

Intact Financial Corporation Reports Second Quarter Results

- **Sound underwriting performance**
- **Direct written premiums increased 2.8% with industry conditions pointing to firmer pricing environment**
- **Strong financial position, increase in excess capital to \$466 million, no debt**

Intact Financial Corporation (TSX: IFC) today reported net operating income for the quarter ended June 30, 2009 of \$92.9 million, or \$0.77 per share, down 13.5% on a per share basis from the same quarter of last year as the strength of its underwriting performance was offset by lower investment income. Direct written premiums climbed 2.8% to \$1,250.6 million while the combined ratio remained relatively unchanged at 95.7%.

Net income for the quarter was \$74.2 million, or \$0.62 per share, down from \$112.0 million, or \$0.91 per share, for the same period last year. The decline reflects a non-cash \$36.6 million loss on embedded derivatives that was recognized as the result of a significant increase in the value of the company's perpetual preferred shares portfolio.

CEO's Comments

"Our operating performance remained sound this quarter as a result of a decrease in the number of severe storms and the positive impact of our home insurance plan. Auto insurance also performed well. Overall, our underwriting income increased by more than 15% in the first six months of the year as improved personal insurance results were partly offset by lower commercial underwriting income," said Charles Brindamour, President & CEO.

"The growth of our direct written premiums is beginning to show positive momentum as industry conditions are pointing to a firmer pricing environment in all lines of business over the next 12 months."

"Our excess capital position, which reached nearly \$470 million, continued to improve during the quarter. The recent rebound in equity markets also led to a substantial improvement in the value of our investment portfolio," said Mr. Brindamour.

Dividend

The Board of Directors of Intact Financial Corporation declared a quarterly dividend of 32 cents per share on its outstanding common shares. The dividend will be payable on September 30, 2009 to shareholders of record on September 14, 2009.

Current Outlook

Home and auto insurance premiums are increasing across the industry as a result of cost pressures in auto insurance in Ontario as well as water-related damages in home insurance. In business insurance, current market indications suggest that the pricing environment will begin to firm up over the next 12 months.

Consolidated Highlights

In millions of dollars, except as otherwise noted	Q2-2009	Q2-2008	Change	YTD 2009	YTD 2008	Change
Direct premiums written	1,250.6	1,216.7	2.8%	2,119.4	2,077.0	2.0%
Underwriting income ¹	43.2	43.4	(0.5)%	51.1	44.2	15.6%
Net operating income ²	92.9	109.5	(15.2)%	161.9	179.6	(9.9)%
Net income	74.2	112.0	(33.8)%	37.9	135.0	(71.9)%
Net operating income per share (dollars)	0.77	0.89	(13.5)%	1.35	1.45	(6.9)%
Earnings per share (EPS)						
Basic and diluted (dollars)	0.62	0.91	(31.9)%	0.32	1.09	(70.6)%
Return on equity (ROE) for the last 12 months	1.1%	10.3%	(9.2) pts			
Combined ratio	95.7%	95.6%	0.1 pts	97.4%	97.8%	(0.4) pts

1 Underwriting income is defined as underwriting income excluding market yield adjustment (MYA).

2 Net operating income is defined as the sum of underwriting income, interest and dividend income and corporate income after

tax.

Operating Highlights

- **Net operating income** for the quarter amounted to \$92.9 million and decreased 13.5% on a per share basis. Net operating income for the first six months was \$161.9 million, down 6.9% on a per share basis. The healthy underwriting performance during the quarter and the last six months was offset by lower dividend and interest income, reflecting the shift to a more conservative asset mix.
- **Direct premiums written** increased 2.8% in the second quarter to \$1,250.6 million, the largest quarterly increase in nearly two years, as premiums continued to move upwards in personal insurance. For the first six months, direct premiums written increased 2.0% to \$2,119.4 million.
- **Underwriting income** was healthy in the second quarter, reaching \$43.2 million with a combined ratio of 95.7%, relatively unchanged from the second quarter in 2008.

The home insurance business improved by \$27.5 million during the quarter as the underwriting loss decreased to \$18.2 million with a combined ratio of 107.9%. The 13 percentage point improvement in the combined ratio is due to the decrease in severe storms and the positive impact of the action plan launched last year. The industry continues to be susceptible to volatility in personal property due to unpredictable weather conditions as evidenced by recent events across the country, including rain, hail and forest fires.

Personal auto insurance performance continued to be solid with a combined ratio of 89.6% at \$53.6 million, down \$1.5 million from the same quarter of last year.

The performance of the commercial insurance portfolio deteriorated with a combined ratio of 97.0%. Commercial auto business underwriting income was up \$10.0 million to \$20.4 million, and continued to deliver strong performance with a solid combined ratio of 73.9%. This was offset by significantly lower underwriting results in commercial non-auto due to unfavourable prior year claims development and higher claims severity, leading to a combined ratio of 106.7%.

Overall in the first half of the year, underwriting income increased 15.6% to \$51.1 million. The improvement was driven by an overall reduction in claims resulting from severe weather conditions and more favourable prior year claims development in personal lines, partly offset by lower underwriting income in commercial lines in the second quarter.

- **Interest and dividend income, net of expenses**, declined in the second quarter by \$9.1 million over the same period last year to \$72.6 million and by \$22.1 million year to date to \$145.1 million. The market yield of the investment portfolio remains robust at 4.4%, down 0.5 percentage points from the end of the second quarter of 2008.

Investments

The significant improvement in capital markets substantially increased the overall market value of the company's invested assets. As the preferred share portfolio increased in value by \$218.6 million, the company recognized a non-cash \$36.6 million loss on the embedded derivatives of its perpetual preferred shares. Overall, the losses on investments during the quarter were \$35.1 million up 22.3% from the same quarter of last year.

Capital and Cash Management

The company's financial position remains strong at the end of the second quarter, with \$466.0 million in excess capital, no debt and a minimum capital test of 211.1%, 2.9 percentage points higher than at the end of the first quarter of 2009.

Analyst Estimates

The average estimate of earnings per share and net operating income per share for the second quarter among the analysts who follow the company were \$0.81 and \$0.88 respectively.

Conference Call

Intact Financial Corporation will host a conference call to review its earnings results later this morning at 10:00 a.m. ET. To listen to the call via live audio webcast and to view the presentation slides, the statistical supplement and other information not included in this press release, visit our website at www.intactfc.com and link to "Investor Relations."

The conference call is also available by dialling (416) 644-3414 or +1 (800) 733-7571 (toll-free in North America). Please call in ten minutes prior to the start.

A replay of the call will be available at 12:00 p.m. ET today through 11:59 p.m. ET on Wednesday, August 19th. To listen to the replay, call (416) 640-1917 or +1 (877) 289-8525 (toll-free in North America). The pass code is 21310224#. A transcript of the call will also be available on the website.

About Intact Financial Corporation

Intact Financial Corporation is the largest provider of property and casualty insurance in the country with over \$4 billion in premiums. Its 7,000 employees offer home, auto and business insurance under the Intact Insurance, Novex Group Insurance, belairdirect and Grey Power brands.

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