Intact Financial Corporation (TSX: IFC)

Continuing our journey to build a world-class P&C insurer

Investor Presentation
May 2013

[intact]

Canada's **P&C insurance leader**

Who we are[1]

- Largest P&C insurer in Canada
- $7 billion in direct premiums written
- #1 in BC, Alberta, Ontario, Quebec, Nova Scotia
- $12.5 billion cash and invested assets
- Proven industry consolidator

Distinct brands

intact INSURANCE

belairdirect.

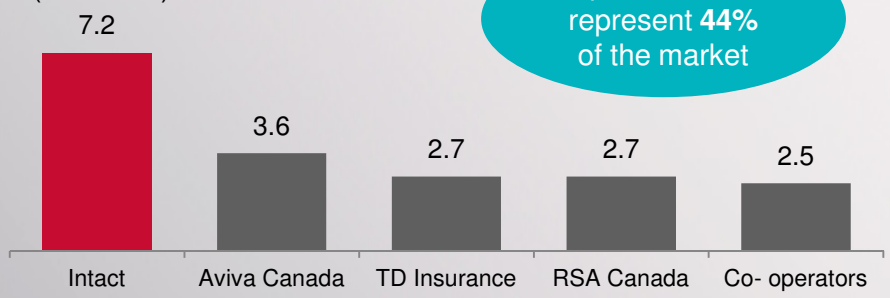
GREY POWER

BrokerLink Auto/Home/Business Insurance

JEVCO

Leader in a fragmented industry

2012 Direct premiums written[2]
($ billions)



Top five insurers represent **44%** of the market

Estimated Market Share				
17.0%	8.4%	6.4%	6.4%	5.8%

Industry outperformer

10-year performance –
IFC vs. P&C industry[2]

Premium growth	**4.2 pts**
Combined ratio[3]	**3.2 pts**
Return on equity[4]	**8.5 pts**

[1] IFC's direct premiums written in 2012 is pro forma Jevco for a full year
[2] Industry data source: MSA Research excluding Lloyd's, ICBC, SGI, SAF, MPI, Genworth and IFC. All data as at Dec 31, 2012.
[3] Combined ratio includes the market yield adjustment (MYA)
[4] ROEs reflect IFRS beginning in 2010. Since 2011, IFC's ROE is adjusted return on common shareholders' equity (AROE)

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Consistent industry **outperformance**

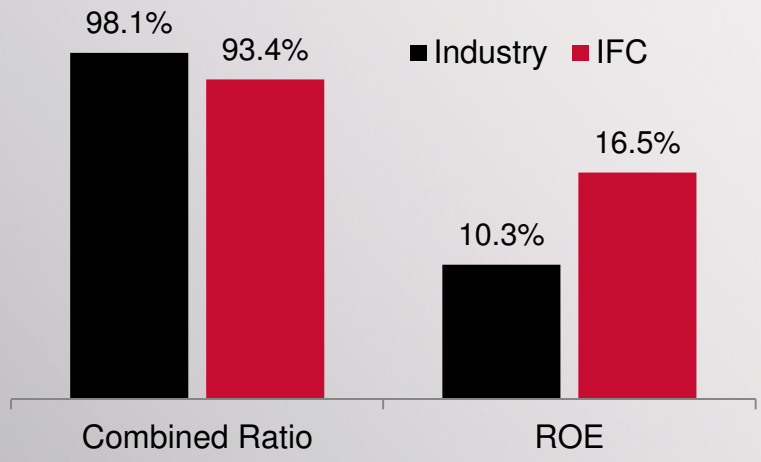
Significant scale advantage	Sophisticated pricing and underwriting	In-house claims expertise	Broker relationships	Multi-channel distribution	Proven acquisition strategy	Solid investment returns



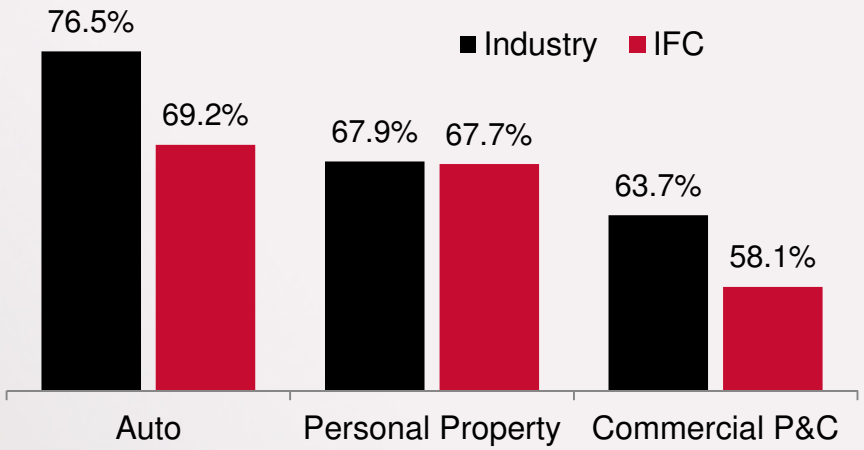




2012 metrics



Five-year average loss ratios



Industry data source: MSA Research excluding Lloyd's, ICBC, SGI, SAF, MPI, Genworth and IFC
Data in five-year chart is for the period ended December 31, 2012
Includes market yield adjustment (MYA)
* Generally consists of the 20 largest companies, excluding Lloyd's, Genworth, FM Global and IFC

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A **strong base** from which to grow

Enhanced business mix

Line of business	FY2010	FY2012
Personal Auto	50%	45%
Personal Property	24%	23%
Commercial	26%	32%

Geography	FY2010	FY2012
Ontario	46%	40%
Quebec	25%	30%
Alberta	18%	17%
Rest of Canada	11%	13%

Note: Change in business mix reflects the acquisitions of AXA Canada and Jevco

Strong capacity to outperform

Combined Ratio[1]	2012
IFC	93.4%
Industry Benchmark[2]	98.1%
Outperformance	**4.7 pts**

Return on Equity	2012
IFC[3]	16.5%
Industry Benchmark[2]	10.3%
Outperformance	**6.2 pts**

[1] Includes MYA
[2] Industry data source: MSA Research. Generally consists of the 20 largest companies, excluding Lloyd's, Genworth, FM Global and IFC
[3] IFC's ROE corresponds to the adjusted return on equity (AROE)

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A 36-month roadmap for **outperformance**

Beat industry ROE by 5 points every year

Pricing & Segmentation:
2 points

Claims management:
3 points

Investments and capital management: 2 points

Total: 7 points
Leaves 2 points to reinvest in customer experience (price, product, service, brand)

NOIPS growth of 10% per year over time

Organic growth:
4-6%

Margin improvement:
0-3%

Capital management/deployment:
2-4%

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Canadian P&C Industry **outlook** for 2013

We remain well-positioned to continue outperforming the Canadian P&C insurance industry in the current environment

Premium growth	• Industry premium growth is likely to evolve at a similar pace to that of the last 12 months • Potential for increased government intervention in Ontario auto could negatively impact premium growth. We expect premium reductions to be commensurate with cost reductions and, as such, we do not foresee material margin deterioration.
Underwriting	• Personal property results are expected to benefit from hard market conditions and loss mitigation actions • Conditions in commercial lines remain soft, but we expect them to improve at a moderate pace over time
Return on equity	• Combined ratio improvement will continue to be partially offset by a reduction in investment income • We do not expect the industry's ROE to improve materially in the near term from the 10.6% level reported in 2012 • We believe we will outperform the industry's ROE by at least 500 basis points in the next 12 months

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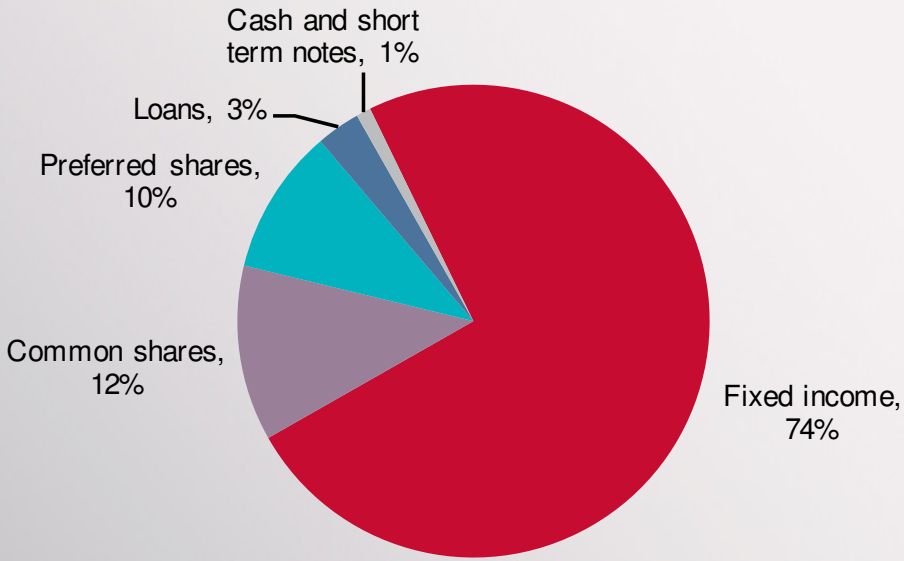
Strong financial **foundation for growth**

$12.5 billion – conservatively managed

Note: Investment mix is net of hedging positions and financial liabilities related to investments.



- 99% of bonds are rated 'A' or better
- 95% of preferred shares are rated 'P1' or 'P2'
- Minimal European exposure
- No leveraged investments

Solid balance sheet

- $744 million in total excess capital
- MCT of 214%
- Debt-to-capital ratio of 18.5%, below our target level of 20%
- Low sensitivity to capital markets volatility:
  - 1% increase in rates ~ 4 pts of MCT
  - 10% decline in equity markets ~ 3 pts of MCT
- Credit ratings:

	A.M. Best	Moody's[1]	DBRS
Long-term issuer credit ratings of IFC	a-	Baa1	A (low)
IFC's principal insurance subsidiaries[2]	A+	A1	n/a

* As of March 31, 2013
[1] Jevco and companies previously held by AXA Canada are not rated by Moody's.
[2] On April 25, 2013, A.M. Best upgraded the financial strength rating of Jevco to 'A+' (Superior) from 'A' (Excellent) and revised the outlook to stable.

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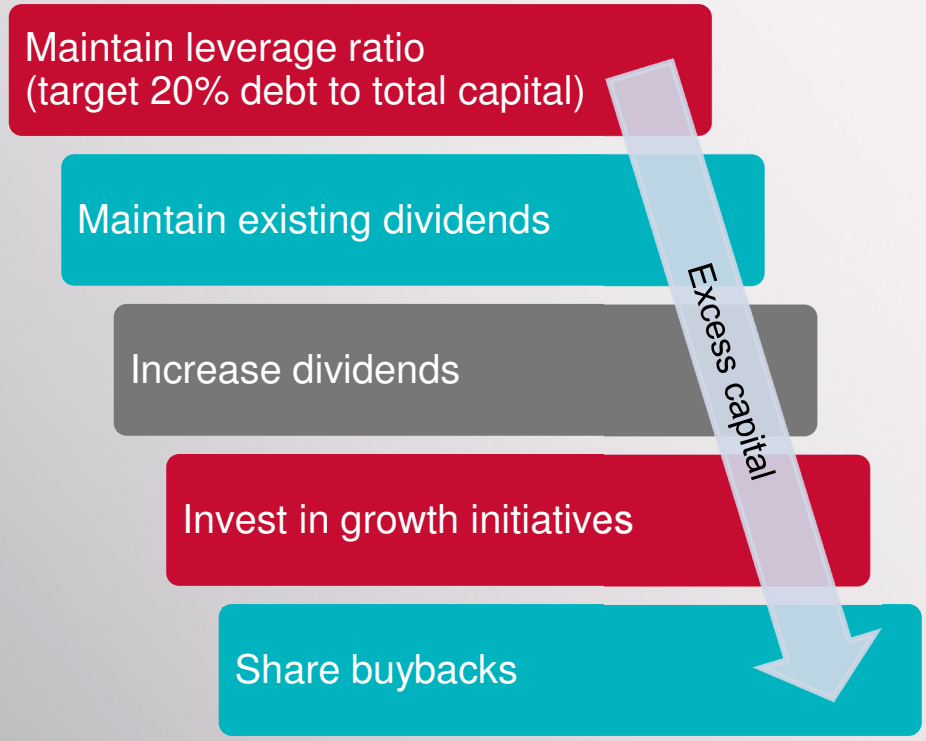
Strategic capital management

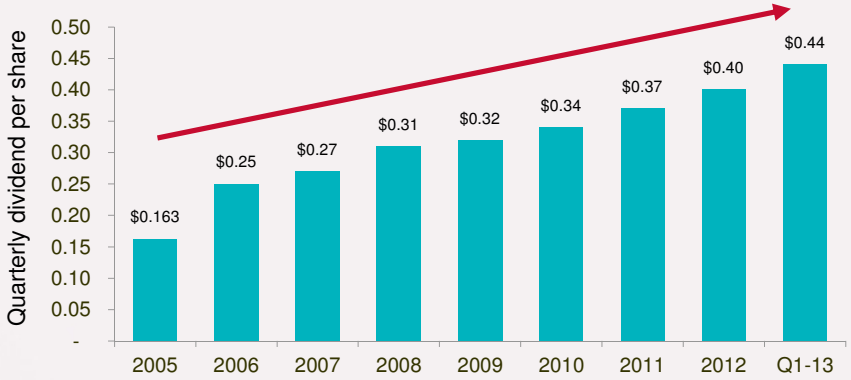
Capital management framework

Strong capital base has allowed us to pursue our growth objectives while returning capital to shareholders



Shareholder friendly approach

- We have increased our dividend each year since our IPO



- We believe we have organic growth opportunities within our multi-brand offering
- We have a track record of 12 accretive acquisitions, the most recent being AXA Canada
  - Jevco will be #13
- We have returned over $1.1 billion to shareholders in the form of buybacks in the past five years

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Four distinct avenues for **growth**

Firming market conditions **(0-2 years)**

Personal lines

- Build on outperformance in auto to accelerate growth
- Industry premiums likely to be bolstered by hard market conditions in personal property

Commercial lines

- Leverage acquired expertise and products, and our industry outperformance to gain share in a firming environment

Develop existing platforms **(0-3 years)**

- Continue to expand support to our broker partners
- Leverage addition of AXA Canada and Jevco products
- Expand and grow belairdirect and Grey Power
- Build a broker offer better able to compete with direct writers

Consolidate Canadian market **(0-5 years)**

Capital

- Solid financial position

Strategy

- Grow areas where IFC has a competitive advantage

Opportunities

- Canadian P&C industry remains fragmented
- Global capital requirements becoming more stringent
- Continued difficulties in global capital markets

Expand beyond existing markets **(0-5+ years)**

Principle

- Build organic growth pipeline with meaningful impact within 5+ years

Strategy

- Enter new market by leveraging our world-class strengths: 1) pricing and segmentation, 2) claims management and 3) online expertise

Recent acquisitions are **on track**

AXA Canada – closed September 2011	Jevco – closed September 2012
• Strong strategic fit which bolstered our risk selection and claims management capabilities • Represented $2 billion of premiums • Retention on the AXA Canada portfolio has been better than expected • Conversion is on track and are focused on decommissioning the AXA systems • Reached a run rate of $84 million in after-tax synergies, and continue to expect to reach our targeted $100 million in early 2014 • IRR estimated above 23%	• Strengthened product offering across IFC distribution to include: – Recreational vehicles – Non-standard auto • Represented $350 million of premiums • Continuing to convert policies into IFC systems; retention has been good • Seeing positive early results related to leveraging Jevco products across our platform • Targeting $15 million of annual after-tax synergies, by the end of 2014 • IRR estimated above 20%

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Building on our **sustainable competitive advantages**

- ✓ We have a sustainable competitive advantage versus the industry
- ✓ We continue our shareholder-friendly approach to capital management
- ✓ Our solid financial position enables us to take advantage of growth opportunities which may present themselves in a consolidating industry
- ✓ Integrations are progressing well, and on many fronts, better than we expected
- ✓ Best-in-class team in place to reach our goals

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Appendices

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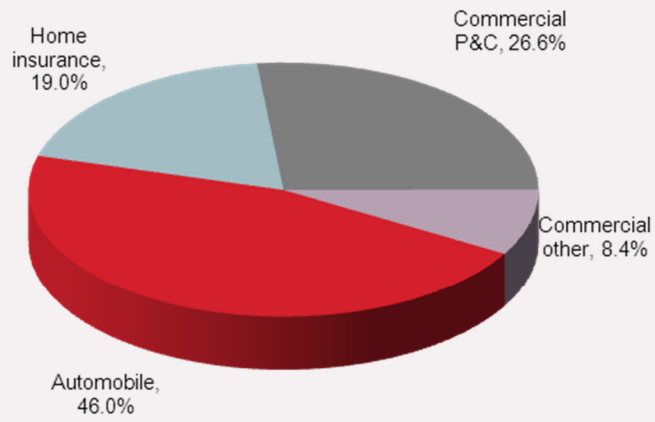
P&C insurance – a **$42 billion** market in Canada

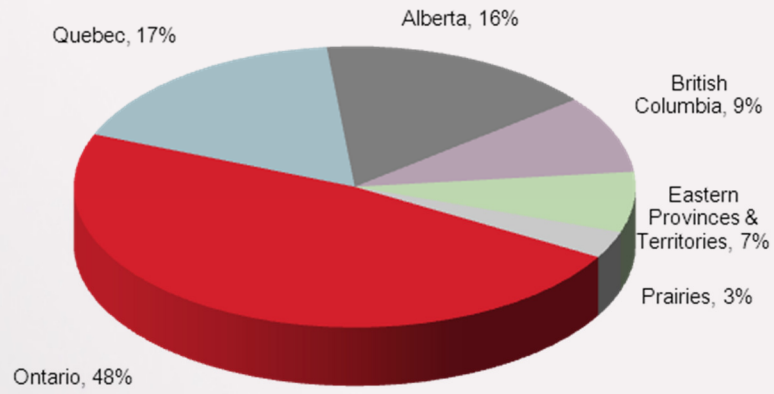
3% of GDP in Canada

- Fragmented market[1]:
  - Top five represent 44%, versus bank/lifeco markets which are closer to 65-75%
  - IFC is largest player with approx. 17% market share, versus largest bank/lifeco with 22-25% market share
  - P&C insurance shares the same regulator as the banks and lifecos
- Barriers to entry: scale, regulation, manufacturing capability, market knowledge
- Home and commercial insurance rates unregulated; personal auto rates regulated in some provinces
- Capital is regulated nationally by OSFI
- Brokers continue to own commercial lines and a large share of personal lines in Canada; direct-to-consumer channel is growing (distribution = brokers 67% and direct 33%)
- 30-year return on equity for the industry is approximately 10%

Industry DPW by line of business



Industry – premiums by province



[1] Pro forma IFC's acquisition of AXA Canada
Industry data source: MSA Research excluding Lloyd's, ICBC, SAF, SGI, MPI and Genworth.
OSFI = Office of the Superintendent of Financial Institutions Canada
Data as at the end of 2011.

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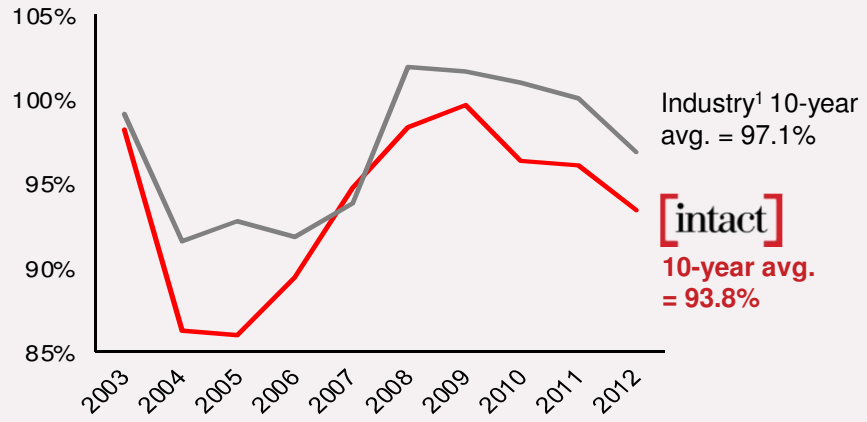
P&C industry **10-year** performance versus IFC

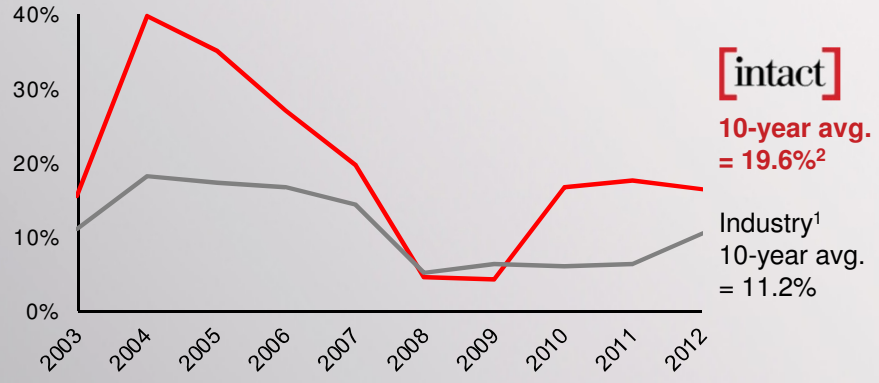
IFC's competitive advantages

- Significant scale advantage
- Sophisticated pricing and underwriting discipline
- In-house claims expertise
- Broker relationships
- Solid investment returns
- Strong organic growth potential

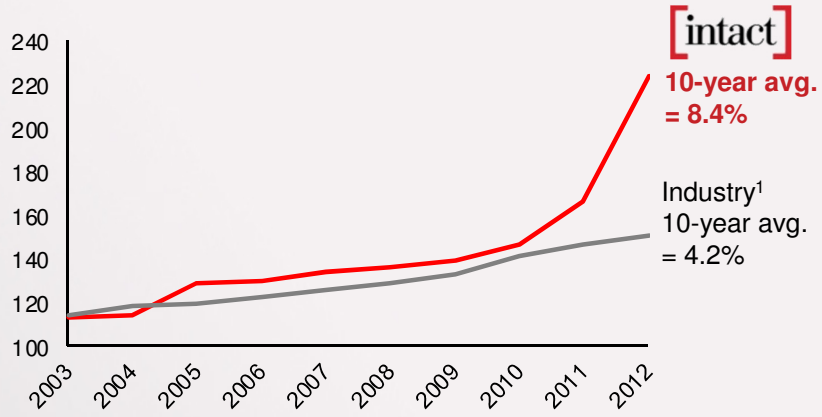
Combined ratio



Return on equity



Direct premiums written growth



[1]Industry data source: MSA Research excluding Lloyd's, ICBC, SGI, SAF, MPI, Genworth and IFC. All data as at Dec 31, 2012.
[2]ROEs reflect IFRS beginning in 2010. Since 2011, IFC's ROE is adjusted return on common shareholders' equity (AROE).

Ontario auto environment

Proposed Ontario budget includes a strategy to reduce both rates and costs

- Reduce insurance rates by an average of 15% over a period of time
- Budget provides momentum on formalizing cost containment measures discussed to date
- We believe the outcome could be margin-neutral, but additional cost reduction measures are critical

Ontario mediation backlog

- Industry backlog down ~16% in 2013
- IFC backlog down by more than one third
- Helps solidify the positive impact of 2010 reforms
- All new mediation applications are now heard within 60 days

We outperform the industry

- Ontario auto accounts for under one-quarter of our direct premiums written
- The industry reported a combined ratio of approximately 103% in 2012
- Solid outperformance versus the industry in 2012

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Ensuring profitability by **mitigating** Cat losses

Combined ratios impacted by Cats

- We are committed to running the business at a combined ratio of 95% or better
- Initiatives to improve the performance will be rolled-out in H1-2013
- We expect to realize the benefits of our actions within 18-30 months
- In the meantime, results could remain challenging if elevated Cat activity continues

Home Improvement Plan to Date

- 2011 & 2012 impacted by elevated Cat activity
- 13-14 points of Cats: Alberta 40 points in last 2 years
- CAY results trending towards 15pts improvement
- Renewals being issued at ~ +8%
- Segmentation by type of loss
- Water/hail/wind – higher deductibles, sub-limits
- Intensified education and loss mitigation incentives

Still to Come

- Continuous monitoring of Cat loading to improve profitability should recent elevated levels persist
- Exception underwriting
- Continued rate increases
- Claims initiatives on-going
- Product design evolving

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Further **industry consolidation** ahead

Our acquisition strategy

- Targeting large-scale acquisitions of $500 million or more in direct premiums written
- Pursuing acquisitions in lines of business where we have expertise
- Acquisition target IRR of 15%
- Targets:
  - Bring loss ratio of acquired book of business to our average loss ratio within 18 to 24 months
  - Bring expense ratio to 2 pts below IFC ratio

Canadian M&A environment

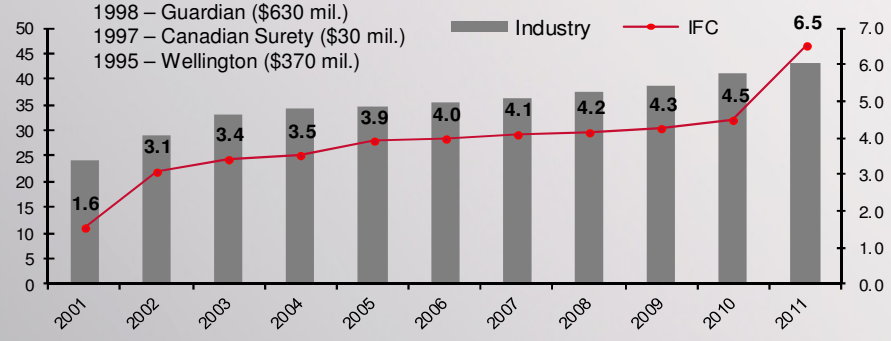
Environment more conducive to acquisitions now than in recent years:

- Industry ROEs, although slightly improved from trough levels of mid-2009, are well below prior peak
- Foreign parent companies are generally in less favourable capital position
- Demutualization likely for P&C insurance industry

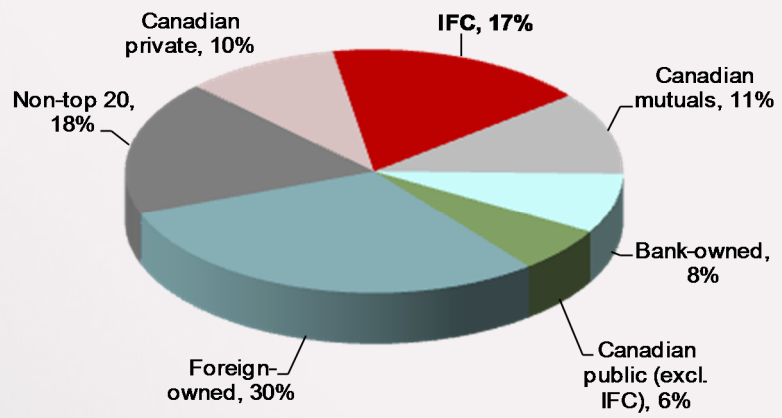
Our track record of acquisitions

2012 – Jevco ($530 mil.)
2011 – AXA ($2,600 mil.)
2004 – Allianz ($600 mil.)
2001 – Zurich ($510 mil.)
1999 – Pafco ($40 mil.)
1998 – Guardian ($630 mil.)
1997 – Canadian Surety ($30 mil.)
1995 – Wellington ($370 mil.)

Source: MSA Research; excluding Lloyd's and Genworth (based on 2011 DPW); IFC's 2011 DPW includes AXA Canada



Top 20 P&C insurers = 82% of market



Source: MSA Research; excluding Lloyd's and Genworth (based on 2011 DPW)

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Historical **financials**

(in $ millions, except as otherwise noted)	IFRS 2012	IFRS 2011	IFRS 2010	Canadian GAAP 2009	Canadian GAAP 2008
Income statement highlights					
Direct written premiums	$6,868	$5,099	$4,498	$4,275	$4,146
Underwriting income	451	273	193	54	117
Net operating income (NOI)	675	460	402	282	361
NOIPS to common shareholders (in dollars)	5.00	3.91	3.49	2.35	2.96
Balance sheet highlights					
Total investments	$12,959	$11,828	$8,653	$8,057	$6,605
Debt outstanding	1,143	1,293	496	398	-
Total shareholders' equity (excl. AOCI)	4,710	4,135	2,654	3,047	3,079
Performance metrics					
Loss ratio	61.6%	63.9%	65.4%	70.0%	68.2%
Expense ratio	31.5%	30.5%	30.0%	28.7%	28.9%
Combined ratio	93.1%	94.4%	95.4%	98.7%	97.1%
Operating ROE (excl. AOCI)	16.8%	15.3%	15.1%	9.2%	11.3%
Debt / Capital	18.9%	22.9%	14.3%	11.8%	-
Combined ratios by line of business					
Personal auto	95.7%	90.9%	98.1%	94.9%	95.9%
Personal property	93.5%	103.5%	96.5%	109.0%	113.6%
Commercial auto	81.5%	86.5%	86.0%	79.8%	87.2%
Commercial P&C	91.6%	95.6%	90.7%	104.1%	85.3%

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Cash and invested assets

Asset class

Fixed income

Corporate	32%
Cdn. Provincial and municipal	32%
Cdn. Federal government and agency	29%
Supra-National & Foreign	4%
ABS/MBS	3%
TOTAL	100%

Quality:
99% of bonds rated 'A' or better

Common shares

High-quality, dividend paying Canadian companies. Objective is to capture non-taxable dividend income.

100% Canadian

Preferred shares

Perpetual and callable floating and reset	67.3%
Fixed-rate perpetual	23.5%
Retractable	9.2%
TOTAL	100.0%

Quality:
Approx. 95% rated 'P1' or 'P2'

100% Canadian

Geographic exposure of portfolio

Canadian	97%
United States	0%
Int'l (excl. U.S.)	3%
TOTAL	100%

* As of March 31, 2013

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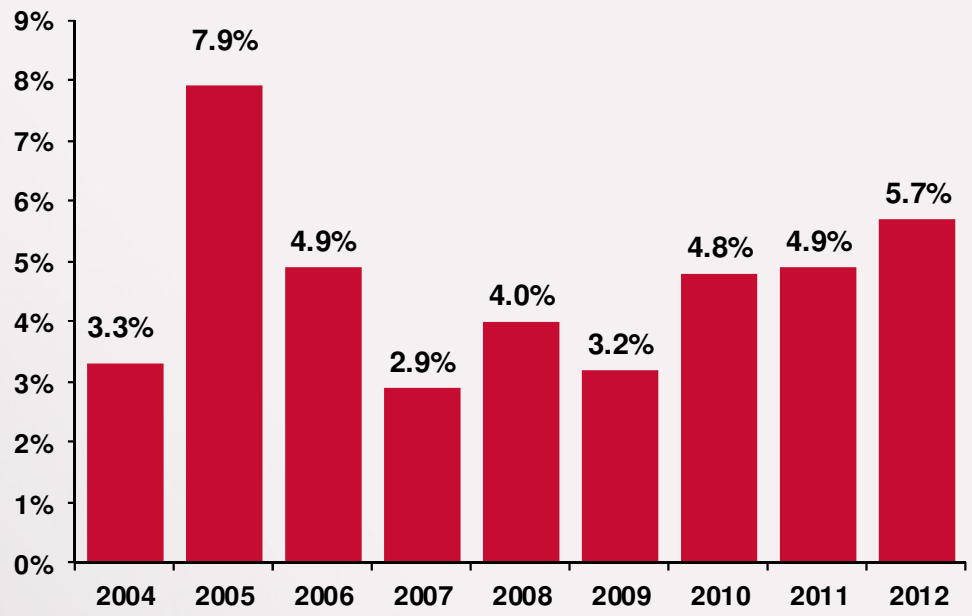
Track record of **prudent** reserving practices

- Quarterly and annual fluctuations in reserve development are normal
- 2005 reserve development was unusually high due to the favourable effects of certain auto insurance reforms
- This reflects our preference to take a conservative approach to establishing claims reserves

Rate of claims reserve development
(favourable prior year development as a % of opening reserves)



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Forward looking statements and disclaimer

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