



## News Release

TORONTO, February 10, 2005

### FINANCIAL RESULTS FOR FOURTH QUARTER AND FISCAL YEAR 2004 AND DECLARATION OF 2005 FIRST QUARTER DIVIDEND

Disciplined underwriting by our operating management teams and favourable market conditions combined to produce record results for Northbridge Financial Corporation in 2004. Net earnings for fiscal year 2004 were \$162.2 million (\$3.19 per share) compared to \$153.0 million (\$3.07 per share) for the prior year. Underwriting profit of \$150.7 million in 2004 more than doubled relative to \$73.8 million earned in the prior year, with Northbridge's combined ratio<sup>1</sup> improving to 87.7% from 92.6%.

Fourth quarter results were similarly improved in comparison to those of the prior year period, with net earnings of \$48.1 million (\$0.95 per share) compared to \$43.7 million (\$0.86 per share), underwriting profit of \$68.7 million compared to \$29.7 million, and an improvement in the combined ratio to 78.9% from 89.1%.

Northbridge Financial Corporation also announces that it has declared a dividend of \$0.165 per share on its outstanding common shares, payable on March 31, 2005 to shareholders of record on February 28, 2005. The \$0.165 per share reflects an annual rate of \$0.66 per share, representing a 10% increase over the previous annual rate of \$0.60 per share.

The following table presents a summary of the fourth quarter and full year financial results:

	<u>THREE MONTHS ENDED</u>		<u>YEAR ENDED</u>	
	<u>DECEMBER 31</u>		<u>DECEMBER 31</u>	
	<i>(\$ millions except per share amounts and %)</i>			
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Total revenue	<b>335.7</b>	311.1	<b>1,335.1</b>	1,162.4
Underwriting profit	<b>68.7</b>	29.7	<b>150.7</b>	73.8
Combined ratio	<b>78.9%</b>	89.1%	<b>87.7%</b>	92.6%
Net earnings	<b>48.1</b>	43.7	<b>162.2</b>	153.0
Net earnings per share	<b>\$0.95</b>	\$0.86	<b>\$3.19</b>	\$3.07
Net earnings per diluted share	<b>\$0.94</b>	\$0.86	<b>\$3.18</b>	\$3.07

<sup>1</sup> The combined ratio is the sum of two components: the loss ratio, which represents claims and loss adjustment expenses ('LAE') incurred, net of reinsurance, expressed as a percentage of net premiums earned, and the expense ratio, which represents expenses including commissions, premium taxes and all general and administrative expenses incurred in operating the business during a period, expressed as a percentage of net premiums earned during that period. A combined ratio below 100% indicates profitable underwriting, while a combined ratio over 100% indicates unprofitable underwriting. The combined ratio does not include consideration of investment income. The underwriting ratios (the loss and expense ratios and the combined ratio) are all non-GAAP measures and do not have standard meanings prescribed by GAAP. They may not be comparable to similar measures used by other companies.

## **Fourth Quarter Highlights**

- *Net earnings of \$48.1 million (\$0.95 per share) compared to \$43.7 million (\$0.86 per share) in the fourth quarter of 2003, an increase of 10.1%.*
- *Combined ratio of 78.9% in the fourth quarter of 2004, compared to 89.1% in the fourth quarter of 2003.*
- *Underwriting profit of \$68.7 million compared to \$29.7 million in the fourth quarter of 2003, an increase of 132.0%.*
- *Growth in net premiums written of 11.6% and net premiums earned of 20.2% compared to the fourth quarter of 2003.*

## **2004 Highlights**

- *Net earnings of \$162.2 million (\$3.19 per share) compared to \$153.0 million (\$3.07 per share) in 2003, an increase of 6.1%.*
- *Return on average equity for 2004 was 20.3% compared to 23.6% in 2003.*
- *Combined ratio of 87.7% for 2004 compared to 92.6% in 2003.*
- *Underwriting profit of \$150.7 million compared to \$73.8 million in 2003, an increase of 104.2%.*
- *Growth in net premiums written of 10.4% and net premiums earned of 23.5% compared to 2003.*
- *Interest and dividend income of \$79.5 million compared to \$74.6 million in 2003, and net realized gains of \$29.5 million compared to \$94.9 million in 2003.*
- *Cash flow generated from operations of \$327.1 million in 2004 compared to \$234.3 million in 2003.*
- *Debt-free, with cash and short-term investments at year-end of \$566.7 million.*
- *Portfolio investments at carrying value increased by \$321.8 million to \$2,110.6 million at December 31, 2004 from \$1,788.8 million at December 31, 2003, with pre-tax unrealized gains of \$179.5 million at year-end 2004 compared to \$125.7 million at year-end 2003.*
- *Reserve strength, with a conservative approach to setting reserves that has produced favourable reserve development averaging 1.8% during the last ten years.*
- *Capital strength, with all four insurance subsidiaries having statutory capital in excess of 200% MCT at year-end; consolidated net premiums written to equity of 1.5x.*
- *Shareholders' equity increased to \$861.7 million, resulting in BVPS of \$16.94 at December 31, 2004 compared to \$14.44 at year-end 2003, an increase of 17.3%.*

*All financial data in this release has been prepared using Canadian generally accepted accounting principles (“GAAP”), unless indicated otherwise. Certain totals, subtotals and percentages may not reconcile due to rounding. Unless otherwise indicated, all dollar amounts in this release are in Canadian dollars.*

*This release includes product names, trade names, trademarks, service marks and registered trademarks and service marks of Northbridge Financial Corporation (“Northbridge”, “we” or similar expressions), Lombard Canada Ltd. (“Lombard”), Commonwealth Insurance Company (“Commonwealth”), Markel Insurance Company of Canada (“Markel”), Federated Holdings of Canada Ltd. (“Federated”), each of which is the property of its respective owner.*

## **Earnings**

Improved underwriting results were the primary contributor to increased earnings in the fourth quarter and full year 2004 for Northbridge. Our operating company management teams continued to produce strong financial results while adhering to stringent underwriting standards during 2004’s largely favourable market conditions. Reported pre-tax income increased to \$75.9 million in the fourth quarter of 2004 from \$66.6 million in the fourth quarter of 2003, an increase of 14.0%, and increased to \$248.9 million in 2004 from \$237.1 million in 2003, an increase of 5.0%. Net earnings of \$48.1 million in the fourth quarter of 2004 grew by 10.1% compared to net earnings of \$43.7 million in the fourth quarter of 2003. For the full year, net earnings of \$162.2 million increased by 6.1% over net earnings of \$153.0 million in 2003.

## **Premium Revenue**

In 2004, Northbridge continued to experience premium growth in most lines of business, albeit at reduced levels compared to growth rates experienced in 2003. During the fourth quarter of 2004, gross premiums written declined modestly by 2.5% to \$493.5 million compared to \$506.3 million in the fourth quarter of 2003, while gross premiums written for the full year increased 4.0% to \$1,936.6 million from \$1,861.8 million in 2003. Net premiums written for the fourth quarter of 2004 increased 11.6% to \$337.8 million from \$302.7 million for the same period one year earlier, while net premiums written for the full year 2004 increased by 10.4% to \$1,250.4 million from \$1,132.8 million in 2003. Primary contributors to the overall growth in net premiums written in 2004 were Northbridge’s decreased utilization of reinsurance and the impact of rate increases in many lines of business. Retention of overall business written, as represented by net premiums written as a percentage of gross premiums written, increased to 64.6% in 2004 from 60.8% in 2003. Also contributing to the increase in net written premiums were premium amounts earned by Commonwealth in the fourth quarter of 2004 in respect of profit sharing pursuant to certain reinsurance agreements. Net premiums earned in the fourth quarter of 2004 increased by 20.2% to \$326.6 million from \$271.7 million in the fourth quarter of 2003, and net premiums earned in the full year 2004 increased by 23.5% to \$1,226.1 million from \$992.9 million in 2003.

## **Underwriting Results**

Northbridge earned record underwriting profit in the fourth quarter and full year 2004, as each of our operating companies reported improved underwriting results. Underwriting profit of \$68.7 million in the fourth quarter of 2004 compared to \$29.7 million for the same period one year earlier, an increase of

132.0%. Underwriting profit of \$150.7 million for the full year 2004 compared to \$73.8 million in 2003, an increase of 104.2%. The impact of rate increases, reduced cessions to reinsurers, favourable levels of new business and renewal retention, adherence to strict underwriting discipline, and a general year-over-year decline in claims counts contributed to the significant improvement in underwriting profit.

The tables that follow set out the growth in net premiums written and the year-over-year change in underwriting profits and combined ratios for each of our operating companies, for the fourth quarter and year ended 2004.

*For the quarters ended December 31, 2004 and 2003  
(in \$ millions except %)*

	<u>Net Premiums Written</u>		<u>% Change in Net Premiums Written</u>	<u>Underwriting Profit</u>		<u>Combined Ratio</u>	
	<u>2004</u>	<u>2003</u>		<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	Lombard .....	173.7		183.5	(5.3)	26.3	11.3
Commonwealth .....	74.1	51.8	43.1	32.8	16.5	48.9%	61.3%
Markel .....	64.8	43.1	50.3	7.8	1.1	86.6%	97.1%
Federated .....	25.2	24.3	3.8	1.8	0.8	93.0%	96.5%
<b>Northbridge .....</b>	<b>337.8</b>	<b>302.7</b>	<b>11.6</b>	<b>68.7</b>	<b>29.7</b>	<b>78.9%</b>	<b>89.1%</b>

*For the twelve months ended December 31, 2004 and 2003  
(in \$ millions except %)*

	<u>Net Premiums Written</u>		<u>% Change in Net Premiums Written</u>	<u>Underwriting Profit</u>		<u>Combined Ratio</u>	
	<u>2004</u>	<u>2003</u>		<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	Lombard .....	715.3		702.5	1.8	77.4	34.7
Commonwealth .....	201.4	183.9	9.5	44.7	28.0	77.5%	83.0%
Markel .....	233.0	152.9	52.4	22.2	7.4	90.2%	94.1%
Federated .....	100.7	93.5	7.7	6.4	3.7	93.3%	95.4%
<b>Northbridge .....</b>	<b>1,250.4</b>	<b>1,132.8</b>	<b>10.4</b>	<b>150.7</b>	<b>73.8</b>	<b>87.7%</b>	<b>92.6%</b>

Underwriting results in 2004 were negatively impacted by several weather-related events: losses related to four hurricanes in the U.S. Southeast (net pre-tax impact on Commonwealth and Lombard of \$35.9 million); and damage from floods in Ontario and hailstorms in Alberta (net pre-tax impact of \$2.3 million on Lombard and Federated). By comparison, 2003 underwriting results were adversely impacted by B.C. forest fires (net pre-tax impact of \$9.9 million on Lombard and Commonwealth) and Hurricane Juan in Atlantic Canada (net pre-tax impact of \$3.2 million on Lombard). Results from business assumed by Lombard, Markel and Federated from the Facility Association contributed \$4.1 million to 2004 underwriting profit, compared to aggregate underwriting losses of \$17.4 million in 2003. Underwriting profit in 2004 also included a \$15.0 million contribution to ceding commissions earned relating to reinsurance profit commissions and \$22.5 million in premiums earned pursuant to profit sharing provisions of certain reinsurance treaties. Of the total \$37.5 million earned in 2004, \$26.7 million was earned by Commonwealth in the fourth quarter. By comparison, reinsurance profit commissions contributed \$8.6 million to ceding commissions earned in 2003.

The tables that follow present the underwriting profit and combined ratios achieved by each of Northbridge's operating companies as well as the investment-related and other non-underwriting

elements of Northbridge's financial results for the fourth quarters and full years ended December 31, 2004 and 2003.

*For the quarter ended December 31, 2004  
(in \$ thousands except %)*

	<u>Lombard</u>	<u>Commonwealth</u>	<u>Markel</u>	<u>Federated</u>	<u>Total</u>
<b>Underwriting profit</b> .....	<u>26,342</u>	<u>32,821</u>	<u>7,827</u>	<u>1,778</u>	<u>68,768</u>
Combined ratio:					
Loss & LAE .....	58.1%	38.7%	57.4%	60.0%	54.3%
Expenses.....	<u>27.2</u>	<u>10.2</u>	<u>29.2</u>	<u>33.0</u>	<u>24.6</u>
	<u>85.3%</u>	<u>48.9%</u>	<u>86.6%</u>	<u>93.0%</u>	<u>78.9%</u>
Gross premiums written.....	<u>241,863</u>	<u>130,284</u>	<u>80,739</u>	<u>40,580</u>	<u>493,466</u>
Net premiums written .....	<u>173,733</u>	<u>74,084</u>	<u>64,807</u>	<u>25,186</u>	<u>337,810</u>
Net premiums earned.....	<u>178,626</u>	<u>64,186</u>	<u>58,412</u>	<u>25,363</u>	<u>326,587</u>
Claims .....	<u>103,776</u>	<u>24,812</u>	<u>33,554</u>	<u>15,218</u>	<u>177,360</u>
Operating expenses.....	<u>18,404</u>	<u>11,563</u>	<u>10,781</u>	<u>7,202</u>	<u>47,950</u>
Commissions, net .....	<u>21,854</u>	<u>(6,789)</u>	<u>3,963</u>	<u>(65)</u>	<u>18,963</u>
Premium taxes .....	<u>8,250</u>	<u>1,779</u>	<u>2,287</u>	<u>1,230</u>	<u>13,546</u>
	<u>152,284</u>	<u>31,365</u>	<u>50,585</u>	<u>23,585</u>	<u>257,819</u>
Underwriting results .....	<u>26,342</u>	<u>32,821</u>	<u>7,827</u>	<u>1,778</u>	<u>68,768</u>
Interest and dividends.....					<u>21,158</u>
Net realized losses on investments ....					<u>(12,047)</u>
Other costs.....					<u>(1,985)</u>
Earnings before income taxes.....					<u>75,894</u>
Taxes .....					<u>27,785</u>
Net earnings.....					<u>48,109</u>
Total identifiable assets .....	<u>2,136,570</u>	<u>1,245,511</u>	<u>633,640</u>	<u>397,600</u>	<u>4,413,321</u>
Other .....					<u>10,693</u>
Total assets .....					<u>4,424,014</u>

*For the quarter ended December 31, 2003  
(in \$ thousands except %)*

	<u>Lombard</u>	<u>Commonwealth</u>	<u>Markel</u>	<u>Federated</u>	<u>Total</u>
<b>Underwriting profit</b> .....	<u>11,303</u>	<u>16,478</u>	<u>1,081</u>	<u>783</u>	<u>29,645</u>
Combined ratio:					
Loss & LAE .....	62.5%	51.2%	75.6%	66.1%	62.9%
Expenses.....	<u>30.8</u>	<u>10.1</u>	<u>21.5</u>	<u>30.4</u>	<u>26.2</u>
	<u>93.3%</u>	<u>61.3%</u>	<u>97.1%</u>	<u>96.5%</u>	<u>89.1%</u>
Gross premiums written.....	<u>256,931</u>	<u>138,713</u>	<u>73,293</u>	<u>37,409</u>	<u>506,346</u>
Net premiums written .....	<u>183,501</u>	<u>51,785</u>	<u>43,128</u>	<u>24,272</u>	<u>302,686</u>
Net premiums earned.....	<u>169,368</u>	<u>42,557</u>	<u>37,309</u>	<u>22,462</u>	<u>271,696</u>
Claims .....	<u>105,959</u>	<u>21,802</u>	<u>28,218</u>	<u>14,855</u>	<u>170,834</u>
Operating expenses.....	<u>24,346</u>	<u>10,711</u>	<u>6,752</u>	<u>6,166</u>	<u>47,975</u>
Commissions, net .....	<u>19,840</u>	<u>(7,587)</u>	<u>(544)</u>	<u>(608)</u>	<u>11,101</u>
Premium taxes .....	<u>7,920</u>	<u>1,153</u>	<u>1,802</u>	<u>1,266</u>	<u>12,141</u>
	<u>158,065</u>	<u>26,079</u>	<u>36,228</u>	<u>21,679</u>	<u>242,051</u>
Underwriting results .....	<u>11,303</u>	<u>16,478</u>	<u>1,081</u>	<u>783</u>	<u>29,645</u>
Interest and dividends.....					<u>16,220</u>
Net realized gains on investments ....					<u>23,156</u>
Other costs.....					<u>(2,450)</u>
Earnings before income taxes.....					<u>66,571</u>
Taxes .....					<u>22,890</u>
Net earnings.....					<u>43,681</u>
Total identifiable assets .....	<u>1,739,350</u>	<u>1,075,505</u>	<u>531,125</u>	<u>332,329</u>	<u>3,678,309</u>
Other .....					<u>11,015</u>
Total assets .....					<u>3,689,324</u>

For the twelve months ended December 31, 2004  
(in \$ thousands except %)

	<u>Lombard</u>	<u>Commonwealth</u>	<u>Markel</u>	<u>Federated</u>	<u>Total</u>
<b>Underwriting profit</b> .....	<u>77,413</u>	<u>44,684</u>	<u>22,167</u>	<u>6,435</u>	<u>150,699</u>
Combined ratio:					
Loss & LAE .....	60.0%	66.0%	64.7%	64.2%	62.2%
Expenses.....	<u>29.0</u>	<u>11.5</u>	<u>25.5</u>	<u>29.1</u>	<u>25.5</u>
	<u>89.0%</u>	<u>77.5%</u>	<u>90.2%</u>	<u>93.3%</u>	<u>87.7%</u>
Gross premiums written.....	<u>1,021,767</u>	<u>466,692</u>	<u>287,381</u>	<u>160,795</u>	<u>1,936,635</u>
Net premiums written.....	<u>715,254</u>	<u>201,412</u>	<u>233,010</u>	<u>100,718</u>	<u>1,250,394</u>
Net premiums earned.....	<u>705,524</u>	<u>198,776</u>	<u>225,170</u>	<u>96,564</u>	<u>1,226,034</u>
Claims .....	<u>423,435</u>	<u>131,225</u>	<u>145,524</u>	<u>62,014</u>	<u>762,198</u>
Operating expenses.....	<u>79,992</u>	<u>31,650</u>	<u>33,365</u>	<u>25,471</u>	<u>170,478</u>
Commissions, net .....	<u>91,712</u>	<u>(14,918)</u>	<u>15,051</u>	<u>(2,060)</u>	<u>89,785</u>
Premium taxes .....	<u>32,972</u>	<u>6,135</u>	<u>9,063</u>	<u>4,704</u>	<u>52,874</u>
	<u>628,111</u>	<u>154,092</u>	<u>203,003</u>	<u>90,129</u>	<u>1,075,335</u>
Underwriting results .....	<u>77,413</u>	<u>44,684</u>	<u>22,167</u>	<u>6,435</u>	<u>150,699</u>
Interest and dividends.....					<u>79,519</u>
Net realized gains on investments ....					<u>29,511</u>
Other costs.....					<u>(10,827)</u>
Earnings before income taxes.....					<u>248,902</u>
Taxes .....					<u>86,678</u>
Net earnings.....					<u>162,224</u>
Total identifiable assets .....	<u>2,136,570</u>	<u>1,245,511</u>	<u>633,640</u>	<u>397,600</u>	<u>4,413,321</u>
Other .....					<u>10,693</u>
Total assets .....					<u>4,424,014</u>

For the twelve months ended December 31, 2003  
(in \$ thousands except %)

	<u>Lombard</u>	<u>Commonwealth</u>	<u>Markel</u>	<u>Federated</u>	<u>Total</u>
<b>Underwriting profit</b> .....	<u>34,665</u>	<u>28,008</u>	<u>7,422</u>	<u>3,707</u>	<u>73,802</u>
Combined ratio:					
Loss & LAE .....	63.3%	68.0%	73.1%	65.5%	65.5%
Expenses.....	<u>31.1</u>	<u>15.0</u>	<u>21.0</u>	<u>29.9</u>	<u>27.1</u>
	<u>94.4%</u>	<u>83.0%</u>	<u>94.1%</u>	<u>95.4%</u>	<u>92.6%</u>
Gross premiums written .....	<u>966,173</u>	<u>488,555</u>	<u>261,163</u>	<u>145,867</u>	<u>1,861,758</u>
Net premiums written.....	<u>702,473</u>	<u>183,932</u>	<u>152,853</u>	<u>93,527</u>	<u>1,132,785</u>
Net premiums earned.....	<u>621,261</u>	<u>164,476</u>	<u>126,390</u>	<u>80,737</u>	<u>992,864</u>
Claims .....	<u>393,449</u>	<u>111,887</u>	<u>92,386</u>	<u>52,855</u>	<u>650,577</u>
Operating expenses.....	<u>82,021</u>	<u>32,766</u>	<u>21,191</u>	<u>21,219</u>	<u>157,197</u>
Commissions, net .....	<u>82,192</u>	<u>(12,899)</u>	<u>(1,525)</u>	<u>(944)</u>	<u>66,824</u>
Premium taxes .....	<u>28,934</u>	<u>4,714</u>	<u>6,916</u>	<u>3,900</u>	<u>44,464</u>
	<u>586,596</u>	<u>136,468</u>	<u>118,968</u>	<u>77,030</u>	<u>919,062</u>
Underwriting results .....	<u>34,665</u>	<u>28,008</u>	<u>7,422</u>	<u>3,707</u>	<u>73,802</u>
Interest and dividends.....					<u>74,580</u>
Net realized gains on investments ....					<u>94,925</u>
Other costs.....					<u>(6,200)</u>
Earnings before income taxes.....					<u>237,107</u>
Taxes .....					<u>84,150</u>
Net earnings.....					<u>152,957</u>
Total identifiable assets .....	<u>1,739,350</u>	<u>1,075,505</u>	<u>531,125</u>	<u>332,329</u>	<u>3,678,309</u>
Other .....					<u>11,015</u>
Total assets .....					<u>3,689,324</u>

### *Lombard Insurance*

Disciplined underwriting and the dual impact of rate increases and declining new claims allowed Lombard Insurance to report record operating results in 2004. Underwriting profit of \$26.3 million in the fourth quarter of 2004 represents a 133.1% increase over the fourth quarter of 2003, with a combined ratio of 85.3% in the fourth quarter of 2004 compared to 93.3% in the fourth quarter of 2003. Gross premiums written declined by 5.9% to \$241.9 million from \$256.9 million for the same period one year earlier, primarily due to cancelled personal lines programmes. Net premiums written declined 5.3% to \$173.7 million in the fourth quarter of 2004 from \$183.5 million for the same period one year earlier, and net premiums earned increased 5.5% to \$178.6 million in the fourth quarter from \$169.4 million in the fourth quarter of 2003.

Underwriting profit of \$77.4 million for the full year 2004 represents a 123.3% increase over underwriting profit of \$34.7 million in 2003. Lombard's combined ratio was 89.0% for the full year 2004 compared to a combined ratio of 94.4% in 2003. Underwriting results in 2004 benefited from the improvement in the results of the Facility Association (\$1.6 million underwriting profit in 2004 compared to 2003's underwriting loss of \$13.2 million), but also included the offsetting impact of net adverse development on prior years' claims of \$17.5 million, arising primarily from greater than expected claims development in general liability and automobile lines. Gross premiums written of \$1,021.8 million represent a 5.8% increase from \$966.2 million in 2003, with the diminished growth rate relative to 2003 reflecting the increasingly competitive marketplace in both commercial and personal lines. Net premiums written increased 1.8% to \$715.3 million in 2004 from \$702.5 million in 2003, and net premiums earned increased 13.6% to \$705.5 million in 2004 from \$621.3 in 2003. The impact of greater volume growth in certain lines of business and higher rate increases achieved in the latter half of 2003 resulted in comparatively higher year-over-year percentage increases in net premiums earned compared to increases in written premiums.

Both the Commercial Lines and Personal Lines businesses performed well in 2004. Lombard's business segmented by gross premiums written in 2004 comprised 77.7% Commercial Lines and 22.3% Personal Lines compared to 73.3% and 26.7%, respectively, in 2003. Lombard's overall combined ratio of 89.0% in 2004 is primarily a product of the performance of the Commercial Lines business, which achieved single-digit average rate increases, favourable retention of renewal business, and robust levels of new business (although lower relative to 2003). Lombard's Personal Lines business continued to demonstrate improved performance relative to recent years, featuring particularly strong performance in its Privilege 50 line. Cancellation of several programmes resulted in an 11.6% decline in Personal Lines premium volume (gross premiums written declined to \$228.2 million in 2004 from \$258.3 million in 2003), but overall profitability was improved, featuring a combined ratio for 2004 of 95.2% compared to 106.1% in 2003.

### *Commonwealth Insurance*

Following the significant hurricane losses in the third quarter, Commonwealth returned to underwriting profitability in the fourth quarter. Fourth quarter 2004 underwriting profit was \$32.8 million, an increase of 99.2% over 2003 fourth quarter underwriting profit of \$16.5 million. Much of the year-over-year increase was due to \$26.7 million in reinsurance profit sharing amounts earned in the fourth quarter of 2004, compared to \$6.0 million earned in the fourth quarter of 2003. As a result, Commonwealth's combined ratio improved to 48.9% in the fourth quarter, compared to 107.9% in the third quarter of 2004 and 61.3% in the fourth quarter of 2003. Fourth quarter gross premiums written declined by 6.1%

to \$130.3 million on a year-over-year basis, but were essentially unchanged after accounting for the currency translation impact of the decline in the U.S. dollar during 2004. During the fourth quarter, net premiums written increased by 43.1% to \$74.1 million, and net premiums earned increased by 50.8% to \$64.2 million, reflecting the contribution of reinsurer profit sharing amounts earned during the quarter.

Commonwealth's full year underwriting performance was remarkable considering 2004 was the worst year for catastrophe losses in its history. The four hurricanes that passed through the U.S. Southeast resulted in total estimated insured losses of US\$22 billion for the industry. For 2004, Commonwealth reported underwriting profit of \$44.7 million, an increase of 59.5% from 2003 underwriting profit of \$28.0 million. Commonwealth's results reflect aggregate hurricane losses of \$32.8 million, as well as reinsurer profit sharing amounts totaling \$29.7 million. Commonwealth's combined ratio improved to 77.5% in 2004 from 83.0% achieved in 2003. Gross premiums written declined by 4.5% to \$466.7 million in 2004 from \$488.6 million in 2003. Excluding the currency translation impact of the decline in the U.S. dollar, gross premiums written at Commonwealth for the full year 2004 would have been essentially unchanged relative to 2003 levels. Net premiums written increased 9.5% to \$201.4 million for the full year 2004, and net premiums earned increased 20.9% to \$198.8 million.

Overall pricing in Commonwealth's various markets in 2004 remained well above levels experienced in the previous soft market; however, increased competition was evident and resulted in reduced levels of rate increases in some lines of business and rate reductions in others. Commonwealth anticipates stable or rising prices in the marine energy sector due to the significant industry losses in that sector caused by Hurricane Ivan. In the markets served by Commonwealth's U.S. property, non-marine energy and international, casualty, Seattle marine and Canadian property divisions, renewal pricing is expected to range from modest increases to reductions up to 35% in 2005.

#### *Markel Insurance*

The recovering market conditions of recent years have encouraged increased competition from existing insurers as well as new entrants to the long haul trucking segment of the commercial automobile insurance marketplace. Despite the resurgence in competition, including the reappearance of such soft market tactics as rate stabilization guarantees and insurer-policyholder profit sharing arrangements in the marketplace during 2004, Markel's disciplined approach, superior trucking infrastructure, conservative reserving practices and unique value-added products and services have positioned it as a strong competitor in these unsettled industry conditions. During the fourth quarter Markel continued its 2004 roll-out of new initiatives designed to consolidate its position as the leading insurer in the long haul trucking sector. Continued strong underwriting produced fourth quarter underwriting profit of \$7.8 million and a combined ratio of 86.6%, compared to \$1.1 million and 97.1% in the fourth quarter of 2003. Continuing premium growth saw gross premiums written increase by 10.2% to \$80.7 million, while net premiums written rose 50.3% to \$64.8 million, reflecting Markel's significantly decreased utilization of quota share reinsurance in 2004 compared to 2003. This greater retention of business contributed to a 56.6% increase in net premiums earned on a year-over-year basis.

For the full year, Markel posted underwriting profit of \$22.2 million and a combined ratio of 90.2%, improved from \$7.4 million and 94.1% in 2003. Premium growth of 10.0% in 2004, reflecting stable renewal retention and new business levels coupled with modest rate increases, resulted in gross premiums written of \$287.4 million. Owing largely to the decrease in quota share reinsurance from the 2003 level of 40% to 15% in 2004, net premiums written increased by 52.4% to \$233.0 million and net premiums earned rose by 78.2% to \$225.2 million. Markel expects competition in the long haul

trucking insurance segment to heighten further in 2005, both from existing insurers and new entrants, and plans to launch additional initiatives to further differentiate Markel from its competitors in the eyes of its policyholders, its brokers and the trucking community at large.

### *Federated Insurance*

Federated (comprising Federated Insurance and Federated Life) achieved impressive underwriting results in the fourth quarter of 2004, recording underwriting profit of \$1.8 million, a significant increase over the \$0.8 million earned in the same period one year earlier. Federated's combined ratio of 93.0% in the fourth quarter of 2004 improved from 96.5% in the fourth quarter of 2003. Gross premiums written increased by 8.5% to \$40.6 million in the fourth quarter of 2004, compared to \$37.4 million in the fourth quarter of 2003, while net premiums written increased by 3.8% to \$25.2 million in the fourth quarter of 2004 from \$24.3 million in the same period one year earlier. Rate and volume increases contributed to a 12.9% increase in net premiums earned to \$25.4 million compared to \$22.5 million in the fourth quarter of 2003.

For the full year 2004, strict underwriting discipline combined with double-digit average rate increases contributed to strong results, as the consolidated result of the Federated companies was underwriting profit of \$6.4 million, a 73.6% increase over the \$3.7 million earned in 2003, and a combined ratio of 93.3%, improved from 95.4% in 2003. Federated increased gross premiums written by 10.2% to \$160.8 million in 2004, compared to \$145.9 million in 2003. Net premiums written grew by 7.7% to \$100.7 million in 2004 from \$93.5 million in 2003, and net premiums earned increased by 19.6% to \$96.6 million from \$80.7 million in 2003.

In May of 2004 Northbridge announced its agreement to sell Federated Life for a purchase price of \$20 million, subject to the receipt of regulatory approvals required under the *Insurance Companies Act* and the *Competition Act*. The sale is anticipated to close in the first quarter of 2005, and to generate a pre-tax gain for Northbridge of approximately \$4 million. Northbridge will include the operating results of Federated Life in its financial results until closing of the sale transaction. Federated Life generated net income after tax of \$1.4 million in 2004, compared to \$0.7 million in 2003, on gross premiums written of \$23.6 million and net earned premiums of \$18.3 million, representing increases over 2003 of 8.4% and 8.0%, respectively.

### *Geographic Segments*

Northbridge's geographic business mix shifted moderately in 2004, with Canadian business accounting for 83.8% of gross premiums written in 2004 compared to 81.8% in 2003, while US and Other represented 16.2% in 2004 and 18.2% in 2003. This shift in business mix in 2004 is primarily attributable to the impact of the decline in the U.S. dollar relative to the Canadian dollar on US and Other premiums, and to the influence of general pricing trends in U.S. commercial property markets on Commonwealth's operations.

For the quarters ended December 31, 2004 and 2003  
(in \$ thousands)

	2004			2003		
	Canada	US and Other	Total	Canada	US and Other	Total
Gross premiums written ...	<u>410,268</u>	<u>83,198</u>	<u>493,466</u>	423,683	82,663	506,346
Net premiums written.....	<u>286,650</u>	<u>51,160</u>	<u>337,810</u>	274,126	28,560	302,686
Net premiums earned.....	<u>279,408</u>	<u>47,179</u>	<u>326,587</u>	244,276	27,420	271,696
Claims .....	<u>156,085</u>	<u>21,275</u>	<u>177,360</u>	155,479	15,355	170,834
Operating expenses.....	<u>40,584</u>	<u>7,366</u>	<u>47,950</u>	41,107	6,868	47,975
Commissions, net .....	<u>19,988</u>	<u>(1,025)</u>	<u>18,963</u>	17,752	(6,651)	11,101
Premium taxes .....	<u>13,431</u>	<u>115</u>	<u>13,546</u>	11,979	162	12,141
	<u>230,088</u>	<u>27,731</u>	<u>257,819</u>	226,317	15,734	242,051
Underwriting results .....	<u>49,320</u>	<u>19,448</u>	<u>68,768</u>	17,959	11,686	29,645
Investment income .....	<u>8,950</u>	<u>161</u>	<u>9,111</u>	31,728	7,648	39,376
Other.....	<u>(1,985)</u>	<u>—</u>	<u>(1,985)</u>	(2,450)	—	(2,450)
Earnings before income taxes.....	<u>56,285</u>	<u>19,609</u>	<u>75,894</u>	47,237	19,334	66,571
Total identifiable assets .....	<u>3,844,592</u>	<u>579,422</u>	<u>4,424,014</u>	3,065,126	624,198	3,689,324

For the twelve months ended December 31, 2004 and 2003  
(in \$ thousands)

	2004			2003		
	Canada	US and Other	Total	Canada	US and Other	Total
Gross premiums written ...	<u>1,623,788</u>	<u>312,847</u>	<u>1,936,635</u>	1,523,419	338,339	1,861,758
Net premiums written.....	<u>1,119,055</u>	<u>131,339</u>	<u>1,250,394</u>	1,014,461	118,324	1,132,785
Net premiums earned.....	<u>1,091,228</u>	<u>134,806</u>	<u>1,226,034</u>	882,522	110,342	992,864
Claims .....	<u>656,894</u>	<u>105,304</u>	<u>762,198</u>	571,520	79,057	650,577
Operating expenses.....	<u>149,847</u>	<u>20,631</u>	<u>170,478</u>	135,222	21,975	157,197
Commissions, net .....	<u>94,166</u>	<u>(4,381)</u>	<u>89,785</u>	75,040	(8,216)	66,824
Premium taxes .....	<u>52,179</u>	<u>695</u>	<u>52,874</u>	43,884	580	44,464
	<u>953,086</u>	<u>122,249</u>	<u>1,075,335</u>	825,666	93,396	919,062
Underwriting results .....	<u>138,142</u>	<u>12,557</u>	<u>150,699</u>	56,856	16,946	73,802
Investment income .....	<u>104,139</u>	<u>4,891</u>	<u>109,030</u>	142,626	26,879	169,505
Other.....	<u>(10,827)</u>	<u>—</u>	<u>(10,827)</u>	(6,200)	—	(6,200)
Earnings before income taxes.....	<u>231,454</u>	<u>17,448</u>	<u>248,902</u>	193,282	43,825	237,107
Total identifiable assets .....	<u>3,844,592</u>	<u>579,422</u>	<u>4,424,014</u>	3,065,126	624,198	3,689,324

### Product line segments

Northbridge's product mix shifted moderately to more commercial lines business in 2004 compared to 2003. In 2004, commercial lines accounted for 87.9% of gross premiums written compared to 85.6% in 2003, while personal lines accounted for 12.1% of gross premiums written in 2004 compared to 14.4% in 2003. The decline in personal lines premiums reflects measures taken by Lombard in 2003 and 2004 to enhance the profitability of its Personal Lines business, including the non-renewal of selected programmes and cost reduction initiatives.

	<b>Gross Premiums Written</b>			
	<b>Fourth Quarter</b>		<b>Twelve Months</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	(in \$ thousands)			
<b>Commercial</b>				
Property .....	175,065	185,772	645,082	678,708
Automobile .....	153,341	138,369	581,029	515,739
General Liability....	94,350	95,670	378,240	306,105
Life and Health .....	6,337	5,516	23,557	21,739
Other .....	14,585	13,444	73,739	70,679
<b>Personal</b>				
Property .....	16,150	18,510	72,501	75,187
Automobile .....	33,638	49,065	162,487	193,601
<b>Total</b> .....	<b><u>493,466</u></b>	<b><u>506,346</u></b>	<b><u>1,936,635</u></b>	<b><u>1,861,758</u></b>

Within our Commercial Lines business, some shifting of the premium mix occurred in 2004. Commercial property premiums declined, reflecting the impact of pricing in U.S. commercial property markets on the volumes Commonwealth is prepared to underwrite as well as the decline in the U.S. dollar on Commonwealth's U.S. dollar-denominated premiums. Commercial automobile premiums grew in response to business expansion at Lombard, Markel and Federated. General liability and casualty premium growth is attributable to the growth in volumes at Lombard, Commonwealth and Federated as well as to the impact of the continuing hardness of rates in these markets.

The decline in personal automobile premiums year-over-year reflects the impact of government-mandated rate rollbacks initiated in 2004 as well as measures taken in Lombard's personal lines business wherein selected programmes were not renewed.

## Investment Income

Investment income comprises interest and dividends plus net realized gains (losses) on portfolio investments. During the fourth quarter of 2004, Northbridge earned \$9.1 million in investment income, compared to \$39.4 million in the fourth quarter of 2003. Northbridge earned \$109.9 million in investment income during the full year 2004, compared to \$169.5 million in 2003.

	<b>Fourth quarter</b>		<b>Twelve months</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	(in \$ thousands)			
Interest and dividends:				
Cash and short term investments .....	3,806	4,497	9,241	9,786
Bonds .....	12,683	9,701	42,414	39,974
Preferred stock .....	1,240	1,488	4,790	8,770
Common stocks .....	5,811	2,291	28,024	20,333
Other .....	(55)	47	3,933	652
Total.....	<b><u>23,485</u></b>	18,024	<b><u>88,402</u></b>	79,515
Expenses .....	<b><u>(2,327)</u></b>	(1,804)	<b><u>(8,883)</u></b>	(4,935)
	<b><u>21,158</u></b>	16,220	<b><u>79,519</u></b>	74,580
Realized gains (losses) on investments:				
Bonds .....	74	10,499	7,604	79,294
Preferred stock .....	(131)	44	(131)	(2,195)
Common stocks .....	(11,990)	12,725	23,827	21,654
Provision for losses and writedowns.....	—	(112)	(1,789)	(3,828)
	<b><u>(12,047)</u></b>	23,156	<b><u>29,511</u></b>	94,925
Net investment income .....	<b><u>9,111</u></b>	<b><u>39,376</u></b>	<b><u>109,030</u></b>	<b><u>169,505</u></b>

Interest and dividend income earned in the fourth quarter of 2004, net of investment expenses, was \$21.2 million compared to \$16.2 million in the fourth quarter of 2003, reflecting the larger average investment portfolio in the fourth quarter. Interest and dividend income earned for the full year 2004, net of investment expenses, was \$79.5 million compared to \$74.6 million in 2003. The moderate increase for the full year 2004 is primarily attributable to the greater average investment portfolio held during 2004 (\$1,949.7 million in 2004 compared to \$1,624.8 million in 2003), notwithstanding the offsetting contribution of the lower average pre-tax yield (prior to expenses) of 4.53% for the full year 2004 compared to 4.89% in 2003.

Net realized losses on investments amounted to \$12.0 million in the fourth quarter of 2004 compared to net realized gains of \$23.2 million in same period one year earlier. For the full year 2004, net realized gains were \$29.5 million, compared to \$94.9 million in 2003. The decrease in realized gains on bonds accounted for most of the year-over-year decline. Additionally, included in the fourth quarter and full year 2004 results is a net loss of \$20.5 million, representing the net change in fair value of the SPDRs (Standard & Poor's Depository Receipts, specifically SPDR Trust Series 1, or "SPDRs") short position and the index call option long position at December 31, 2004. Net realized gains for the year of \$29.5 million as a percentage of average portfolio investments were 1.5% in 2004 compared to 5.8% in 2003. The average for the ten year period from 1994 through 2003 was 3.8%, while the average for the nineteen year period from inception in 1986 through 2004 is 4.9%.

Interest and dividend income for the fourth quarter of 2004 includes equity earnings of Hub of \$0.7 million (2003 — \$0.9 million). Interest and dividend income for the full year 2004 includes equity earnings of Hub of \$5.2 million (2003 — \$5.4 million).

## Portfolio Investments

	<u>December 31, 2004</u>		<u>December 31, 2003</u>	
	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
	(in \$ thousands)			
Subsidiary cash and short term investments .....	565,345	565,345	421,517	421,517
Bonds				
Canadian —				
government .....	483,564	505,405	522,736	533,216
corporate .....	275,556	279,030	181,093	186,665
Foreign — government .....	87,664	85,248	8,401	8,854
— corporate .....	202,236	198,764	67,748	57,545
Preferred stocks				
Canadian .....	154,625	155,350	175,764	177,834
Common stocks				
Canadian .....	370,534	479,878	187,768	230,685
Foreign .....	133,930	157,132	123,563	167,575
Obligations related to securities sold short .....	(264,797)	(264,797)	—	—
Investment in Hub .....	90,117	110,413	87,953	112,244
Real estate .....	11,875	18,400	12,243	18,400
	<u>2,110,649</u>	<u>2,290,168</u>	<u>1,788,786</u>	<u>1,914,535</u>

At December 31, 2004 portfolio investments at carrying value amounted to \$2,110.6 million, compared to \$1,788.8 million at December 31, 2003. The pre-tax unrealized gain on portfolio investments at December 31, 2004 was \$179.5 million, an increase of \$53.8 million over December 31, 2003, primarily attributable to appreciation in the common equity and bond portfolios during 2004.

During the third quarter, as an economic hedge against the potential impact on our equity portfolio of a decline in equity markets, the company sold short SPDRs in the amount of US\$200 million. Simultaneously, the company purchased out-of-the-money S&P index call options with a strike price of 120% of the price at which the SPDRs were sold short, representing a notional underlying amount of US\$200 million. In the event of a significant rise in the equity markets, the call options would effectively limit the potential loss on future purchase of the SPDRs to approximately US\$40 million. The short sale is recorded in obligations related to securities sold short and is carried at the fair market value of the borrowed SPDRs, which was \$264.8 million at December 31, 2004. The S&P index call options are included in common stocks at fair value.

### **Reinsurance Recoverables and Receivables**

Amounts recoverable from reinsurers increased to \$1,185.0 million at December 31, 2004 from \$1,118.3 million at year-end 2003, an increase of 6.0%, reflecting the increase in ceded premiums associated with higher premium volumes in 2004 offset by a general increase in retention of written business, primarily at Markel. Paid losses receivable from reinsurers increased to \$72.2 million from \$58.7 million year-over-year. At December 31, 2004 the top twenty reinsurers accounted for 93.8% of amounts recoverable and receivable from reinsurers compared to 94.1% at December 31, 2003. Overall asset quality improved with \$1,046.0 million or 82.6% of recoverables and receivables from reinsurers rated A- or better by A.M. Best at year-end, compared to \$962.4 million or 81.0% at year-end 2003. Of the \$220.1 million in balances recoverable and receivable from reinsurers rated below A- by A.M. Best, \$126.7 million is secured and \$93.4 million is unsecured.

Northbridge had amounts recoverable and receivable from affiliated reinsurers totaling \$632.2 million at year-end, compared to \$601.7 million at December 31, 2003. The 5.1% increase is largely attributable to the growth in premiums in 2004 and the increased cessions to affiliated reinsurers under 2004 treaties. Of the balances recoverable and receivable from affiliated reinsurers, \$524.9 million is recoverable and receivable from affiliated reinsurers rated A- or better by A.M. Best (CRC and Odyssey Re). Of the remaining \$107.3 million recoverable and receivable from affiliated reinsurers rated below A-, \$72.0 million is secured and \$35.3 million is unsecured.

### **Reserves**

Increased business volumes in 2003 and in 2004 contributed to the 23.6% increase in the provision for claims at year-end to \$2,089.8 million from \$1,690.2 million at year-end 2003. The change in the US/Cdn exchange rate during 2004 had a favourable \$13.3 million effect on Commonwealth's (and thus Northbridge's) reserves, compared to a favourable currency translation impact of \$27.2 million in 2003. Excluding the currency translation effect, Northbridge experienced \$15.0 million in net adverse reserve development during 2004. The net amount of \$15.0 million is comprised of net adverse reserve development at Lombard (\$17.5 million), Federated (\$2.3 million), and Markel (\$0.5 million), offset by favourable net reserve development at Commonwealth (\$5.3 million). Of the net \$15.0 million, \$13.2 million relates generally to greater than expected incurred loss development on general liability and auto liability claims in accident years prior to 2003, and in particular includes the strengthening of reserves on general liability claims incurred prior to 1995. The balance of \$1.8 million is related to Facility Association reserve adjustments affecting Lombard, Markel and Federated, and as such is largely beyond the control of those management teams. Northbridge's conservative approach to setting reserves has produced an average favourable reserve development of 1.8% during the last ten years.

## Capital and Liquidity

Northbridge was debt-free at December 31, 2004 (having repaid in full a \$6.1 million non-recourse mortgage obligation on a real estate investment during the first quarter of 2004), and had holding company cash and short term investments of \$1.4 million. Cash provided by operating activities was \$327.1 million for 2004 and was the primary contributor to the increase in our total cash resources to \$566.7 million at December 31, 2004 from \$426.9 million at December 31, 2003.

As at December 31, 2004, Northbridge is adequately capitalized to support the growth in premium volume experienced by its operating companies. The ratio of net premiums written in 2004 to shareholders' equity was 1.5 at December 31, 2004, unchanged from the ratio at December 31, 2003. In terms of regulatory measures of capital adequacy, our property and casualty insurance subsidiaries have a combined surplus of \$308.4 million in excess of the minimum supervisory target of 150% as calculated under the Minimum Capital Test at December 31, 2004, compared to \$260.0 million at December 31, 2003.

Common shareholders' equity at December 31, 2004 was \$861.7 million or \$16.94 per share, compared to \$734.4 million or \$14.44 per share at December 31, 2003.

## Comparative Quarterly Information

(in \$ millions except % and per share amounts)

	<i>Quarters Ended</i>							
	Dec. 31 <u>2004</u>	Sept. 30 <u>2004</u>	June 30 <u>2004</u>	March 31 <u>2004</u>	Dec. 31 <u>2003</u>	Sept. 30 <u>2003</u>	June 30 <u>2003</u>	March 31 <u>2003</u>
Gross premiums written .....	493.5	453.6	557.5	432.1	506.3	475.0	502.5	377.9
Net premiums written .....	337.8	295.2	354.1	263.2	302.7	282.7	308.8	238.6
Net premiums earned .....	326.6	312.5	305.5	281.4	271.7	258.2	243.1	219.9
Underwriting profit .....	68.7	33.0	28.7	20.3	29.7	18.9	15.2	10.1
Interest and dividends .....	21.2	17.5	15.6	25.2	16.2	17.8	16.7	23.9
Realized gains on investments .....	(12.0)	13.0	23.4	5.2	23.2	2.4	63.6	5.7
Other costs .....	(2.0)	(4.4)	(2.8)	(1.7)	(2.5)	(2.8)	(0.8)	(0.1)
Earnings before income taxes .....	75.9	59.1	64.9	49.0	66.6	36.3	94.7	39.6
Taxes .....	27.8	20.6	21.6	16.8	22.9	13.5	37.2	10.6
Net earnings .....	<u>48.1</u>	<u>38.5</u>	<u>43.3</u>	<u>32.2</u>	<u>43.7</u>	<u>22.8</u>	<u>57.5</u>	<u>29.0</u>
Combined ratio:								
Loss & LAE .....	54.3%	63.6%	65.7%	65.9%	62.9%	66.6%	65.2%	67.9%
Expenses .....	24.6%	25.8%	24.9%	26.9%	26.2%	26.1%	28.5%	27.5%
	<u>78.9%</u>	<u>89.4%</u>	<u>90.6%</u>	<u>92.8%</u>	<u>89.1%</u>	<u>92.7%</u>	<u>93.7%</u>	<u>95.4%</u>
Net earnings per share .....	\$0.95	\$0.76	\$0.85	\$0.63	\$0.86	\$0.45	\$1.16	\$0.60
Net earnings per diluted share .....	\$0.94	\$0.76	\$0.85	\$0.63	\$0.86	\$0.45	\$1.16	\$0.60
Book value per share .....	\$16.94	\$16.22	\$15.70	\$14.97	\$14.44	\$13.79	\$13.49	\$12.50

## **Conference Call**

As previously announced, Northbridge will hold a conference call and webcast at 9:30 am ET on Friday, February 11, 2005 to discuss its fourth quarter and 2004 year-end results, which will be available on the Company's website at [www.northbridgefinancial.com](http://www.northbridgefinancial.com) under "News Releases". The call, consisting of a presentation by management of the Company followed by a question period, will be broadcast live on the internet through the Company's website. Presentation materials will be posted on the Company's website prior to the call and a replay will be available following the call on the same website until Friday, February 25, 2005. The call will also be available live via telephone at (416) 695-6120 or (888) 789-0150, and a replay of the call will be available via telephone at (416) 695-5275 or (866) 518-1010 until February 25, 2005.

Northbridge's 2004 Annual Report is scheduled to be posted on its website under "Financial Information" after the close of markets on Friday, March 4, 2005, and to be mailed to shareholders shortly thereafter.

## **About Northbridge**

Northbridge, which through its subsidiaries provides property and casualty insurance products primarily in the Canadian market as well as in selected U.S. and international markets, is one of the largest commercial property and casualty insurers in Canada based on gross premiums written. The common shares of Northbridge are listed and traded under the symbol NB on the Toronto Stock Exchange. Visit Northbridge at [www.northbridgefinancial.com](http://www.northbridgefinancial.com) for more information.

## **Forward-Looking Information**

Statements in this release about future plans and intentions, results, levels of activity, performance, goals or achievements or other future events constitute forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. In some cases forward-looking statements can be identified by the use of words such as "may", "will", "should", "could", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts" or "potential" or the negative or other variations of these words, or other comparable words or phrases. Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements or other future events. We are under no duty to update any of our forward looking statements. Readers should not place undue reliance on forward-looking statements.

For further information contact: Greg Taylor, Chief Financial Officer, at (416) 350-4300

**CONSOLIDATED BALANCE SHEETS**

as at December 31, 2004 and December 31, 2003

(unaudited — Cdn\$ thousands)

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Cash and short term investments .....	1,368	5,392
Accounts receivable and other .....	573,477	511,693
Paid losses receivable .....	72,152	58,731
Recoverable from reinsurers .....	<u>1,185,048</u>	<u>1,118,309</u>
	<u>1,832,045</u>	<u>1,694,125</u>
<i>Investments</i>		
Subsidiary cash and short term investments .....	565,345	421,517
Bonds .....	1,049,020	779,978
Preferred stocks.....	154,625	175,764
Common stocks.....	504,464	311,331
Investment in Hub.....	90,117	87,953
Real estate .....	11,875	12,243
Total.....	<u>2,375,446</u>	<u>1,788,786</u>
Deferred premium acquisition costs .....	131,908	133,262
Future income taxes .....	44,720	32,598
Premises and equipment .....	13,458	12,090
Goodwill .....	19,912	22,267
Other assets .....	6,525	6,196
	<u>4,424,014</u>	<u>3,689,324</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities .....	292,891	300,923
Obligations related to securities sold short .....	264,797	—
Income taxes payable .....	3,335	50,776
Due to affiliates.....	99	1,227
Provision for claims .....	2,089,778	1,690,217
Unearned premiums .....	911,447	905,695
Mortgage payable .....	—	6,115
	<u>3,562,347</u>	<u>2,954,953</u>
<b>Shareholders' Equity</b>		
Capital.....	575,827	575,664
Retained earnings.....	297,456	165,744
Currency translation account .....	<u>(11,616)</u>	<u>(7,037)</u>
	<u>861,667</u>	<u>734,371</u>
	<u>4,424,014</u>	<u>3,689,324</u>

## CONSOLIDATED STATEMENTS OF EARNINGS

for the quarter and twelve months ended December 31, 2004 and 2003  
(unaudited — Cdn\$ thousands)

	Fourth quarter		Twelve months	
	2004	2003	2004	2003
<b>Revenue</b>				
Gross premiums written.....	<u>493,466</u>	506,346	<u>1,936,635</u>	1,861,758
Net premiums written.....	<u>337,810</u>	302,686	<u>1,250,394</u>	1,132,785
Net premiums earned.....	<u>326,587</u>	271,696	<u>1,226,034</u>	992,864
Interest and dividends.....	<u>21,158</u>	16,220	<u>79,519</u>	74,580
Realized gains on investments.....	<u>(12,047)</u>	23,156	<u>29,511</u>	94,925
	<u>335,698</u>	311,072	<u>1,335,064</u>	1,162,369
<b>Expenses</b>				
Claims.....	177,360	170,834	762,198	650,577
Operating expenses.....	47,950	47,975	170,478	157,197
Commissions, net.....	18,963	11,101	89,785	66,824
Premium taxes.....	13,546	12,141	52,874	44,464
Other.....	1,985	2,450	10,827	6,200
	<u>259,804</u>	244,501	<u>1,086,162</u>	925,262
<b>Earnings before income taxes.....</b>	<b>75,894</b>	66,571	<b>248,902</b>	237,107
Provision for income taxes.....	<u>27,785</u>	22,890	<u>86,678</u>	84,150
<b>Net earnings.....</b>	<b><u>48,109</u></b>	<u>43,681</u>	<b><u>162,224</u></b>	<u>152,957</u>
<b>Net earnings per share.....</b>	<b>\$ 0.95</b>	\$ 0.86	<b>\$3.19</b>	\$3.07
<b>Net earnings per diluted share.....</b>	<b>\$ 0.94</b>	\$ 0.86	<b>\$3.18</b>	\$3.07
<b>Weighted average shares (000).....</b>	<b>50,851</b>	50,851	<b>50,851</b>	49,824
<b>Weighted average diluted shares (000).....</b>	<b>50,968</b>	50,920	<b>50,956</b>	49,861
<b>Shares outstanding (000).....</b>	<b>50,851</b>	50,851	<b>50,851</b>	50,851

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

for the twelve months ended December 31, 2004 and 2003  
(unaudited — Cdn\$ thousands)

	2004	2003
<b>Retained earnings — beginning of year.....</b>	<b>165,744</b>	37,356
Net earnings.....	162,224	152,957
Common share dividends.....	(30,512)	(24,569)
<b>Retained earnings — end of year.....</b>	<b><u>297,456</u></b>	<u>165,744</u>

## CONSOLIDATED STATEMENTS OF CASH FLOWS

for the quarter and twelve months ended December 31, 2004 and 2003  
(unaudited — Cdn\$ thousands)

	Fourth quarter		Twelve months	
	2004	2003	2004	2003
<b>Operating activities</b>				
Net earnings .....	48,109	43,681	162,224	152,957
Amortization .....	1,077	3,986	3,389	7,471
Future income taxes .....	(16,313)	(8,913)	(12,122)	(4,200)
Realized gains on investments .....	12,047	(23,156)	(29,511)	(94,925)
	<u>44,920</u>	<u>15,598</u>	<u>123,980</u>	<u>61,303</u>
Cash flow from change in:				
Provision for claims .....	112,867	66,024	394,761	173,755
Unearned premiums .....	9,177	40,111	5,752	76,798
Accounts receivable and other .....	(55,969)	(37,635)	(61,784)	(85,161)
Income taxes payable .....	16,142	23,763	(47,441)	30,806
Deferred premium acquisition costs .....	(1,400)	(7,692)	1,354	(19,598)
Paid losses receivable .....	(19,894)	(10,903)	(13,421)	28,594
Recoverable from reinsurers .....	(72,438)	(38,820)	(66,739)	(1,720)
Due to affiliates .....	(1,622)	1,048	(1,128)	(873)
Accounts payable and accrued liabilities .....	(8,461)	26,832	(8,032)	(29,024)
Other .....	(1,137)	388	(166)	(603)
Cash provided by operating activities .....	<u>22,185</u>	<u>78,714</u>	<u>327,136</u>	<u>234,277</u>
<b>Investing activities</b>				
Investments — purchases .....	(139,645)	(165,692)	(886,659)	(1,045,653)
— sales .....	10,973	99,181	741,610	992,877
Purchase of premises and equipment .....	(2,920)	(1,315)	(5,877)	(4,738)
Cash provided by used in investing activities .....	<u>(131,592)</u>	<u>(67,826)</u>	<u>(150,926)</u>	<u>(57,514)</u>
<b>Financing activities</b>				
Issue of common shares .....	—	(49)	—	47,711
Mortgage payable — repayment .....	—	(196)	(6,115)	(761)
Common share dividends .....	(7,628)	(7,628)	(30,512)	(24,569)
Cash provided by (used in) financing activities .....	<u>(7,628)</u>	<u>(7,873)</u>	<u>(36,627)</u>	<u>22,381</u>
Foreign currency translation .....	1,098	200	221	98
<b>Increase (decrease) in cash resources .....</b>	<b>(115,937)</b>	<b>3,215</b>	<b>139,804</b>	<b>199,242</b>
<b>Cash resources — beginning of period .....</b>	<b>682,650</b>	<b>423,694</b>	<b>426,909</b>	<b>227,667</b>
<b>Cash resources — end of period .....</b>	<b>566,713</b>	<b>426,909</b>	<b>566,713</b>	<b>426,909</b>

Cash resources consist of cash and short term investments, including subsidiary cash and short term investments. Short term investments are readily convertible into cash and have maturities of three months or less.