

Intact Financial Corporation reports first quarter results

- **Net operating income per share of \$0.94, down 8% excluding a non-recurring favourable tax item in Q1-2013**
- **Combined ratio of 97.1% as the harsh winter conditions resulted in 4.3 points of catastrophe losses and higher claims frequency**
- **Book value per share increased 3% during the quarter**

TORONTO, May 7, 2014 /CNW/ - Intact Financial Corporation (TSX: IFC) today reported net operating income for the quarter ended March 31, 2014 of \$129 million, down \$46 million compared to the corresponding quarter of last year. On a per share basis, net operating income decreased 8% to \$0.94 after adjusting for a non-recurring favourable tax item of \$0.25 recorded in the first quarter of last year. The decrease reflects the impact of harsh winter weather conditions, which led to a combined ratio of 97.1%, up 2 percentage points from the same quarter last year. Net income amounted to \$160 million compared to \$174 million for the same period last year. Adjusted earnings per share of \$1.23 compared to \$1.36 in the first quarter of 2013. Direct premiums written remained largely unchanged at \$1.5 billion.

CEO's Comments

"Our financial performance during the quarter was significantly impacted by severe weather conditions," said Charles Brindamour, Chief Executive Officer of Intact Financial Corporation. "Our home insurance portfolio performed very well despite significant property damages incurred as a result of extreme cold temperatures and rapid thaw events. The performance of our auto insurance portfolio remained healthy despite the increased number of automobile accidents due to icy driving conditions. However, commercial insurance results were disappointing and we continue our efforts to improve the performance of this business."

Dividend

The Board of Directors declared a quarterly dividend of 48 cents per share on the Company's 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 June 30, 2014 to shareholders of record on June 16, 2014.

12-Month Industry Outlook

The Company expects that industry premiums will grow at a low single digit rate. In personal property, the current hard market conditions should accelerate meaningfully as the magnitude of 2013 catastrophe losses negatively impacted industry results. The Company expects that future reductions in Ontario auto premiums will be commensurate with governmental cost reduction measures. In commercial lines, continued low interest rates and the impact on commercial lines loss ratios from the recent elevated catastrophe losses could translate into firmer conditions over time. The level of catastrophe losses is likely to diminish in 2014 from the record levels of the past year. This should lead to improvements in the industry's combined ratio in 2014. Overall, the industry's ROE is expected to trend back toward its long-term average of 10% in 2014.

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 over the next 12 months.

Consolidated Highlights

In millions of dollars, except as otherwise noted	Q1-2014	Q1-2013	Change
Direct premiums written (excluding pools)	1,503	1,524	(1)%
Underwriting income ²	51	83	(39)%
Net operating income ¹	129	175	(26)%
Net income	160	174	(8)%
Earnings per share			
Basic and diluted (dollars)	1.17	1.27	(8)%
Adjusted earnings per share			
Basic and diluted (dollars) ¹	1.23	1.36	(10)%

Net operating income per share (dollars) ¹	0.94	1.27	(26)%
ROE for the last 12 months	8.7%	12.9%	(4.2) pts
Adjusted ROE for the last 12 months ¹	9.6%	14.9%	(5.3) pts
Operating ROE for the last 12 months ¹	9.9%	16.0%	(6.1) pts
Combined ratio ²	97.1%	95.1%	2.0 pts
Book value per share (dollars)	34.80	34.15	2%

¹This is a non-IFRS financial measure, which does not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures used by other companies in our industry. Please refer to Section 5 - *Non-IFRS financial measures* in the Management's Discussion and Analysis for further details.

² Excludes market yield adjustment (MYA) which is the impact on claims liabilities due to movements in discount rates.

Operating Highlights

- **Net operating income** for the quarter was \$129 million, down \$46 million from a year ago as a result of a \$32 million decline in underwriting income due to severe weather conditions and an increase of \$28 million in taxes from last year's unusually low level. The operating ROE for the last twelve months was 9.9% despite \$586 million in pre-tax net catastrophe losses.
- **Direct premiums written** remained relatively stable in the quarter at \$1.5 billion but were impacted by the decision to no longer offer 2-year policies in Québec as part of the Company's plans to improve the performance of its home insurance portfolio. The underlying growth in direct premiums written at 1% was tempered by the continued reduction in the Company's earthquake exposure in British Columbia and its actions to target rate increases for the least profitable segments of its commercial lines portfolio.
- **Underwriting income** for the quarter was \$51 million compared to \$83 million during the same period a year ago. The active weather season across the country resulted in \$75 million in catastrophe losses and a 2.5 percentage point increase in the underlying current year loss ratio, as extreme cold temperatures and a few occurrences of rapid thaw led to an increase in automobile accidents, fires, burst pipes, water damage and sewer backups. Favourable prior year claims development was \$31 million higher than the same period last year.

Personal property reported underwriting income of \$32 million compared to \$24 million in the corresponding quarter of the previous year. The combined ratio improved by 1.7 points to 91.8% despite 12 percentage points of catastrophe losses resulting from the harsh winter conditions. The underlying current year loss ratio experienced a significant 6 point improvement year-over-year as the benefits of the Company's home improvement plan began to materialize.

Personal auto underwriting income decreased nearly 50% to \$25 million as the increased frequency of claims due to icy driving conditions resulted in a 2.9 point deterioration in the combined ratio to 97.0%. Favourable prior years claims development remained healthy at \$61 million.

Commercial auto underwriting income increased to \$15 million compared to \$4 million a year ago. The combined ratio improved 8.0 percentage points to 89.3% as a result of higher favourable prior year claims development. The underlying current year loss ratio deteriorated by 2.7 percentage points year-over-year as a result of winter conditions.

Commercial P&C insurance combined ratio was up 7.4 percentage points to 105.6% resulting in an underwriting loss of \$21 million. Wide fluctuations in temperatures led to catastrophe losses of \$28 million and an increase in both frequency and severity. A meaningful portion of the claims were weather related, which led to an 8.4% deterioration of the underlying current year loss ratio.

- **Net investment income** of \$105 million during the quarter was up 9% from a year ago as a result of a high level of dividend income, which contributed to a market-based yield of 3.76%, up from 3.44% a year ago.

Investment Gains

Net investment gains, excluding fair-value-through-profit-and-loss fixed income securities, amounted to \$67 million in the quarter, almost twice the \$34 million recorded a year ago as a result of favourable market conditions and gains on derivatives.

Capital Management

The Company's financial position was strong at the end of the quarter with an estimated Minimum Capital Test of 213% and \$670 million in excess capital. The Company's book value per share was \$34.80, up 3% during the quarter.

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 \$1.19 and \$1.16, respectively.

MD&A and Consolidated Financial Statements

This Press Release, which was approved by the Company's Board of Directors on the Audit Committee's recommendation, should be read in conjunction with the Management's Discussion and Analysis as well as the Consolidated financial statements, which are available on our website at www.intactfc.com and later today on SEDAR at www.sedar.com.

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".

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 until midnight on May 14. To listen to the replay, call 1 (855) 859-2056, passcode 28320994. A transcript of the call will also be available on Intact Financial Corporation's website.

Annual and Special Meeting of Shareholders

Intact Financial Corporation will hold its Annual and Special Meeting of Shareholders at 2:00 p.m. PT later today at the Pan Pacific Hotel, 999 Canada Place, Suite 300 in Vancouver. At the meeting, shareholders will be asked, among other things, to reconfirm the Shareholder Rights Plan of the Company, to consider the amendment to the Company's by-law dealing with the quorum required at shareholders' meetings and to approve the advisory resolution on the Company's executive compensation. There will also be a live webcast of the shareholders' meeting on the Company's website at www.intactfc.com.

About Intact Financial Corporation

Intact Financial Corporation 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 beginning of the MD&A.

SOURCE Intact Financial Corporation

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