

Intact Financial Corporation Reports Second Quarter Results

- **Net operating income per share of \$0.89, despite a \$0.79 per share impact related to the Alberta storms and flooding**
- **Combined ratio of 97.5% with solid underlying results in our auto businesses**
- **Premium growth of 10%, bolstered by the addition of Jevco's product suite and solid organic growth**
- **Book value per share increased 9% from a year ago**
- **Integration of acquisitions remains on track; our estimate of Jevco synergies increased by 50%**

TORONTO, July 31, 2013 /CNW/ - Intact Financial Corporation (TSX: IFC) today reported net operating income for the quarter ended June 30, 2013 of \$123 million, down \$57 million compared to the corresponding quarter of last year. On a per share basis, net operating income decreased by \$0.46 to \$0.89. The decrease reflects a pre-tax loss of \$143 million net of reinsurance (an after-tax loss of \$105 million or \$0.79 per share) incurred as a result of the storms and flooding in Alberta. Net income was \$103 million compared to \$129 million for the same period last year and adjusted earnings per share, which excludes integration-related costs, was \$0.81 compared to \$1.08. Solid underlying results in auto were outweighed by higher catastrophe losses and less favourable current year results for an overall combined ratio of 97.5%. The change in current year results was largely due to increased claims severity in the commercial P&C and personal auto lines of business. Direct premiums written increased 10% to \$2.2 billion, reflecting the addition of Jevco and solid organic growth.

Net operating income for the first six months of the year was \$298 million versus \$359 million in the previous year. On a per share basis, net operating income decreased 20% to \$2.16. Net income was \$277 million compared to \$302 million for the first half of 2012 and adjusted earnings per share was \$2.17 compared to \$2.63. The combined ratio increased by 4 percentage points to 96.3%. Direct premiums written for the first half of the year increased 10% versus 2012 to reach \$3.7 billion. The book value per share was up 9% from a year ago to \$33.15.

CEO's Comments

"Our operating performance remained sound this quarter, despite providing approximately \$300 million to help our customers in Alberta recover from one of the worst catastrophes in Canadian history," said Charles Brindamour, Chief Executive Officer of Intact Financial Corporation.

"The strength of our financial performance demonstrates our resilience to the Alberta events as we benefited from our reinsurance program, which meaningfully reduced our exposure."

"The devastating events of recent weeks serve as a stark reminder that weather events are becoming more extreme and frequent. An open and transparent dialogue will need to occur between governments, the industry and other stakeholders to ensure that the home insurance product is adapted to today's climate reality and remains available and affordable for consumers."

"In the quarter, customers and brokers continued to embrace our product and service offering as we continued to record impressive growth in terms of direct written premiums and written insured risks."

Dividend

The Board of Directors declared a quarterly dividend of 44 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. The dividends are payable on September 30, 2013 to shareholders of record on September 16, 2013.

Current Outlook

The company expects that industry premium growth is likely to evolve at a similar pace to that of the last 12 months. At an industry level, we do not expect further loss ratio improvement in personal auto as the 2010 Ontario reforms have already largely brought about the expected cost savings. While government initiatives in Ontario auto may reduce premium growth, we expect premium reductions to be commensurate with additional cost reduction measures and, as such, we do not foresee material margin deterioration. We expect the current hard market conditions in personal property to accelerate meaningfully as the active summer catastrophe season negatively impacts industry results. In commercial lines, the company believes that the elevated level of catastrophes in recent months will negatively impact the loss ratio and could translate into firmer market conditions over time. Overall, the industry's combined ratio is expected to deteriorate and its ROE is not likely to reach its long term average of 10% in the next 12 months.

IFC is well-positioned to continue outperforming the P&C insurance industry 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 believes that it will outperform the industry's ROE by at least 500 basis points in the next 12 months.

Consolidated Highlights

In millions of dollars, except as otherwise noted	Q2-2013	Q2-2012	Change	YTD 2013	YTD 2012	Change
Direct premiums written (excluding pools)	2,182	1,977	10%	3,706	3,380	10%
Underwriting income ¹	42	123	(66)%	125	246	(49)%
Net operating income	123	180	(32)%	298	359	(17)%
Net income	103	129	(20)%	277	302	(8)%
Earnings per share						
Basic and diluted (dollars)	0.73	0.95	(23)%	2.00	2.25	(11)%
Adjusted earnings per share						
Basic and diluted (dollars)	0.81	1.08	(25)%	2.17	2.63	(18)%
Net operating income per share (dollars)	0.89	1.35	(34)%	2.16	2.69	(20)%
ROE for the last 12 months ²	12.4%	12.7%	(0.3) pts			
Adjusted ROE for the last 12 months ²	14.3%	17.0%	(2.7) pts			
Operating ROE for the last 12 months ²	14.4%	17.3%	(2.9) pts			
Combined ratio (excluding MYA)	97.5%	92.3%	5.2 pts	96.3%	92.3%	4.0 pts
Book value per share (dollars)	33.15	30.30	9%			

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 2013, the average equity calculation has been adjusted on a pro rata basis to account for the \$229 million of common shares issued as at September 4, 2012. The 2012 calculation was adjusted for the \$921 million of common shares issued as at September 23, 2011.

Operating Highlights

- **Net operating income** for the quarter was \$123 million, down \$57 million from the same quarter in 2012 due to lower underwriting income primarily resulting from the elevated losses in Alberta, which amounted to a pre-tax loss of \$143 million net of reinsurance (a loss of \$105 million after tax). The operating ROE for the last twelve months was 14.4%.

Net operating income for the first six months of the year was \$298 million, down from the \$359 million recorded during the same period in 2012. The decrease is attributed mainly to the catastrophe losses experienced in the second quarter of 2013.

- **Direct premiums written** increased 10% in the second quarter to \$2.2 billion, driven by strong personal and commercial auto results, reflecting the addition of Jevco and solid organic growth. Direct written premiums in personal insurance increased by 11% from a year ago, while commercial insurance premiums were up by 8% during the same period.

For the first two quarters of the year, total direct premiums written also increased by 10% to reach \$3.7 billion.

- **Underwriting income** in the quarter decreased from \$123 million to \$42 million compared to the same period a year ago. The Alberta storms and flooding accounted for a pre-tax loss of \$143 million net of reinsurance, which impacted all lines of business. The underlying performance of our portfolio, which excludes catastrophes and prior year claims development, was higher by 1.6 points year-over-year in part due to higher claims severity in our personal auto and commercial P&C businesses.

Personal property incurred an underwriting loss of \$49 million. The 113.3% combined ratio increased 8.8 percentage points from last year and primarily resulted from the severe flooding that impacted southern Alberta communities in June. The extended winter season also contributed to the higher combined ratio.

Personal auto underwriting income increased to \$106 million from the \$82 million recorded in the second quarter of 2012. The combined ratio improved 1.8 percentage points from last year to 87.2% as higher favourable prior year claims

development and a reduction in the expense ratio were partly offset by an increase in catastrophe losses following the devastating Alberta weather event.

Commercial auto underwriting income of \$16 million was down from the \$26 million recorded in the second quarter of 2012. The combined ratio of 89.6% increased 10 percentage points from last year's exceptional performance, primarily due to unfavourable prior year claims development and an increase in catastrophe losses.

Commercial P&C recorded an underwriting loss of \$31 million. The combined ratio was up 16.9 percentage points to 108.2% mainly as a result of higher catastrophe losses and lower favourable prior year development. Excluding the impact of catastrophes and prior year claims development, the loss ratio increased 2.1 points year-over-year partly due to higher claims severity reflecting an elevated level of large losses.

For the first six months of the year, total underwriting income was \$125 million, down from \$246 million in the corresponding period of 2012. The decrease reflects the impact of the Alberta catastrophe losses in the second quarter of 2013 and more seasonal weather conditions in the first quarter of 2013.

- **Net investment income** of \$102 million was up 7% from a year ago. The change was due to additional investments from the Jevco acquisition resulting in more dividend-paying common shares. Unrealized losses from higher bond yields and weak equity markets decreased investment values but positively impacted the market-based yield, which increased 10 basis points to 3.8%.

For the first six months of the year, total net investment income increased 2% to \$198 million from the previous period and the market-based yield was 3.6%.

Investment Gains

Net investment gains, excluding fair-value-through-profit-and-loss bonds, were \$7 million in the second quarter compared to a loss of \$27 million a year ago. Since the beginning of the year, the company has recorded investment gains of \$41 million compared to \$27 million for the same period last year. Total investments amounted to \$12.3 billion at the end of the quarter, up \$0.6 billion from one year ago.

Capital Management

The company's financial position remained solid at the end of the quarter with a minimum capital test of 197% and \$486 million in excess capital. The company's book value per share was \$33.15 at the end of the quarter, 9% higher compared to a year ago.

During the quarter, the company acquired 1.4 million common shares under its normal course issuer bid, launched in May 2013, at an average price of \$59.40 per share for a total consideration of \$81 million.

AXA Canada and Jevco integration update

The integration of AXA Canada continues to progress very well. The company maintains its \$100 million in after-tax synergies target which it expects to achieve once the integration of policies are complete and the AXA system is decommissioned in the first part of 2014. At the end of the second quarter, an estimated run-rate of \$87 million in annual synergies had been achieved.

With respect to the Jevco integration, the company expects to progressively reach initial annual expense synergies of \$15 million after-tax by the end of 2013, a year earlier than anticipated, with \$23 million in after-tax synergies targeted for the end of 2014.

Subsequent events

On July 22, we announced that the Lac-Mégantic train derailment, the July 8 Greater Toronto Area rain storm and early July hail storms in Alberta will negatively impact our results in Q3-2013 by approximately \$134 million after tax or \$1.01 per share, net of reinsurance.

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 \$0.76 and \$0.71 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 Tuesday, August 6. To listen to the replay, call 1 (855) 859-2056, passcode 11292411.

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, BrokerLink and Jevco.

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.

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