

Intact Financial Corporation reports second quarter results

- **Net operating income per share of \$1.53 with a combined ratio of 92.9%**
- **Underlying DPW growth of 1.7% despite corrective actions in property lines and rate reductions in Ontario auto**
- **Home improvement plan successfully rolling out; retention reflective of firm market conditions**
- **Challenging commercial P&C results warrant corrective actions**
- **Strong financial position with \$657 million of excess capital and 9.5% growth in book value per share over the past 12 months**

TORONTO, July 30, 2014/CNW/ - Intact Financial Corporation (TSX: IFC) today reported net operating income for the quarter ended June 30, 2014 of \$206 million, up \$83 million compared to the corresponding quarter of last year, which was severely impacted by the Alberta storms and flooding. On a per share basis, net operating income increased by 72% to \$1.53. The increase in net operating income and higher investment gains led to net income of \$215 million compared to \$103 million for the same period last year. Earnings per share totalled \$1.60 compared to \$0.73 for the second quarter of 2013. Direct premiums written were stable at \$2.2 billion while the combined ratio improved 4.6 percentage points to 92.9%.

Net operating income for the first six months of the year was \$335 million, up 12% from the same period last year. On a per share basis, net operating income increased 14% to \$2.47. Net income was \$375 million compared to \$277 million the year before and earnings per share increased 39% to \$2.77. The combined ratio improved by 1.3 percentage points to 95.0%. Direct premiums written for the first six months of the year decreased 1% to reach \$3.7 billion. The book value per share increased 9.5% over the last twelve months to reach \$36.29.

CEO's Comments

"Our operating and financial results improved significantly in the past few months," said Charles Brindamour. "Our personal insurance business is performing well, reflecting the successful implementation of our improvement initiatives and the solid contribution of our auto insurance activities. While our commercial auto insurance results were excellent, the performance of our commercial property and casualty insurance portfolio continues to be disappointing, warranting corrective actions. Our financial position remains strong and we continue to be enthusiastic about our growth prospects."

Dividend

The Board of Directors declared a quarterly dividend of 48 cents per share on the Company's outstanding common shares. The Board of Directors 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, 2014 to shareholders of record on September 15, 2014.

Current 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 as the magnitude of recent catastrophe losses negatively impacts industry results. The Company expects that future reductions in Ontario auto premiums will be commensurate with government cost reduction measures. In commercial lines, continued low interest rates and the impact on commercial lines loss ratios from 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 improvement 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 strong 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	Q2-2014	Q2-2013	Change	YTD 2014	YTD 2013	Change
Direct premiums written (excluding pools)	2,173	2,182	-	3,676	3,706	(1)%
Underwriting income (loss) ¹	128	42	205%	179	125	43%
Net operating income ²	206	123	67%	335	298	12%

Net income	215	103	109%	375	277	35%
Earnings per share						
Basic and diluted (dollars)	1.60	0.73	119%	2.77	2.00	39%
Adjusted earnings per share						
Basic and diluted (dollars) ²	1.65	0.81	104%	2.89	2.17	33%
Net operating income						
per share (dollars) ²	1.53	0.89	72%	2.47	2.16	14%
ROE for the last 12 months	11.1%	12.4%	(1.3) pts			
Adjusted ROE for the last 12 months ²	11.9%	14.3%	(2.4) pts			
Operating ROE for the last 12 months ²	11.6%	14.4%	(2.8) pts			
Combined ratio ¹	92.9%	97.5%	(4.6) pts	95.0%	96.3%	(1.3) pts
Book value per share (dollars)	36.29	33.15	9.5%			

¹ Excludes market yield adjustment (MYA) which is the impact on claims liabilities due to movements in discount rates.

² This 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.

Operating Highlights

- **Net operating income** for the quarter was \$206 million, up \$83 million from the same quarter in 2013 as a result of a 205% increase in underwriting income. The operating ROE for the last twelve months was 11.6% despite incurring \$446 million in pre-tax net catastrophe losses during that period.

Net operating income for the first six months of the year was \$335 million, up 12% from the corresponding period of 2013, also reflecting an increase in underwriting income.

- **Direct premiums written** remained constant in the quarter at \$2.2 billion but were impacted by last year's decision to no longer offer 2-year policies in Québec. The underlying growth of 1.7% was tempered by the Company's initiatives aimed at improving the performance of the Company's property portfolio and by government-mandated auto insurance rate reductions in Ontario.

Total direct premiums written decreased by 1% during the first six months of the year to \$3.7 billion, in part due to the actions adopted by the Company to improve the quality of its home and commercial P&C insurance portfolios.

- **Underwriting income** for the quarter was \$128 million compared to \$42 million during the same period a year ago, which was severely impacted by the June 2013 storms and flooding in Alberta. The increase was attributable to a \$110 million decline in catastrophe losses, which was partly offset by an increase in the underlying current year loss ratio and a decline in favourable prior year claims development. Overall the combined ratio improved by 4.6 percentage points to 92.9%.

Personal property reported a solid performance with underwriting income of \$26 million compared to a loss of \$49 million in the corresponding quarter of the previous year. The combined ratio improved by nearly 20 percentage points to 93.5%. The beneficial impact of the Company's home improvement program was partially offset by the prevailing weather conditions in early spring and the losses resulting from the wind and rain storms that prevailed in June of this year.

Personal auto underwriting income declined 32% to \$72 million as the combined ratio increased 4.3 percentage points to 91.5% from last year's exceptional performance. The decrease in underwriting income largely reflects a decline in favourable prior year claims development.

Commercial auto underwriting income increased to \$32 million from \$16 million a year ago as the combined ratio improved 10.1 percentage points to 79.5%. The excellent performance reflects higher favourable claims development and improvements in the underlying current year loss ratio.

Commercial P&C recorded a disappointing underwriting loss of \$2 million despite a 7.7 percentage point improvement in

the combined ratio, which amounted to 100.5%. The Company continued to record increased claims severity in this business, resulting in a deterioration of the underlying current year loss ratio.

For the first six months of the year, total underwriting income was \$179 million, a major improvement from \$125 million in the same period of last year, despite the harsh winter conditions that prevailed in the first months of this year.

- **Net investment income** of \$105 million during the quarter was up 3% from a year ago. The increased level of investments more than offset a decline in bond yields. During the quarter, the market-based yield of 3.69% was down slightly from 3.76% in the second quarter of 2013.

For the first six months of the year, total net investment income increased 6% to \$210 million as a result of an unusually high level of dividend income in the first quarter. Furthermore, the growth in investments more than offset declining yields.

Investment Gains

Net investment gains excluding fair-value-through-profit-and-loss bonds amounted to \$31 million in the quarter compared to \$7 million a year ago. During the first six months of the year, the Company has recorded net investment gains excluding fair-value-through-profit-and-loss bonds of \$98 million compared to \$41 million in the same period last year. Higher equity markets and lower bond yields led to gains both in the equity and fixed-income strategies. Total investments amounted to \$12.9 billion at the end of the quarter, up \$0.6 billion from one year ago.

Capital Management

The Company's financial position remained strong at the end of the quarter with an estimated Minimum Capital Test of 208% and \$657 million in excess capital. The Company's book value per share was \$36.29 at the end of the quarter.

Business Development

The Company has been conducting research on a number of markets over the past few years with the objective of building a growth pipeline abroad. During the quarter, the Company invested close to \$20 million in an insurance brokerage in Brazil.

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 were \$1.56 and \$1.55 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 August 6. To listen to the replay, call 1 (855) 859-2056, passcode 71218065. A transcript of the call will also be available on Intact Financial Corporation's website.

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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