

Intact Financial Corporation reports fourth quarter and year-end results

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- Continued healthy premium growth of close to 5%
- Net operating income per share of \$0.70 in Q4
- ROE of 13.9% with a 10% increase in book value per share in 2010
- Quarterly dividend to increase by 8.8% to 37 cents

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TORONTO, Feb. 9 /CNW/ - Intact Financial Corporation (TSX: IFC) today reported net operating income for the quarter ended December 31, 2010 of \$79.0 million, or \$0.70 per share, down 14.6% per share from the particularly strong results of the last quarter of 2009. The combined ratio reached 98.0%, up 3.4 percentage points. Direct premiums written grew by 4.8% over the same quarter a year ago to reach \$1,060 million. Net income for the quarter on a per share basis increased to \$0.87 per share compared to \$0.81 last year.

Net operating income for the year was strong at \$399.0 million, or \$3.47 per share, up 47.7% per share, over the previous year with an operating return on equity of 13.2%. Net income increased by \$293.1 million from the previous year to \$419.8 as a result of much improved operating results and significant investment gains for a return on equity of 13.9%. The book value per share increased by 10% to \$27.37, from a year earlier. The combined ratio also improved by 3.3 percentage points over last year to 95.4%. Direct premiums written for the year were \$4,498 million, up 5.2%.

CEO's Comments

"The solid and sustained growth of our premiums and our much improved underwriting results in 2010 led to one of our best performances in recent years. The initiatives we have launched over the last two years have allowed us to continue to outperform the industry both in terms of growth and profitability," said Charles Brindamour, President and CEO of Intact Financial Corporation.

"The improvement in home insurance and commercial property has been most remarkable. Auto insurance results have been robust considering the impact of the continued increase in medical claims costs in Ontario on the industry performance.

"The early arrival of winter and higher losses than expected from weather events led to disappointing results in the last three months of the year, following four consecutive quarters of significant underwriting improvements. While weather patterns continue to be unpredictable and bring greater volatility to our results, our underlying performance throughout the quarter remained good.

"Our strong financial position and the quality of our operating earnings have allowed us to increase our dividend, for the sixth consecutive year, and to continue returning capital to our shareholders through share repurchases."

Dividend

The Board of Directors increased the company's quarterly dividend by 8.8%, or 3 cents, to 37 cents per share on its outstanding common shares. The dividend will be payable on March 31, 2011 to shareholders of record on March 15, 2011.

Current Outlook

Industry premiums are likely to increase in 2011 at a pace similar to last year with percentage growth in the mid single digits in personal auto and upper single digits in personal property. These increases will be driven by rate inadequacies in auto insurance in Ontario and the impact of water-related losses and more frequent and severe storms. Commercial lines premiums are expected to grow at a low single digit rate, with no acceleration from the pace of last year.

At an industry level, loss ratios are expected to improve in personal auto assuming that the reforms adopted in Ontario will bring the anticipated results. In home insurance, loss ratios should also benefit from continued premium increases. Loss ratios are expected to remain stable in commercial lines but pricing conditions may improve at a moderate pace over time. Although its combined ratio may decline, we do not expect the industry to earn an underwriting profit in the next twelve months. The industry's return on equity was approximately 7% at the end of Q3-2010 and is unlikely to improve in the near term, as any increase in underwriting income will be offset by a decline in investment income, resulting from lower yields.

The company is well-positioned to continue outperforming the P&C insurance industry in the current environment due to its significant scale, pricing and underwriting discipline, prudent investment and capital management practices, and strong financial position. Given these attributes, the company believes that it will outperform the industry's ROE by at least 500 basis points in the next twelve months.

Consolidated Highlights

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In millions of dollars, except as otherwise noted						
	Q4-2010	Q4-2009	Change	2010	2009	Change
Direct premiums written (excluding pools)	1,060.2	1,011.4	4.8%	4,498.1	4,274.9	5.2%
Underwriting income(1)	21.8	56.0	(61.1%)	193.8	54.0	258.9%
Net operating income(2)	79.0	98.1	(19.5%)	399.0	281.6	41.7%
Net income	97.5	96.7	0.8%	419.8	126.7	231.3%
Net operating income per share (dollars)	0.70	0.82	(14.6%)	3.47	2.35	47.7%
Earnings per share Basic and diluted (dollars)	0.87	0.81	7.4%	3.65	1.06	244.3%
Operating ROE			13.2%	9.2%	4.0 pts	
ROE			13.9%	4.5%	9.4 pts	
Combined ratio (excluding MYA)	98.0%	94.6%	3.4 pts	95.4%	98.7%	(3.3 pts)
Weighted average number of shares outstanding (millions)	112.6	119.9	(7.3)	115.1	119.9	(4.8)

- (1) Underwriting income is defined as underwriting income excluding market yield adjustment (MYA).
- (2) Net operating income is defined as the sum of underwriting income, interest and dividend income and corporate and distribution income, after tax.
- (3) Operating ROE is defined as net operating income for the last twelve months divided by the average shareholders' equity (excluding accumulated other comprehensive income) for the same twelve-month period. The average shareholders' equity is calculated by adding the beginning balance and the ending balance and dividing by two.

Operating Highlights

- Net operating income for the quarter was \$79.0 million, down \$19.1 million from the same quarter in 2009, as a result of lower underwriting and investment income. Net operating income for the year was \$399.0 million, up \$117.4 million from the previous year due to a much improved underwriting performance. The operating ROE for 2010 was 13.2%, up 4 percentage points.
- Direct premiums written increased 4.8% in the fourth quarter to \$1,060 million. Personal insurance premiums grew 5.1% mainly as a result of higher rates. Home insurance premiums increased 7.3% while the growth rate of auto premiums slowed down to 4.0% due to the cautious approach the company has adopted as the Ontario reforms unfold. Commercial auto insurance premiums were up 5.8% while commercial P&C premiums increased by 3.6% despite the cancellation of a number of commercial group accounts late in 2009. As expected, these cancellations slowed the growth rate of commercial P&C premiums in the quarter by 2.0 percentage points.

Total direct premiums written increased 5.2% during the year to reach \$4,498 million compared to \$4,275 million in 2009, as pricing conditions firmed up in all lines of business.

- Underwriting income for the quarter was \$21.8 million, with a 98.0% combined ratio, down significantly from the particularly strong results from a year ago. The decline reflects the impact of early winter conditions and higher losses than originally expected from

whether events that occurred earlier this year. However, the underlying current year loss ratio improved during the quarter.

The underwriting performance in home insurance remained robust with a combined ratio of 91.7%. Personal auto underwriting income was down significantly with a loss of \$16.5 million and a 103.0% combined ratio as a result of the impact of increased level of catastrophic losses and snow precipitation in December.

Commercial insurance underwriting income improved during the quarter to reach \$17.2 million up 4.9% from the last quarter of 2009, driven by improved results in commercial P&C, which offset a lower performance in commercial auto. The combined ratio for commercial auto and P&C were respectively 93.9% and 93.8%.

Total underwriting income increased significantly in 2010 reaching \$193.8 million up from \$54 million in 2009 with improved performance in home and commercial P&C. Auto insurance remains profitable despite the deterioration in Ontario results prior to the adoption of new regulatory framework in the fall of 2010.

- Interest and dividend income, net of expenses at \$72.9 million declined 5.7% during the quarter compared to the same period of last year as a result of declining yields. Total interest and dividend income, net of expenses, for the year was up 0.6% to \$294.4 as the increase in the size of the portfolio offset the decline in interest rates during the year. The market-based yield for the quarter and the year were 4.1% and 4.2% respectively.

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Investment Gains

Gains on invested assets, excluding HFT bonds, improved significantly to \$34.8 million compared to \$4.6 million in the last quarter of 2009. For the year 2010, the company generated investment gains of \$42.2 million compared to a loss of \$169.5 million in 2009. Cash and invested assets amounted to nearly \$8.7 billion at the end of the 2010, up 7.4% since the beginning of the year.

Capital Management

The company's book value per share has risen by 10% over the last twelve months to \$27.37 and its financial position remains strong with \$808.5 million in excess capital. The company's ratio of debt to total capital remains low at 13.9% with additional debt capacity of about \$270 million before reaching its target level of 20%.

During the year, the company acquired 7.7 million shares under the Normal course issuer bid launched in February 2010, at an average price of \$44.06 for a total consideration of \$340.6 million.

Analysts Estimates

The average estimate of earnings per share and net operating income per share for the fourth quarter among the analysts who follow the company was \$0.99 and \$0.90 respectively.

Conference Call

Intact Financial Corporation will host a conference call to review its earnings results later today at 10:00 a.m. ET. To listen to the call via live audio webcast and to view the company's Financial Statements, Management's Discussion & Analysis, presentation slides, the statistical supplement and other information not included in this press release, visit our website at www.intactfc.com and link to "Investor Relations." All of these documents are available on our website.

The conference call is also available by dialling (647) 427-7450 or 1 (888) 231-8191 (toll-free in North America). Please call 10 minutes before the start of the call.

A replay of the call will be available later today at 1:00 pm ET through 11:59 p.m. ET on Wednesday, February 16. To listen to the replay, call 1 (800) 642-1687, passcode 33110678. A transcript of the call will also be available on Intact Financial Corporation's website.

About Intact Financial Corporation

Intact Financial Corporation (www.intactfc.com) is the largest provider of property and casualty insurance in the country with \$4.5 billion in premiums. Its 7,500 employees offer home, auto and business insurance under the Intact Insurance, Novex Group Insurance, belairdirect and Grey Power brands.

Forward Looking Statements

This document may contain forward looking statements that involve risks and uncertainties. The company's actual results could differ materially from these forward looking statements as a result of various factors, including those discussed in the company's most recently filed Annual Information Form and annual Management's Discussion & Analysis. Please read the cautionary note at the end of the MD&A.

<https://newsroom.intactfc.com/2011-02-09-Intact-Financial-Corporation-reports-fourth-quarter-and-year-end-results>