Intact Financial Corporation (TSX: IFC)

Investor Presentation

May 2014

[intact]

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

Who we are

- Largest P&C insurer in Canada
- Over $7 billion in direct premiums written
- #1 in BC, Alberta, Ontario, Quebec, Nova Scotia
- $12.4 billion cash and invested assets
- Proven industry consolidator

Distinct brands

intact INSURANCE

belairdirect.

GREY POWER

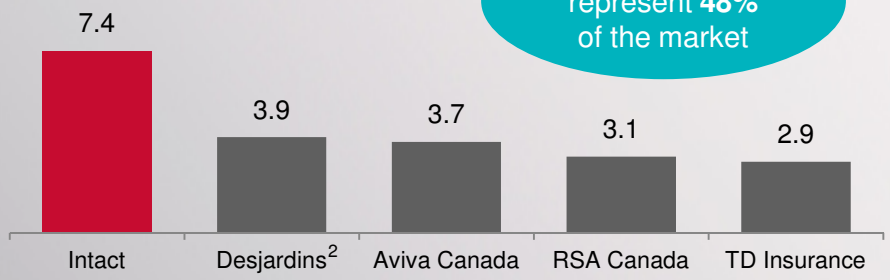
BrokerLink

JEVCO

Leader in a fragmented industry

2013 Direct premiums written[1]
($ billions)

Top five insurers represent **48%** of the market



Estimated Market Share				
16.8%	8.9%	8.5%	7.0%	6.6%

Industry outperformer

10-year performance –
IFC vs. P&C industry[1]

Premium growth	**5.1 pts**
Combined ratio[3]	**3.5 pts**
Return on equity[4]	**8.4 pts**

[1] Industry data source: MSA Research excluding Lloyd's, ICBC, SGI, SAF, MPI, Genworth and IFC. All data as at December 31, 2013.
[2] Desjardins direct premiums written in 2013 is pro forma State Farm for a full year
[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

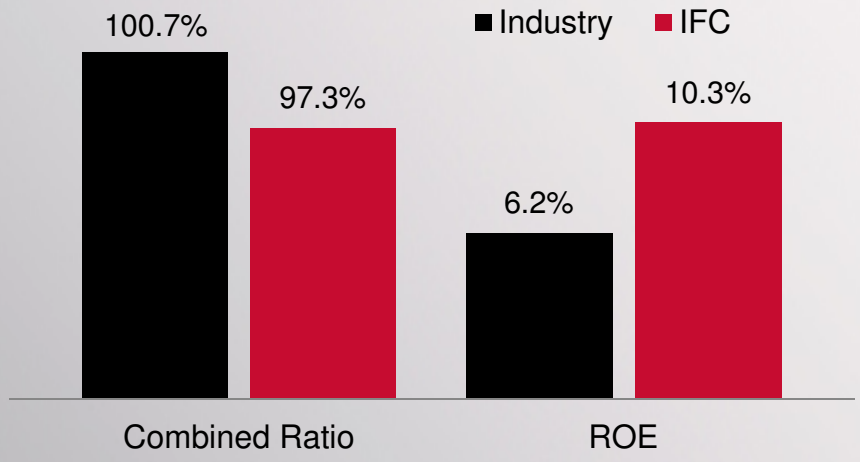
Broker relationships

Multi-channel distribution

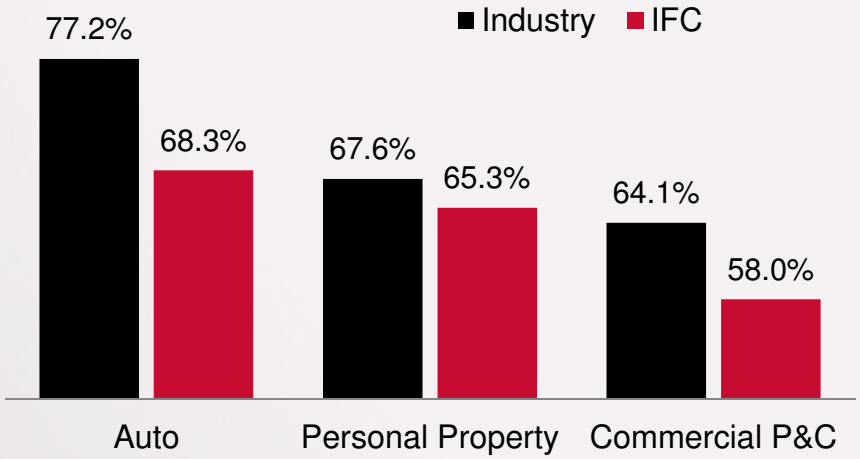
Proven acquisition strategy

Solid investment returns

2013 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, 2013
Combined ratio includes the market yield adjustment (MYA)

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A **strong base** from which to grow

Enhanced business mix

Line of business	FY2010	FY2013
Personal Auto	49%	46%
Personal Property	24%	22%
Commercial	27%	32%

Geography	FY2010	FY2013
Ontario	46%	42%
Quebec	25%	29%
Alberta	18%	17%
Rest of Canada	11%	12%

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

Strong capacity to outperform

Combined Ratio[1]	FY2013
IFC	97.3%
Industry Benchmark[2]	101.8%
Outperformance	**4.5 pts**

Return on Equity	FY2013
IFC[3]	10.3%
Industry Benchmark[2]	5.8%
Outperformance	**4.5 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)
As at December 31, 2013

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Canadian P&C industry **12-month outlook**

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

Premium growth	• Industry premiums are likely to increase at a low single-digit rate, with low single-digit growth in personal auto and commercial lines and upper single-digit growth in personal property. • We expect future premium reductions in Ontario auto will be commensurate with government cost reduction measures.
Underwriting	• We expect the current hard market conditions in personal property to accelerate meaningfully as the magnitude of 2013 catastrophe losses negatively impacted industry results. • We believe continued low interest rates and the impact on commercial lines loss ratios from elevated catastrophe losses in 2013 could translate into firmer conditions over time.
Return on equity	• We expect the industry's ROE to trend back toward its long-term average of 10% in 2014. • We believe we will outperform the industry's ROE by at least 500 basis points in the next 12 months.

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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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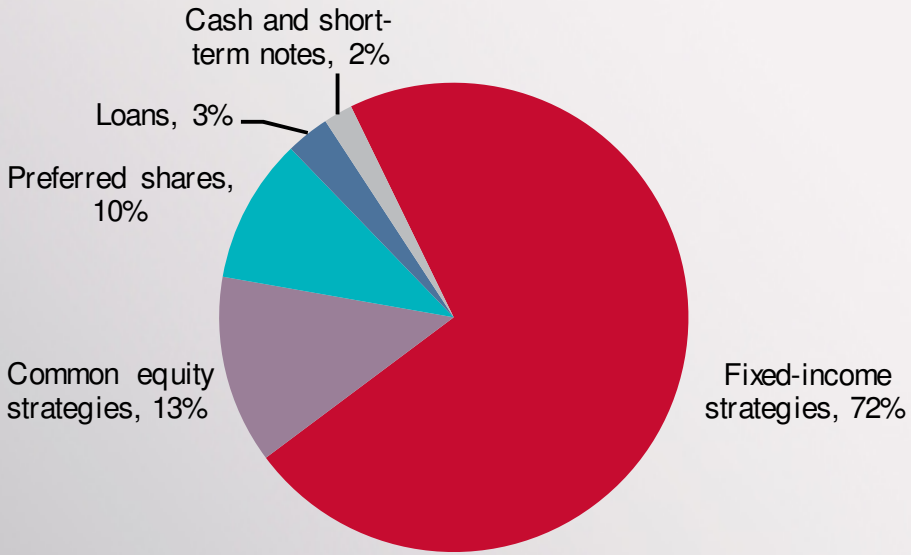
Strong financial **foundation for growth**

$12.4 billion – conservatively managed

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



- 99% of fixed-income securities are rated 'A' or better
- 96% of preferred shares are rated 'P1' or 'P2'
- No leveraged investments

Solid balance sheet

- $670 million in total excess capital
- MCT of 213%
- Debt-to-capital ratio of 18.4%, below our target level of 20%
- Low sensitivity to capital markets volatility:
  - 1% increase in rates ~ 2 pts of MCT
  - 10% decline in equity markets ~ 4 pts of MCT
- Credit ratings:

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

* As of March 31, 2014

[1] 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. On April 10th, 2014, Moody's assigned an 'A1' FSR to Jevco.

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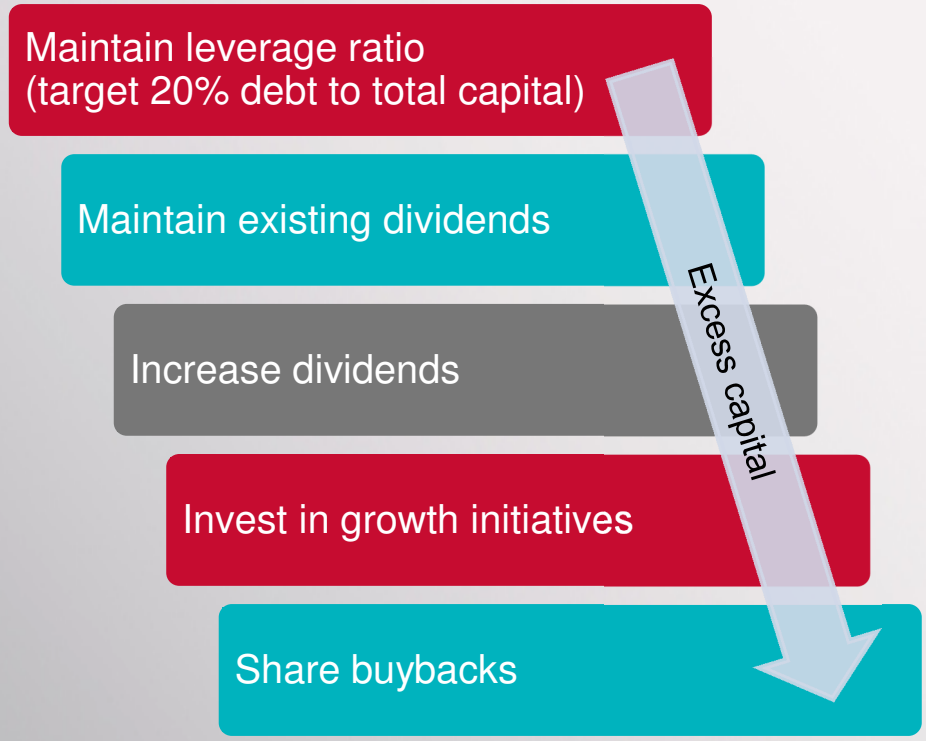
Strategic capital management

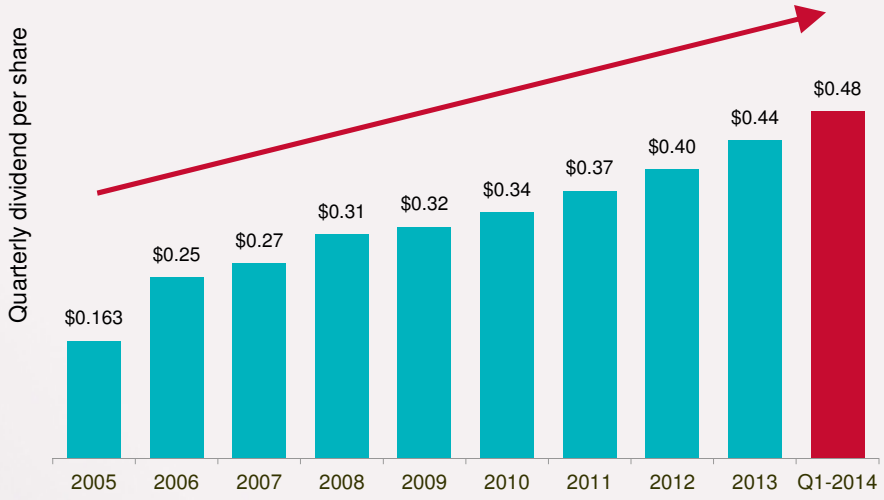
Capital management framework

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 13 accretive acquisitions, the most recent being AXA Canada and Jevco

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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
- Optimize brand architecture
- Expand direct capabilities
- Build operated distribution to $1 billion

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

Building on our **sustainable competitive advantages**

- ✓ We have a sustainable competitive advantage versus the industry due to our disciplined approach and quality operations
- ✓ We remain committed to adapting products to suit consumers' needs
- ✓ 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
- ✓ Best-in-class team in place to reach our goals

Some of our recent **accolades** …

J.D. Power ranked **belairdirect** and **Grey Power** among the top five auto insurance companies for customer satisfaction in Ontario, with **belairdirect** securing the top spot

Nationally, our broker survey marked an all-time high, while in Ontario the IBAO ranked **Intact Insurance** first overall

INSURANCE BROKERS ASSOCIATION ONTARIO

The Globe & Mail ranked us #6 for the "quality of (our) governance practices" after assessing the boards of directors of 232 firms in the S&P/TSX Composite Index

Our CSR efforts are increasingly being recognized, as evidenced in our ranking among Canada's Best 50 Corporate Citizens by Corporate Knights

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Appendices

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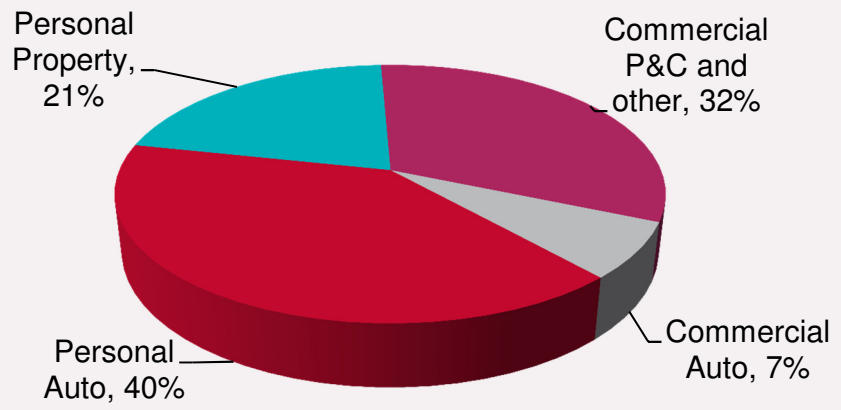
P&C insurance – a **$44 billion** market in Canada

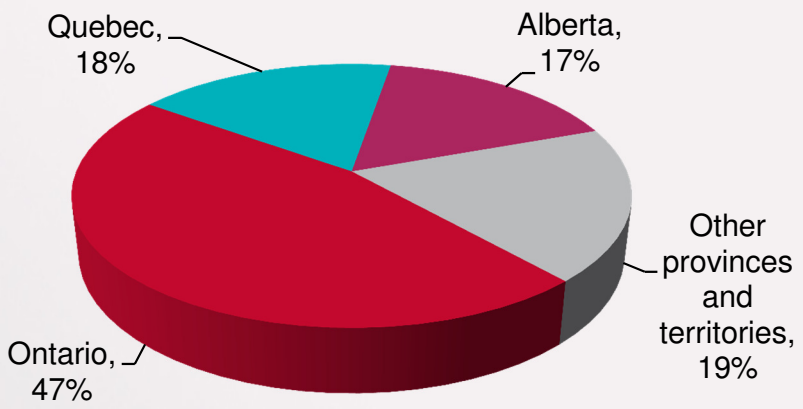
3% of GDP in Canada

- Fragmented market[1]:
  - Top five represent 48%, 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 66.2% and direct/agency 33.8%)
- 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 2013.

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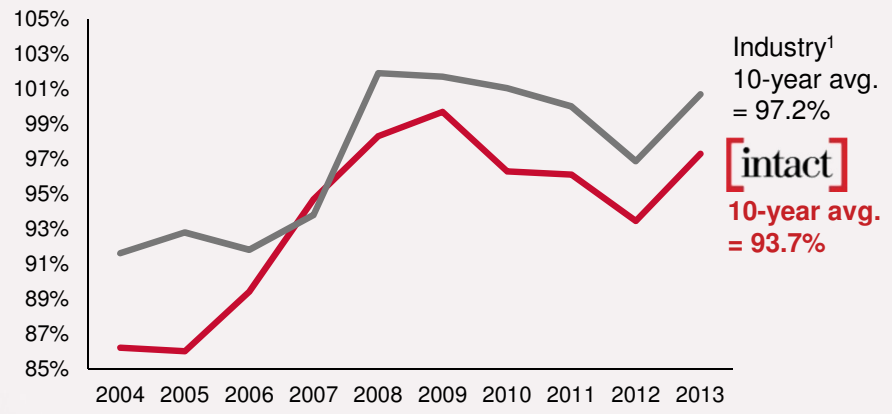
P&C industry **10-year** performance versus IFC

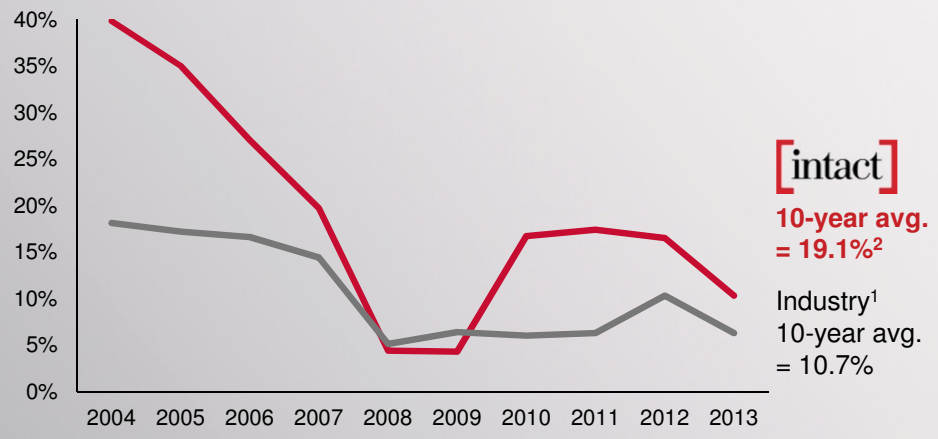
IFC's competitive advantages

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

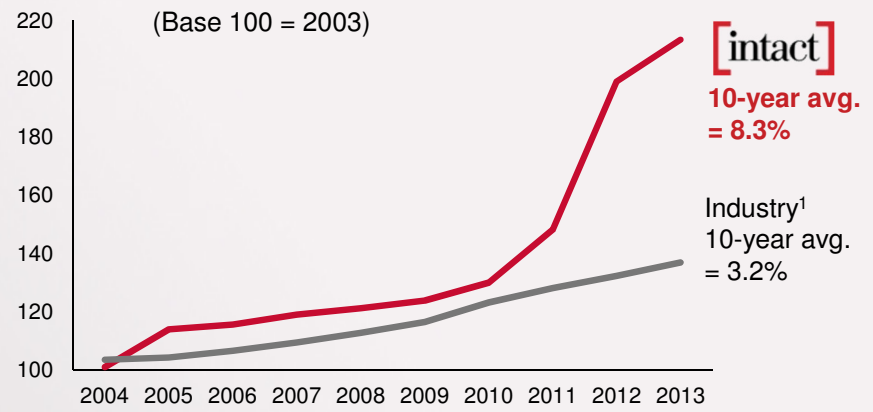
Combined ratio



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, 2013.
[2]ROEs reflect IFRS beginning in 2010. Since 2011, IFC's ROE is adjusted return on common shareholders' equity (AROE).

Ontario auto environment

Ontario government's strategy to reduce both rates and costs

- Reduce insurance rates by an average of 15% over a two-year period
  - This process to date has resulted in an average 5.7% industry reduction approved as of Q1-2014
  - IFC will be reducing rates by 5.3% on average, targeting discounts to safe drivers
  - The recent dissolution of Parliament has stalled the passing of additional cost reduction measures, and the timing of further rate reductions is uncertain
- We continue to believe we can protect our profitability in the Ontario auto book of business, but the implementation of additional cost reduction measures is important for further rate reduction

Arbitration update

- Total FSCO arbitrations have increased by 114% in the past 16 months, while IFC arbitrations have increased only 17%, given our proactive approach to managing files
- The growth in volume is expected to stabilize by mid-2014

We outperform the industry

- Ontario auto accounts for a little less than one quarter of our direct premiums written
- Industry near breakeven in 2013
- Continued our solid outperformance versus the industry in 2013

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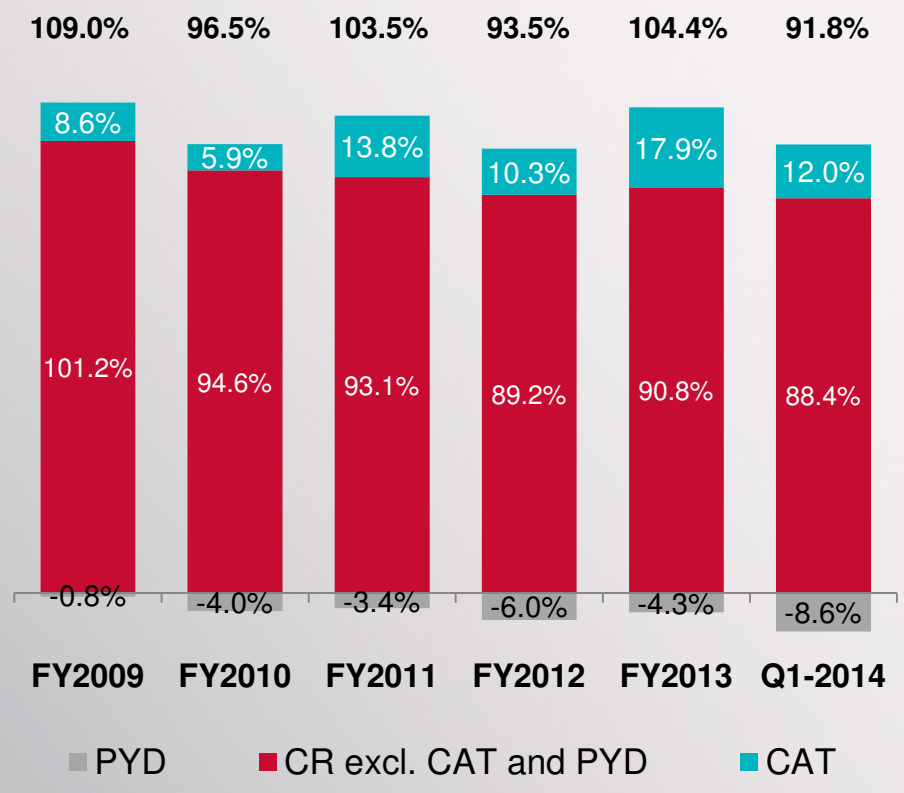
Plan for delivering **10 point improvement** in personal property

Combined Ratio Composition



Benefits generated next 15-21 months

Ongoing:

- Renewing at higher rates
- Increasing education and awareness, leveraging our "insuranceisevolving.com" website
- Reducing BC earthquake exposure
- Increasing base deductibles and deductibles associated with weather and water perils
- Reducing maximum coverage for some specific perils in higher risk areas
- Introducing sublimits for sewer back-up

Targeted for 2014:

- Upgrade claims field technology to improve service and controls during Cats
- Tie prevention to pricing

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Further **industry consolidation** ahead

Our domestic acquisition strategy

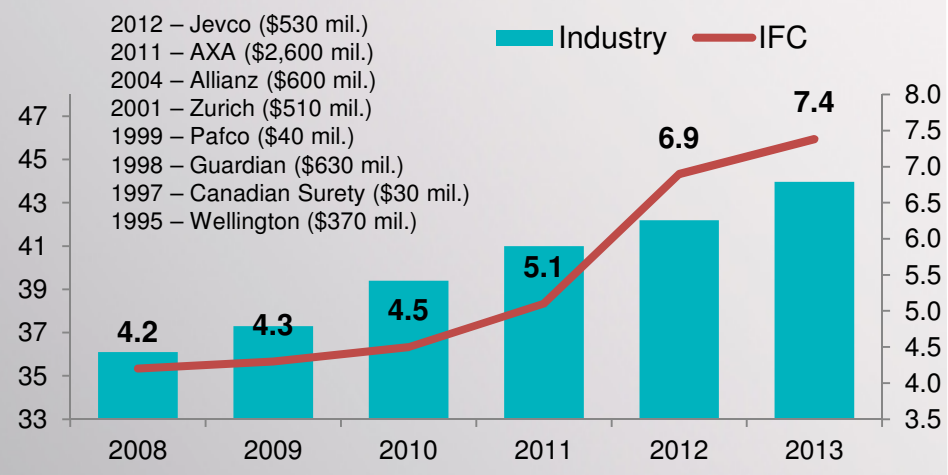
- Targeting large-scale acquisitions of $500 million or more in direct premiums written
- Pursuing acquisitions in lines of business where we have expertise
- Acquisition target IRR of 15%
- Targets:
  - Bring loss ratio of acquired book of business to our average loss ratio within 18 to 24 months
 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

Canadian M&A environment

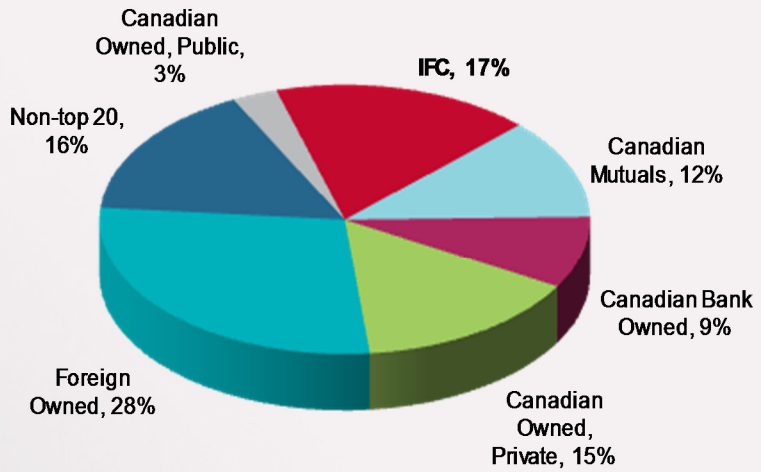
Environment more conducive to acquisitions now than in recent years:

- 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[1]



Top 20 P&C insurers = 84% of market



[1] Direct premiums written in $ billions, Excluding second term of 2-year policies. Industry data source: MSA Research excluding Lloyd's, ICBC, SGI, SAF, MPI, and Genworth. Desjardins direct premiums written in 2013 is pro forma State Farm for a full year. All data as at Dec 31, 2013.

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Historical **financials**

(in $ millions, except as otherwise noted)	IFRS				Cdn. GAAP
	2013	2012	2011	2010	2009
Income statement highlights					
Direct written premiums	$7,319	$6,868	$5,099	$4,498	$4,275
Underwriting income	142	451	273	193	54
Net investment income	406	389	326	294	293
Net operating income (NOI)	500	675	460	402	282
NOIPS to common shareholders (in dollars)	3.62	5.00	3.91	3.49	2.35
Balance sheet highlights					
Total investments	$12,261	$12,959	$11,828	$8,653	$8,057
Debt outstanding	1,143	1,143	1,293	496	398
Total shareholders' equity (excl. AOCI)	4,842	4,710	4,135	2,654	3,047
Performance metrics					
Claims ratio	66.9%	61.6%	63.9%	65.4%	70.0%
Expense ratio	31.1%	31.5%	30.5%	30.0%	28.7%
Combined ratio	98.0%	93.1%	94.4%	95.4%	98.7%
Operating ROE (excl. AOCI)	11.2%	16.8%	15.3%	15.1%	9.2%
Debt / Capital	18.7%	18.9%	22.9%	14.3%	11.8%
Combined ratios by line of business					
Personal auto	93.2%	95.7%	90.9%	98.1%	94.9%
Personal property	104.4%	93.5%	103.5%	96.5%	109.0%
Commercial auto	93.3%	81.5%	86.5%	86.0%	79.8%
Commercial P&C	103.9%	91.6%	95.6%	90.7%	104.1%

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Cash and invested assets

Asset class

Fixed income

Corporate	40%
Cdn. federal government and agency	35%
Cdn. provincial and municipal	22%
Supra-National & Foreign	4%
TOTAL	100%

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

Common shares

High-quality, dividend paying Canadian and U.S. companies.

Preferred shares

Perpetual and callable floating and reset	66%
Fixed-rate perpetual	25%
Retractable	9%
TOTAL	100%

Quality:
96% rated 'P1' or 'P2'

100% Canadian

Geographic exposure of portfolio

Canadian	91%
United States	5%
Int'l (excl. U.S.)	4%
TOTAL	100%

* As of March 31, 2014

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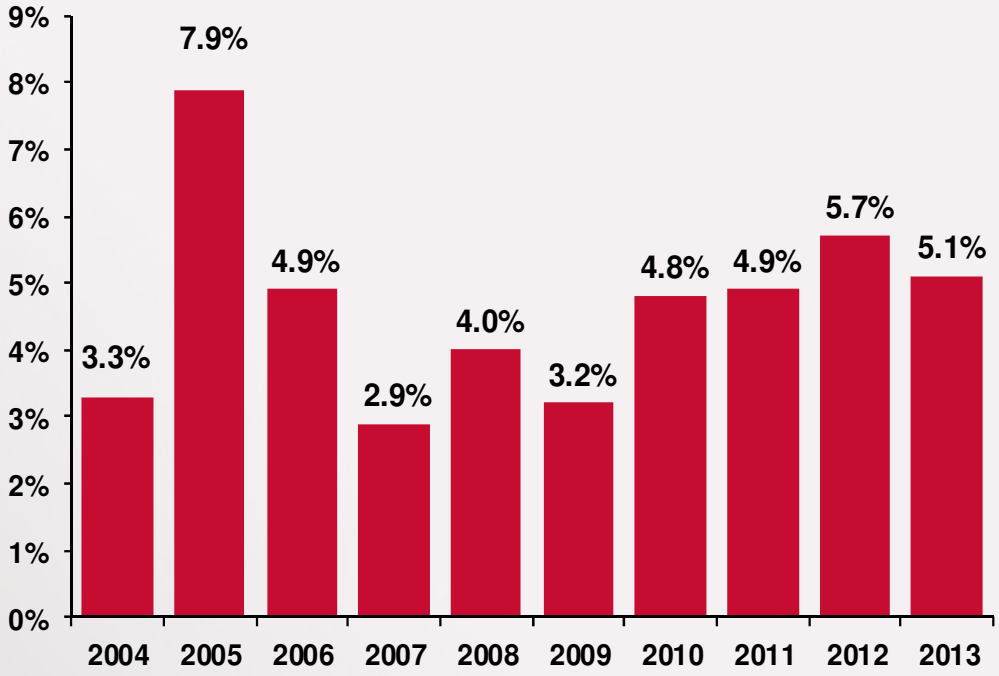
Track record of **prudent** reserving practices

- 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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All of the forward-looking statements included in this presentation are qualified by these cautionary statements and those made in the Risk management section of our MD&A for the year ended December 31, 2013. These factors are not intended to represent a complete list of the factors that could affect the Company. These factors should, however, be considered carefully. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. When relying on forward-looking statements to make decisions, investors should ensure the preceding information is carefully considered. Undue reliance should not be placed on forward-looking statements made herein. The Company and management have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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Forward-looking statements and disclaimer

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