

Intact Financial Corporation reports second quarter results

- **Premium growth of 46%, reflecting the strong contribution of the AXA Canada portfolio**
- **Net operating income per share of \$1.35, up 55%, leading to an operating ROE of 17.3%**
- **Combined ratio of 92.3%, as strong broad-based results were partially offset by elevated catastrophe losses**
- **Book value per share increased 13% from a year ago**
- **AXA Canada integration on track**

TORONTO, Aug. 1, 2012 /CNW/ - Intact Financial Corporation (TSX: IFC) today reported net operating income for the quarter ended June 30, 2012 of \$180 million, up \$85 million compared to the corresponding quarter of last year. On a per share basis, net operating income increased 55% to \$1.35. The increase was driven by improved underwriting performance and higher investment income. Net income was \$133 million compared to \$123 million for the same period last year and adjusted earnings per share, which excludes integration-related costs, was \$1.11 compared to \$1.14. The decline in adjusted earnings per share was primarily due to the impact of equity impairments related to stock market weakness. The combined ratio improved by 4.7 percentage points to 92.3% compared to the equivalent quarter last year. Direct premiums written increased 46% to reach \$2.0 billion, reflecting the addition of AXA Canada and organic growth.

Net operating income for the first six months was \$359 million, up \$162 million from the previous year. On a per share basis, net operating income increased 51% to \$2.69. Net income was \$310 million compared to \$280 million for the first half of 2011 and adjusted earnings per share was \$2.70 compared to \$2.58. The combined ratio improved by 3.5 percentage points to 92.3%. Direct premiums written for the first six months of the year increased 47% versus 2011 to reach \$3.4 billion. The book value per share increased by 13% from a year ago to \$30.30.

CEO's Comments

"The strength of our operating performance continued in the quarter despite the high cost of helping our customers recover from a severe storm system that hit a number of communities in late spring," said Charles Brindamour, Chief Executive Officer of Intact Financial Corporation.

"The initiatives we undertook over the last year notably in home and auto insurance continue to deliver substantially-improved operating results which reduced the financial impact of declining interest rates and the volatility of the equity markets."

"The contribution of the AXA Canada portfolio continues to enhance both our growth profile and our operating performance as customers and brokers embrace our expanded offering."

Dividend

The Board of Directors declared a quarterly dividend of 40 cents per share on its outstanding common shares. The Board also declared a quarterly dividend of 26.25 cents per share on the Company's Class A Series 1 and Class A Series 3 preferred shares. Both dividends are payable on September 28, 2012 to shareholders of record on September 14, 2012.

Current Outlook

Industry premiums are likely to increase in the next 12 months at a mid single digit rate. It is expected that growth in personal auto will be in the mid single digit range and growth in personal property is expected to be in the upper single digits. Commercial line premiums are expected to grow at a low single digit rate. The low interest rate environment and reinsurance market conditions should support firmer industry premium levels.

At an industry level, while the combined ratio might improve as a result of the better pricing environment and Ontario auto reforms, the improvement will be dampened by the impact of low interest rates on investment income. The company expects the industry's 2012 ROE to improve to the upper single digit range, benefitting from the mild winter conditions experienced in the first quarter of the year.

The company is well-positioned to continue outperforming the P&C insurance industry in the current environment due to its pricing and underwriting discipline, claims management capabilities, prudent investment and capital management practices and solid financial position. Given these attributes, the company strongly believes that it will outperform the industry's ROE by more than 500 basis points in the next 12 months.

Consolidated Highlights

In millions of dollars, except as otherwise noted	Q2-2012	Q2-2011	Change	YTD 2012	YTD 2011	Change
Direct premiums written (excluding pools)	1,977	1,354	46%	3,380	2,297	47%
Underwriting income ¹	123	33	273%	246	91	170%
Net operating income	180	95	89%	359	197	82%
Net income	133	123	8%	310	280	11%
Earnings per share						
Basic and diluted (dollars)	0.98	1.12	(13)%	2.31	2.54	(9)%
Adjusted earnings per share						
Basic and diluted (dollars)	1.11	1.14	(3)%	2.70	2.58	5%
Net operating income per share (dollars)	1.35	0.87	55%	2.69	1.78	51%
ROE for the last 12 months ²	12.9%	17.3%	(4.4) pts			
Adjusted ROE for the last 12 months ²	17.1%	17.6%	(0.5) pts			
Operating ROE for the last 12 months ²	17.3%	13.6%	3.7 pts			
Combined ratio (excluding MYA)	92.3%	97.0%	(4.7) pts	92.3%	95.8%	(3.5) pts
Book value per share (dollars)	30.30	26.89	13%			

¹ Underwriting income is defined as underwriting income excluding market yield adjustment (MYA). The MYA is the impact on claims liabilities due to movement in discount rates.

² For ROE, Adjusted ROE and Operating ROE in Q1-2012 and Q2-2012, the average shareholders' equity calculation was adjusted on a pro rata basis to account for the \$921 million of common shares issued as at September 23, 2011.

Operating Highlights

- **Net operating income** for the quarter was \$180 million, up \$85 million from the same quarter in 2011. The 89% increase is attributable to the growth of our insurance portfolio, improved underwriting results and higher investment income. The operating ROE for the last twelve months improved by 3.7 percentage points to 17.3%.

Net operating income for the first six months of the year was \$359 million up 82% from the \$197 million recorded in 2011.

- **Direct premiums written** increased 46% in the second quarter to \$2.0 billion, as a result of the acquisition of AXA Canada and the company's organic growth initiatives. Direct premiums written in personal insurance increased 37% from a year ago, while premium growth in commercial insurance was up 71% over the same period.

For the first two quarters of the year, total direct premiums written increased by 47% to \$3.4 billion.

- **Underwriting income** in the quarter increased by \$90 million to \$123 million compared to the same period a year ago due to the addition of AXA Canada and a reduction in catastrophe losses from \$105 million to \$62 million. The combined ratio improved 4.7 percentage points to 92.3% from a year ago despite the elevated level of losses attributable to weather-related damages. The underlying performance of our portfolio, which excludes catastrophes and prior year claims development, was unchanged year-over-year.

Personal property incurred a loss of \$16 million, a \$58 million improvement from the corresponding period last year. The 104.5% combined ratio reflects elevated catastrophe losses resulting from a severe storm system that impacted Thunder Bay and Montreal in late May. The combined ratio improved 25 percentage points from the second quarter of 2011.

Personal auto underwriting income improved to \$82 million from \$79 million recorded in the second quarter of 2011. Despite a 3.3 percentage point increase, the combined ratio remained excellent at 89.0%.

Commercial auto underwriting income results improved to \$26 million from the \$21 million recorded in the second quarter

of 2011. The exceptional combined ratio of 79.6% increased 4.2 percentage points from last year as higher favourable prior year claims development did not fully offset a decline in current year results.

Commercial P&C underwriting income reached \$31 million from \$7 million recorded in the second quarter of 2011. The combined ratio in commercial P&C insurance improved 4.9 percentage points to 91.3% reflecting lower catastrophe losses and higher favourable prior year development, partially offset by less-favourable current year results due in part to an increase in the severity of claims.

For the first six months of the year, total underwriting income was up \$155 million to \$246 million. The substantial growth was driven by the addition of AXA Canada and an improvement in the current year loss ratio.

- **Net investment income** of \$95 million was up 25% from a year ago as a result of an increase in assets. The market-based yield declined 50 basis points to 3.7% due to the low yield environment.

For the first six months of the year, total net investment income was up 31% to \$195 million from the previous period and the market-based yield was 3.7%.

Investment Gains

Net investment losses, excluding fair-value-through-profit-or-loss bonds, were \$27 million in the second quarter compared to a gain of \$44 million a year ago, largely related to equity impairments from share price weakness in the energy sector. Since the beginning of the year, the company has had investment gains of \$27 million compared to \$128 million for the same period last year. Cash and invested assets amounted to \$11.7 billion at the end of the quarter, up \$3.1 billion from one year ago.

Capital Management

The company's financial position at the end of the quarter remained solid with a minimum capital test of 205% and \$649 million in excess capital. The company's book value per share was \$30.30 at the end of the quarter, 13% higher compared to 12 months ago.

AXA Canada Integration

The integration of AXA Canada is on track and it is anticipated to be completed by mid-2013. The company remains confident that it will progressively reach its \$100 million in after-tax synergies in the second half of 2013 with a target of \$50 million by the end of 2012. The acquisition is expected to be accretive to net operating income per share in 2012 and to provide up to 15% accretion in the mid-term.

Integration expenses amounted to \$71 million in 2011 and \$43 million in the first half of 2012. The company expects a similar expense level for the second half of 2012 to what was reported in the first half of the year.

The company expects that once the integration is complete the premium retention level from the acquired book of business will be in line with its experience to date. The company's strong growth reflects its improved value proposition, a broader product suite and risk appetite as well as a continued focus on small and medium-sized businesses.

JEVCO Insurance Company Acquisition

On May 2, 2012 the company entered into a definitive agreement with The Westaim Corporation to acquire its wholly-owned subsidiary, JEVCO Insurance Company, for \$530 million. The transaction is expected to close during the fall of 2012, once all regulatory approvals are received.

Analysts' Estimates

The average estimate of earnings per share and net operating income per share for the quarter among the analysts who follow the company was \$1.45 and \$1.39 respectively.

Conference Call

Intact Financial Corporation will host a conference call to review its earnings results later today at 1:00 a.m. ET. To listen to the call via live audio webcast and to view the company's Financial Statements, Management's Discussion & Analysis, 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." All of these documents are available on our website.

The conference call is also available by dialling (647) 427-7450 or 1 (888) 231-8191 (toll-free in North America). Please call 10 minutes before the start of the call.

A replay of the call will be available later today at 2:00 p.m. ET through 11:59 p.m. ET on Wednesday, August 8. To listen to the

replay, call 1 (855) 859-2056, passcode 95492189. A transcript of the call will also be available on Intact Financial Corporation's website.

About Intact Financial Corporation

Intact Financial Corporation (www.intactfc.com) is the largest provider of property and casualty insurance in Canada. Intact offers home, auto and business insurance through Intact Insurance, belairdirect, Grey Power and BrokerLink.

Forward Looking Statements

This document may contain forward looking statements that involve risks and uncertainties. The company's actual results could differ materially from these forward looking statements as a result of various factors, including those discussed in the company's most recently filed Annual Information Form and annual Management's Discussion & Analysis. Please read the cautionary note at the end of the MD&A.

<https://newsroom.intactfc.com/2012-08-01-Intact-Financial-Corporation-reports-second-quarter-results>