes are the addition of capital requirements for equity derivatives and equity instruments sold short, as well as the recognition of equity hedging strategies. The new guidelines came into effect on January 1, 2016 and the impact on our MCT ratios is positive, with the benefit phasing in over a two-year period.

20.2 Capital position

Table 20.1 – *Estimated aggregate capital position of the Company's P&C insurance subsidiaries*

As at December 31,	2016	2015[1]
Total capital available	**4,300**	3,840
Total capital required	**1,972**	1,889
MCT %	**218%**	203%
Excess capital at 100%	**2,328**	1,951
Excess capital at 150%	**1,342**	1,007
Excess capital at 170%	**947**	629

[1] Comparative figures are presented under the MCT guidelines in effect as at December 31, 2015.

As at December 31, 2016 and 2015, the Company's P&C insurance subsidiaries remained well capitalized on an individual basis and were in compliance with regulatory requirements. Including net liquid assets outside of the P&C insurance subsidiaries, the Company's total estimated excess capital at an MCT of 170% was $970 million as at December 31, 2016 (December 31, 2015 – $625 million).

Annually, the Company performs Dynamic Capital Adequacy Testing (DCAT) on the MCT to ensure that the Company has sufficient capital to withstand significant adverse event scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process. The 2016 results indicated that the Company's capital position is strong. In addition, the target, actual and forecasted capital position of the Company is subject to ongoing monitoring by management using stress and scenario analysis to ensure its adequacy.

Note 21 – Revenues

Table 21.1 – *Revenues*

For the years ended December 31,	2016	2015
Net premiums earned	**7,902**	7,490
Other underwriting revenues	**122**	122
Interest income *(Table 22.1)*	**265**	280
Dividend income *(Table 22.1)*	**184**	179
Net investment losses *(Table 23.1)*	**(70)**	(64)
Share of profit from investments in associates and joint ventures	**16**	26
Other revenues	**143**	121
	8,562	8,154

Table 21.2 – *Premiums written and net premiums earned*

For the years ended December 31,	2016	2015
Premiums written		
Direct	**8,197**	7,893
Ceded	**(212)**	(194)
Net	**7,985**	7,699
Changes in unearned premiums	**(83)**	(209)
Net premiums earned	**7,902**	7,490

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

Note 22 – Net investment income

Table 22.1 – *Net investment income*

For the years ended December 31,	2016	2015
Interest income from:		
Debt securities		
designated or classified as FVTPL	**157**	163
classified as AFS	**85**	92
Loans and cash and cash equivalents	**23**	25
Interest income	**265**	280
Dividend income (expense) from:		
Common shares, net		
designated or classified as FVTPL	**54**	50
classified as AFS	**74**	79
Preferred shares		
classified as AFS	**61**	54
Equities sold short	**(6)**	(5)
Long-term investments, at cost	**1**	1
Dividend income	**184**	179
Expenses	**(35)**	(36)
	414	423

Note 23 – Net investment losses

Table 23.1 – *Net investment gains (losses)*

For the years ended December 31,	2016			2015		
Strategies	**Fixed Income**	**Equity**	**Total**	**Fixed Income**	**Equity**	**Total**
Net gains (losses) from:						
Financial instruments[1]:						
designated as FVTPL	**(103)**	**205**	**102**	(16)	(195)	(211)
classified as FVTPL	**-**	**7**	**7**	-	4	4
classified as AFS	**2**	**122**	**124**	15	6	21
Derivatives[2] *(Table 7.2)*	**(2)**	**(268)**	**(270)**	(6)	189	183
Embedded derivatives	**-**	**(13)**	**(13)**	-	38	38
	(103)	**53**	**(50)**	(7)	42	35
Net foreign currency gains (losses)	**(1)**	**21**	**20**	-	19	19
Impairment losses from:						
Common shares	**-**	**(41)**	**(41)**	-	(124)	(124)
Preferred shares	**-**	**-**	**-**	-	(38)	(38)
	-	**(41)**	**(41)**	-	(162)	(162)
	(104)	**33**	**(71)**	(7)	(101)	(108)
Other gains (losses)[3]			**1**			44
			(70)			(64)

[1] Refer to ***Note 2.4a)*** for details on the classification of financial instruments.

[2] Excluding foreign currency contracts, which are reported in Net foreign currency gains (losses).

[3] Including net gains on investments in associates and joint ventures related to a change of control and losses arising from the write-off of goodwill and intangible assets recognized in business combinations.

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

Note 24 – Income taxes

24.1 Income tax expense recorded in Net income

Table 24.1 – *Components of income tax expense recorded in Net income*

For the years ended December 31,	2016	2015
Current income tax expense	**103**	211
Prior-year adjustment expense	**-**	1
Deferred income tax expense (benefit)	**42**	(43)
	145	169

24.2 Income tax expense (benefit) recorded in OCI

Table 24.2 – *Components of income tax expense (benefit) recorded in OCI*

For the years ended December 31,	2016	2015
Income tax expense (benefit) related to:		
Reclassification to income of net losses (gains) on AFS instruments	**(29)**	31
Net change in unrealized gains (losses) on AFS instruments	**94**	(85)
Net actuarial gains (losses) on employee future benefits	**(9)**	13
	56	(41)

24.3 Effective income tax rate

The effective income tax rates are different from the combined Canadian federal and provincial income tax rates. The Consolidated statements of comprehensive income contain items that are non-taxable or non-deductible for income tax purposes, which cause the income tax expense to differ from what it would have been if based on statutory tax rates.

The following table presents the reconciliation of the effective income tax rate to the income tax expense calculated at statutory tax rates.

Table 24.3 – *Effective income tax rate reconciliation*

For the years ended December 31,	2016	2015
Income tax expense calculated at statutory tax rates	**26.9 %**	26.7 %
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	**(4.8)%**	(5.2)%
Non-taxable income	**(1.5)%**	(0.9)%
Non-deductible expenses	**1.1 %**	0.7 %
Non-taxable income from subsidiaries	**(0.7)%**	(0.8)%
Non-deductible losses (non-taxable gains)	**(0.1)%**	(1.1)%
Prior-year adjustments	**-**	0.1 %
Other	**0.2 %**	(0.2)%
Effective income tax rate	**21.1 %**	19.3 %

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

24.4 Components of deferred tax assets and liabilities

Table 24.4 – *Components of deferred tax assets and liabilities*

	Consolidated balance sheets Asset (liability)		Consolidated statements of comprehensive income Expense (benefit)	
As at December 31,	**2016**	**2015**	**2016**	**2015**
Net claims liabilities	**108**	106	**(2)**	(5)
Deferred loss for tax purposes	**-**	64	**64**	(64)
Difference between market value and book value of investments	**-**	7	**7**	(7)
Deferred expenses for tax purposes	**52**	66	**13**	4
Losses available for carry forward	**3**	7	**4**	8
Defined benefit plans	**18**	6	**(12)**	6
Other	**2**	1	**(1)**	2
Deferred tax assets	**183**	257	**73**	(56)
Intangible assets	**(262)**	(266)	**(1)**	(2)
Deferred income for tax purposes	**(140)**	-	**140**	(58)
Deferred gains and losses on specified debt obligations	**(13)**	(14)	**(1)**	(2)
Property and equipment	**(28)**	(21)	**7**	(1)
Difference between market value and book value of investments	**(2)**	-	**2**	-
Deferred tax liabilities	**(445)**	(301)	**147**	(63)
Net deferred tax asset (liability)/ expense (benefit)	**(262)**	(44)	**220**	(119)
Reported in:				
Deferred tax assets *(Note 4)*	**142**	146		
Deferred tax liabilities *(Note 4)*	**(404)**	(190)		
Net income			**71**	(60)
OCI			**149**	(59)

The Company believes that it is probable that it will generate sufficient taxable income in the future to realize the above deferred tax assets.

24.5 Movement in the net deferred tax asset (liability)

Table 24.5 – *Movement in the net deferred tax asset (liability)*

As at December 31,	**2016**	**2015**
Balance, beginning of year *(Note 4)*	**(44)**	(144)
Income tax benefit (expense):		
recorded in net income	**(71)**	60
recorded in OCI	**(149)**	59
Business combinations *(Note 29)*	**3**	(16)
Reclassifications	**(1)**	(3)
Balance, end of year	**(262)**	(44)

The Company had allowable capital losses of $25 million as at December 31, 2016 (December 31, 2015 – $24 million), which had not been recognized when computing the deferred tax asset. These losses, which have no expiry date, can be used to reduce future taxable capital gains.

The Company has recognized a deferred tax asset for unused non-capital losses as at December 31, 2016 and 2015.

Note 25 – Earnings per share

EPS was calculated by dividing the Net income attributable to common shareholders of the Company by the weighted-average number of common shares outstanding during the year. Dilution is not applicable and, therefore, diluted EPS is the same as basic EPS.

Table 25.1 – *Earnings per share*

For the years ended December 31,	2016	2015
Net income attributable to shareholders	**541**	706
Less: Dividends declared on preferred shares, net of tax	**20**	21
Net income attributable to common shareholders	**521**	685
Weighted-average number of common shares outstanding (in millions)	**131.2**	131.5
EPS – basic and diluted (in dollars)	**3.97**	5.20

Note 26 – Share-based payments

26.1 Long-term incentive plan

a) Outstanding LTIP units and fair value at grant date

Table 26.1 – *Outstanding units and weighted-average fair value at grant date by performance cycle*

Performance cycles	Number of units	Weighted-average fair value at grant date (in $)	Amount (in millions of $)
As at December 31, 2016			
2014–2016	**255,253**	**66.25**	**17**
2015–2017	**229,928**	**77.89**	**18**
2016–2018	**217,065**	**90.36**	**19**
	702,246	**77.51**	**54**
As at December 31, 2015			
2013–2015	236,151	62.08	15
2014–2016	246,094	66.25	16
2015–2017	215,679	77.89	17
	697,924	68.44	48

b) Movements in LTIP units

Table 26.2 – *Movements in LTIP share units*

For the years ended December 31,	2016 (in units)	2015 (in units)
Outstanding, beginning of year	**697,924**	726,455
Awarded	**182,170**	188,106
Net change in estimate of units outstanding	**62,802**	46,347
Units settled	**(240,650)**	(262,984)
Outstanding, end of year	**702,246**	697,924

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

c) LTIP expense recognized in Net income

The LTIP expense was $18 million for the years ended December 31, 2016 and 2015.

d) LTIP settlement in shares

Table 26.3 – *Settlement in shares*

As at December 31,	2016	2015
Value of common shares repurchased for share-based payments	**19**	17
Less: cumulative cost of the units for the Company	**13**	11
Excess of market price over the cumulative cost for the Company	**6**	6

The cumulative cost of the units that vested during the year and were settled through the plan administrator purchasing common shares on the market and remitting them to the participants was removed from Contributed surplus.

The difference between the market price of the shares and the cumulative cost for the Company of these vested units, net of income taxes, was recorded in Retained earnings on the Consolidated balance sheets.

26.2 Employee share purchase plan (ESPP)

a) Movements in restricted common shares

Table 26.4 – *Movements in restricted common shares*

	New plan	Old plan	
For the years ended December 31,	2016 (in units)	2016 (in units)	2015 (in units)
Outstanding, beginning of year	**-**	**157,953**	161,434
Awarded	**-**	**-**	146,236
Estimated shares to be awarded	**145,368**	**-**	-
Vested or forfeited	**-**	**(157,953)**	(149,717)
Outstanding, end of year	**145,368**	**-**	157,953

As at December 31, 2016, the Company estimated that 145,368 restricted common shares were to be awarded in accordance with the terms of the new employee share purchase plan effective January 1, 2016. ***Refer to Note 2.11b) for details.***

b) ESPP expense recognized in Net income

The ESPP expense was $14 million for the year ended December 31, 2016 (December 31, 2015 – $13 million). The ESPP expense for the year ended December 31, 2016 includes an amount of $6 million recognized upon the change to the new ESPP, representing the value of the unvested shares as at December 31, 2015 that vested on January 1, 2016.

26.3 Deferred share unit plan

The DSU provision amounted to $8 million as at December 31, 2016 (December 31, 2015 – $6 million). The DSU expense was $2 million for the year ended December 31, 2016 (December 31, 2015 – $1 million).

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

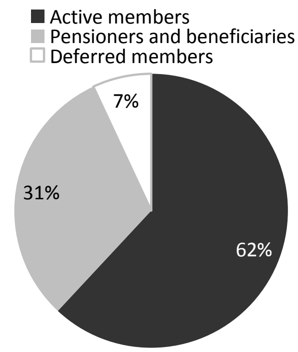
Note 27 – Employee future benefits

The Company has a number of funded and unfunded defined benefit pension plans that provide benefits to members in the form of a guaranteed level of pension payable for life based on final average earnings and contingent upon certain age and service requirements. The Company provides active employees a choice between a defined benefit and a defined contribution pension plan.

Subject to applicable pension legislation, plans are administered either by the Company or by a pension committee, with assets held in a pension fund that is legally separate from the Company. The assets cannot be used for any purpose other than payment of pension benefits and related administrative fees.

Provincial minimum funding regulations require special payments from the Company to amortize any shortfall of registered plans' assets relative to the cost of settling all accrued benefit entitlements through the purchase of annuities or payment of an equivalent lump sum value. Security in the form of letters of credit is permitted in lieu of those special payments, up to a limit of 15% of the above cost of settling accrued benefit entitlements.

Defined benefit pension obligation
(as at the date of the latest actuarial valuation)



Subject to applicable legal requirements, any balance of assets remaining after providing for the accrued benefits of the plan members may be returned to the Company upon termination of the plan. Pension legislation may require that the Company submit a proposal to the members and beneficiaries regarding the allocation of surplus assets. However, on an ongoing basis, a portion of such surplus may be recoverable by the Company through a reduction in future contributions or through payment of eligible administrative expenses.

The Company also offers employer-paid post-retirement life insurance and health care benefit plans to a limited number of active employees and retirees and are now closed to new entrants, as well as post-employment benefit plans that provide health and dental coverage to employees on disability for the duration of their leaves. These post-retirement and post-employment benefit plans are unfunded.

27.1 Funded status

Table 27.1 – *Funded status*

	Pension plans	
As at December 31,	**2016**	**2015**
Defined benefit obligation	**(2,014)**	(1,801)
Fair value of plan assets	**1,981**	1,812
Net defined benefit asset (liability)	**(33)**	11
Reported in:		
Other assets – plans in a surplus position	**62**	93
Other liabilities – unfunded plans	**(95)**	(82)
	(33)	11
Funded status – funded plans	**103%**	105%

The measurement date for the defined benefit ("DB") pension plans is December 31. The latest actuarial valuations for the DB pension plans were performed as at December 31, 2015.

The Company's liquidity risk with regards to pension plans is not significant, as inflows from contributions receivable generally outweigh outflows for benefit payments. A large portion of the investments are held in short-term notes and highly liquid federal and provincial government debt to protect against any unanticipated large cash requirements.

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

27.2 Defined benefit obligation

The defined benefit obligation is based on the current value of expected benefit payment cash flows to plan members over their expected lifetime.

Table 27.2 – *Movement in the defined benefit obligation*

	Pension plans	
As at December 31,	**2016**	**2015**
Balance, beginning of year	**1,801**	1,742
Current service cost	**63**	66
Interest expense on defined benefit obligation	**76**	72
Actuarial losses (gains) due to changes in:		
financial assumptions	**110**	(68)
plan experience	**8**	24
Employee contributions	**26**	25
Benefit payments	**(70)**	(60)
Balance, end of year	**2,014**	1,801

27.3 Fair value of plan assets

a) Movement in the fair value of plan assets

Table 27.3 – *Movement in the fair value of plan assets*

	Pension plans	
As at December 31,	**2016**	**2015**
Balance, beginning of year	**1,812**	1,728
Employer contributions	**61**	50
Employee contributions	**26**	25
Actual return on plan assets		
Interest income on plan assets (recognized in Net income)	**75**	70
Actuarial gains (recognized in OCI)	**82**	4
Benefit payments	**(70)**	(60)
Other	**(5)**	(5)
Balance, end of year	**1,981**	1,812

The Company makes contributions to the defined benefit pension plans to secure the benefits. The amount and timing of the Company's contributions are made in accordance with applicable pension and tax legislation following the advice of an actuary. Under the provisions of the pension plans, members may annually select between three different defined benefit levels and are required to make contributions to their respective plans based on the benefit level selected. The Company must fund the excess of the required funding over the members' contributions.

Based on the latest projections of the financial position of all its plans, total cash contributions by the Company are expected to be approximately $62 million in 2017 compared to actual contributions of $61 million in 2016. The contributions will vary depending on the results of the December 31, 2016 actuarial valuations, use of funding relief measures, if any, and decisions taken by the Company to use or not use letters of credit as permitted by legislation. The Company is also expected to meet the cost of eligible administrative expenses through the pension funds.

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

b) Composition of pension plan assets

Table 27.4 – *Composition of pension plan assets*

	2016		2015	
As at December 31,	**Fair value**	**% of total**	**Fair value**	**% of total**
Cash and short-term notes	**45**	**2%**	45	2%
Fixed income				
Investment grade				
Government	**823**	**42%**	756	42%
Corporate	**382**	**19%**	354	20%
Asset-backed	**8**	**-**	8	-
Debt securities	**1,213**	**61%**	1,118	62%
Common shares	**685**	**35%**	611	34%
Derivative financial instruments	**38**	**2%**	38	2%
	1,981	**100%**	1,812	100%

Plan assets are essentially all quoted in an active market.

27.4 Employee future benefit expense recognized in Net income

Table 27.5 – *Employee future benefit expense recognized in Net income*

	Pension plans	
For the years ended December 31,	**2016**	**2015**
Current service cost	**63**	66
Net interest expense		
Interest expense on defined benefit obligation	**76**	72
Interest income on plan assets	**(75)**	(70)
Other	**5**	5
	69	73

27.5 Actuarial losses (gains) recognized in OCI

Table 27.6 – *Actuarial losses (gains) recognized in OCI*

	Pension plans	
For the years ended December 31,	**2016**	**2015**
Balance, beginning of year	**55**	103
Actuarial losses (gains) on the defined benefit obligation due to changes in:		
discount rate	**106**	(32)
other financial assumptions[1]	**4**	(36)
plan experience	**8**	24
Actuarial losses (gains) related to actual return on plan assets	**(82)**	(4)
Actuarial losses (gains) recognized in OCI[2]	**36**	(48)
Balance, end of year	**91**	55

[1] Including rate of increase in future compensation and inflation.

[2] Net actuarial losses (gains) on employee future benefits recognized in OCI also include a gain of $1 million for other post-retirement benefits for the year ended December 31, 2016 (nil for the year ended December 31, 2015).

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

27.6 Assumptions used and sensitivity analysis

The following table summarizes the key weighted-average assumptions used in measuring the Company's pension plans.

Table 27.7 – *Assumptions used*

	Pension plans	
As at December 31,	**2016**	**2015**
To determine the benefit obligation at end of year		
Discount rate	**3.8%**	4.1%
Rate of increase in future compensation – next 3 years[1]	**2.75%**	2.75%
Rate of increase in future compensation – beyond 3 years[1]	**2.75%**	2.75%
Rate of inflation	**2.00%**	1.75%
Life expectancy for pensioners at the age of 65 – male	**21.6**	21.6
Life expectancy for pensioners at the age of 65 – female	**24.1**	24.0
To determine the benefit expense for the year		
Discount rate	**4.1%**	4.0%
Rate of increase in future compensation	**2.75%**	3.0%
Rate of inflation	**1.75%**	2.00%
Life expectancy for pensioners at the age of 65 – male	**21.6**	21.5
Life expectancy for pensioners at the age of 65 – female	**24.0**	24.0

[1] Excludes the impact of a merit and promotion table as at December 31, 2015.

Rate of compensation increase as at December 31, 2016 was based on financial plans approved by management for the next 3 years, and on inflation and long-term expectations of wage salary increase beyond 3 years.

Mortality rates as at December 31, 2016 and 2015 have been established in accordance with the final table and improvement scale published in February 2014 by the CIA.

The following table presents the sensitivity of the defined benefit pension obligation to key assumptions.

Table 27.8 – *Impact of changes in key assumptions*

	Pension plans	
As at December 31,	**2016**	**2015**
Discount rate		
1% increase	**(318)**	(292)
1% decrease	**419**	391
Rate of increase in future compensation		
1% increase	**79**	79
1% decrease	**(76)**	(75)
Rate of inflation		
1% increase	**71**	68
1% decrease	**(68)**	(65)
Life expectancy		
One-year increase	**50**	45

The effect on the defined benefit pension obligation at the end of the year has been calculated by changing one assumption for the sensitivity but without changing any other assumptions.

The impact of a one-year increase in life expectancy has been calculated by determining the adjustment to be made to the mortality rates of a pensioner aged 65 in order to increase the life expectancy by one year and then applying this adjustment to all mortality rates.

27.7 Risk management and investment strategy

Employee defined benefit provisions expose the Company to actuarial risks, such as longevity risk, interest rate risk, inflation risk and market investment risk. The ultimate cost of the defined benefit provisions to the Company will depend upon future events rather than on the assumptions made. In general, the risk to the Company is that the assumptions underlying the disclosures or the calculation of contribution requirements are not borne out in practice and the cost to the Company is higher than expected. This could result in higher contributions required from the Company and a higher deficit disclosed.

Assumptions which may vary significantly include:
- the actual return on plan assets;
- decrease in asset values not being matched by a similar decrease in the value of liabilities; and
- unanticipated future changes in mortality patterns leading to an increase in the defined benefit liabilities.

The defined benefit obligation and the service cost are sensitive to the assumptions made about salary growth levels and inflation, as well as the assumptions made about life expectancy. It is based on estimates of market yields of highly rated corporate bonds.

The Management Pension Committee is responsible for the oversight of the pension plans, including the review of the funding policy and investment performance. The Statement of Investment Policies and Procedures of the pension plan (the “SIP&P”) formulates investments principles, guidelines and monitoring procedures to meet the funds needs and objectives, in conformity with applicable rules. It also establishes principles and limits pertaining to debt and equity market risks. Any deviation from the SIP&P is reviewed by the Operational Investment Committee. The Risk Management Committee, which is a committee of the Company’s Board of Directors, is responsible for the approval of the SIP&P and the review of the pension plans investment performance.

The pension plans investment portfolio is managed by Intact Investment Management Inc., a subsidiary of the Company, in accordance with the SIP&P that focuses on asset diversification and asset-liability matching.

The Company regularly monitors compliance with the SIP&P.

Asset diversification

The goal of asset diversification is to limit the potential to have significant capital losses.

Debt securities in the pension plans are significantly exposed to changes in interest rates and movements in credit spreads. Investment policies seek a balanced target investment allocation between debt and equity securities, within credit concentration limit. The pension plans’ risk management strategy is to invest in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer by imposing limits based upon credit quality. The adopted SIP&P generally requires minimum credit ratings of ‘BBB’ for investments in debt securities and limits its concentration in any one investee or related group of investees to 5% of the cost of its total assets for debt securities (except for those that are issued or guaranteed by the Government of Canada or by a province of Canada having at least an ‘A’ rating). The Company has overall limits on credit exposure that include debt and equity securities, as well as off-balance sheet exposure.

Sensitivity analysis is one risk management technique that assists management in ensuring that equity risks assumed remain within the pension plans’ risk tolerance level. The Company’s pension plans have a significant concentration of their investments in Canada as well as in the Government sector. This risk concentration is closely monitored.

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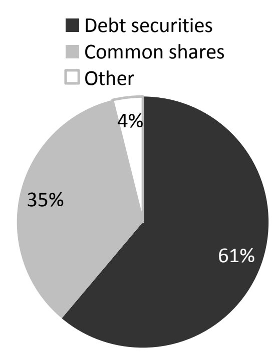
Pension plan asset mix
(as at December 31, 2016)



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

The Company also establishes asset allocation limits to ensure sufficient diversification.

Table 27.9 – *Pension plan assets by country of incorporation and industry*

As at December 31,	2016	2015
By country of incorporation		
Canada	**85%**	84%
U.S.	**7%**	8%
Other	**8%**	8%
	100%	100%
By industry		
Government	**45%**	46%
Banks, insurance and diversified financial services	**23%**	23%
Energy	**6%**	6%
Other	**26%**	25%
	100%	100%

Asset-liability matching

One objective established in the SIP&P is to maintain an appropriate balance between the interest rate exposure of the Company's invested assets and the duration of its contractual liabilities. The Company calculates a hedge ratio as the dollar-duration of the pension asset portfolio divided by the dollar-duration of the funded pension plans' obligation. A lower hedge ratio increases the Company's exposure to changes in interest rates. The hedge ratio was 74% as at December 31, 2016 (December 31, 2015 – 70%).

A portion of the pension plan liabilities contain an indexation provision linked to the consumer price index (CPI). The Company invests in inflation sensitive assets to partially mitigate the risk of an unanticipated increase in inflation. As at December 31, 2016 and 2015, 10% of pension plan assets were invested in Canada Government Real Return Bonds.

Note 28 – Related-party transactions

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

28.1 Transactions with associates and joint ventures

Table 28.1 – *Transactions with associates and joint ventures*

For the years ended December 31,	2016	2015
Income and expenses reported in:		
Net investment income	**8**	7
Underwriting expenses	**232**	197
Assets and liabilities reported in:		
Loans and other receivables	**203**	190
Commissions payable	**35**	29

28.2 Compensation of key management personnel

Key management personnel comprise all members of the Board of Directors and certain members of the Executive Committee. The compensation of key management personnel comprises salaries, share-based awards, annual incentive plans and pension value. Total compensation amounted to $17 million for the year ended December 31, 2016 (December 31, 2015 – $15 million).

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

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

28.3 Pension plans

Intact Investment Management Inc., a subsidiary of the Company, manages the investment portfolio of the pension plans' Master Trust in return for investment advisory fees charged to the pension plans, for a total of $6 million for the years ended December 31, 2016 and 2015. The Company made contributions to pension plans of $61 million for the year ended December 31, 2016 (December 31, 2015 – $50 million).

Note 29 – Business combinations

29.1 InnovAssur

On November 30, 2016, the Company acquired all of the remaining outstanding shares of InnovAssur, assurances générales inc. ("InnovAssur"), a joint venture previously held with National Bank of Canada, for a cash consideration of $30 million and a contingent consideration of $21 million. With this transaction, InnovAssur became a wholly owned subsidiary of the Company and a gain of $7 million was recognized following the revaluation of its original participation held in the joint venture.

The contingent consideration is payable over a 15-year period based on annual DPW of InnovAssur. Total consideration paid (net of cash acquired) amounted to $19 million for the year ended December 31, 2016.

The excess of the purchase price over the provisional fair value of assets acquired and liabilities assumed was preliminarily recorded to Goodwill for $63 million. The determination of the fair value of the identifiable assets and liabilities acquired is expected to be completed within the one-year permitted timeframe following the acquisition.

This agreement is in line with the Company's objective to grow its direct-to-consumer distribution.

29.2 CDI

On February 10, 2015, the Company announced that it had entered into a definitive agreement with Canadian Western Bank for the acquisition of all of the issued and outstanding shares of its subsidiary CDI. The acquisition enhances the Company's product offering, thereby extending its direct-to-consumer operations from coast to coast.

The acquisition closed on May 1, 2015 and CDI became a wholly owned subsidiary of the Company. The results of operations are included in the Consolidated financial statements from that date.

Table 29.1 – *Business combination – CDI*

As at December 31, 2016	
Purchase price – cash consideration paid (net of cash acquired of $2 million)	**187**
Fair value of assets acquired and liabilities assumed	
Investments	**158**
Premium receivables	**35**
Deferred tax assets	**6**
Other assets	**27**
Customer relationships (net of deferred tax liabilities $21 million)	**58**
Claims liabilities	**(90)**
Unearned premiums	**(71)**
Other liabilities	**(6)**
Total identifiable net assets	**117**
Goodwill	**70**

The fair value of the acquired customer relationships is based on a preliminary discounted cash flow analysis and will be amortized on a straight-line basis over 10 years. Goodwill reflects the strategic location of CDI activities, the workforce of the acquired business and the synergies expected following the integration of CDI. The goodwill is not expected to be deductible for tax purposes.

The determination of the fair value of identifiable assets and liabilities acquired was finalized with no significant changes since acquisition.

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

Note 30 – Additional information on the Consolidated statements of cash flows

Table 30.1 – *Additional details on the items included in net cash flows provided by (used in) operating activities*

For the years ended December 31,	2016	2015
Depreciation of property and equipment	**37**	34
Amortization of intangible assets	**73**	76
Net premiums on debt securities classified as AFS	**10**	13
Defined benefit pension expense	**69**	73
Share-based payments expense (equity-settled plans)	**32**	18
Share of profit from investments in associates and joint ventures	**(16)**	(26)
Other	**3**	(1)
Adjustments for non-cash items	**208**	187
Unearned premiums, net	**85**	209
Deferred acquisition costs, net	**(23)**	(44)
Premium receivables, net	**(98)**	(122)
Other operating assets	**(27)**	(36)
Other operating liabilities	**11**	16
Dividends received from investments in associates and joint ventures	**21**	15
Changes in other operating assets and liabilities	**(31)**	38
Other relevant cash flow disclosures		
Interest paid	**68**	64
Interest received	**269**	281
Dividends received	**204**	191

Note 31 – Commitments and contingencies

31.1 Operating lease commitments

The Company has entered into commercial operating leases on certain property and equipment. These leases have a remaining life ranging from one to 15 years with renewal options included in the contracts.

The following table presents the future minimum rental payments under non-cancellable operating leases.

Table 31.1 – *Operating lease commitments*

As at December 31,	2016
Less than 1 year	**157**
From 1 to 5 years	**392**
Over 5 years	**237**
	786

31.2 Contingencies

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

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

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

Note 32 – Disclosures on rate regulation for automobile insurance

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

Table 32.1 – *Rate filing categories*

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

The following table lists the provincial authorities which regulate automobile insurance rates. For the years ended December 31, 2016 and 2015, automobile DPW in these provinces totalled $4 billion, which represent approximately 98% as at December 31, 2016 of automobile DPW (December 31, 2015 – 99%).

Table 32.2 – *Regulatory authorities and rate filings for automobile insurance*

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

Relevant regulatory authorities may, in some circumstances, require retroactive rate adjustments, which could result in a regulatory asset or liability. As at December 31, 2016 and 2015, the Company had no significant regulatory asset or liability.

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

Note 33 – Standards issued but not yet effective

33.1 Financial instruments

IFRS 9 – *Financial instruments* ("IFRS 9") is a three-part standard that will replace IAS 39 – *Financial instruments: Recognition and measurement* ("IAS 39"). IFRS 9 will be effective for annual periods beginning on or after January 1, 2018. However, the effective date for the Company will depend on the option elected under IFRS 4 *(see Note 33.2)*. The Company is currently evaluating the impact that this standard will have on its Consolidated financial statements.

a) Classification and measurement

The classification of financial instruments is dependent on the business model and the cash flows characteristics.

Table 33.1 – *Classification of financial instruments*

Amortized cost	FVTOCI	FVTPL
Default classification when the objective of the business model is uniquely to receive contractual cash flows of principal and interest.	Default classification when the objective of the business model is equally to receive contractual cash flows of principal and interest and realize cash flows from the sale.	Default classification for all other financial assets, or election to measure them as FVTPL instead of amortized cost or FVTOCI.

An entity can also elect on initial recognition to present fair value changes on an equity investment that is not held for trading directly and permanently in OCI, thus gains or losses are not recognized in income when the investment is disposed of.

b) Hedge accounting

The new model more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures (under IAS 39, hedging non-financial components is not permitted). It will enable more entities to:

- apply hedge accounting to reflect their actual risk management activities; and
- use information produced internally for risk management purposes as a basis for hedge accounting, compared to IAS 39 which imposes eligibility and compliance based on metrics that are designed solely for accounting purposes.

c) Expected credit loss

This new impairment model applies only to financial assets classified as amortized cost and debt securities classified as FVTOCI. Under the expected credit loss model, a loss allowance will be established for all financial assets impaired based on a 12-month expected credit losses or a life-time expected credit losses if the credit risk increases significantly.

33.2 Insurance contracts

In September 2016, the IASB issued amendments to IFRS 4 *Insurance Contracts* ("IFRS 4"), to address concerns of insurers about the different effective dates for IFRS 9 and the upcoming new Standard on insurance contracts. The amendments allow insurance entities to elect one of two option approach:

- The deferral approach provides entities whose predominant activities are to issue contracts within the scope of IFRS 4, a temporary exemption to continue using IAS 39, instead of IFRS 9 until January 1, 2021 (the "deferral approach").
- The overlay approach can be applied to eligible financial assets and provides an option for all issuers of insurance contracts to reclassify from profit or loss to OCI any additional accounting volatility that may arise from applying IFRS 9 before the new insurance contracts standard.

This amendment will be effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of these amendments.

33.3 Revenues from contracts with customers

In May 2014, the IASB issued IFRS 15 – *Revenue from Contracts with Customers* ("IFRS 15"). The standard supersedes IAS 18 – *Revenue*, IAS 11 – *Construction Contracts*, and a number of revenue-related interpretations. This new standard specifies how and when to recognize revenue and additional relevant disclosure requirements. IFRS 15 applies to nearly all contracts with customers, except for insurance contracts, financial instruments and leases.

IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company does not expect significant impacts upon adoption of this standard.

33.4 Leases

In January 2016, the IASB issued IFRS 16 – *Leases* ("IFRS 16"). IFRS 16 will replace IAS 17 – *Leases* and IFRIC 4 – *Determining Whether an Arrangement Contains a Lease*. It requires lessees to recognize most leases on their Balance sheets as lease liabilities, with the corresponding right-of-use assets. Lessees will have the option not to recognise leases with duration of less than one year and those of low-value assets. Generally, the recognition pattern for recognized leases will be similar to today's finance lease accounting, with interest and depreciation expense recognized separately in the Consolidated statements of comprehensive income.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early application permitted. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Company does not anticipate early adoption of IFRS 16 and is currently evaluating its impact.

33.5 Share-based payments

In June 2016, the IASB issued amendments to IFRS 2 – *Share-based Payment* ("IFRS 2"), which provide additional guidance on the classification and measurement of share-based payment transactions. The amendments clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features for withholding tax obligations, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

The amendments to IFRS 2 are effective for annual periods beginning on or after January 1, 2018, with early application permitted. It should be applied prospectively; however, retrospective application is permitted in certain instances. The Company is currently assessing the impact of these amendments.