

Intact Financial Corporation Reports Fourth Quarter and Year-End Results

TORONTO, Feb. 6, 2013 /CNW/ -

- **Net operating income per share up 25% to \$1.42 in the fourth quarter, reflecting a combined ratio of 92.1%**
- **Premium growth of 7% in the fourth quarter, bolstered by the addition of JEVCO**
- **Operating ROE of 16.8% with an 11% increase in book value per share in 2012**
- **Quarterly dividend raised 10% to \$0.44 per share**
- **AXA Canada and JEVCO integrations on track**

Intact Financial Corporation (TSX: IFC) today reported net operating income for the quarter ended December 31, 2012 of \$194 million, or \$1.42 per share up 25% compared to the same quarter last year, driven by improved underwriting performance. Net income was \$181 million compared to \$84 million for the corresponding quarter last year due to improved operating results and higher investment gains. Adjusted earnings per share, which excludes integration-related costs, was up 32% to \$1.51. The exceptional performance in personal property resulted in an overall combined ratio of 92.1%. Direct premiums written increased 7% year-over-year to reach \$1.7 billion, reflecting the acquisition of JEVCO and organic growth.

Net operating income for the year was \$675 million, up \$215 million from the previous year. On a per share basis, net operating income increased 28% to \$5.00 on higher underwriting and investment income. Net income was \$587 million compared to \$465 million in the prior year, while adjusted earnings per share was up 7% to \$5.15 as greater operating income more than offset the decline in investment gains. The combined ratio improved 1.3 percentage points versus last year to 93.1%. Direct premiums written for the year increased 35% to reach \$6.9 billion, reflecting the acquisitions of AXA Canada and JEVCO. The book value per share was up 11% during the year to \$33.03.

CEO's Comments

"Our excellent fourth quarter underwriting performance is indicative of the progress that we achieved in 2012," said Charles Brindamour, Chief Executive Officer of Intact Financial Corporation. "Throughout the year, we continued to strengthen our operating performance despite the low yield environment and the impact of weather events which challenged the industry."

"Given our solid financial position and strong operating earnings, we are increasing our dividend for the eighth consecutive year. As we begin another year, we are confident that we will outperform the industry and continue to build a world-class P&C insurer."

Dividends

The Board of Directors increased the company's quarterly dividend by 10%, or 4 cents, to 44 cents per share on its outstanding common shares. The Board also declared a quarterly dividend of 26.25 cents per share on the Company's Class A Series 1 and Class A Series 3 shares. All dividends are payable on March 28, 2013 to shareholders of record on March 14, 2013.

Current Outlook

The company expects that industry premium growth is likely to evolve at a similar pace to that of the last 12 months. Furthermore, the continued low interest rate environment could support firmer market conditions.

At an industry level, we do not expect a significant improvement in personal auto as Ontario reforms have largely brought about the expected cost savings. Results in personal property may benefit from continued hard market conditions and potential initiatives aimed at mitigating losses from future catastrophes. In commercial lines, the company does not anticipate loss ratio improvements but conditions should improve at a moderate pace over time.

Overall, the industry's ROE is likely to progress at the same upper single digit rate that it recorded in the first nine months of 2012, and will likely remain slightly below its long-term average of 10% in 2013.

IFC is well-positioned to continue outperforming the P&C insurance industry due to its pricing and underwriting discipline, claims management capabilities, prudent investment and capital management practices and solid 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 12 months.

Consolidated Highlights

In millions of dollars, except as otherwise noted	Q4-2012	Q4-2011	Change	2012	2011	Change
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Direct premiums written (excluding pools)	1,690	1,576	7%	6,868	5,099	35%
Underwriting income ¹	138	118	17%	451	273	65%
Net operating income	194	152	28%	675	460	47%
Net income	181	84	115%	587	465	26%
Earnings per share Basic and diluted (dollars)	1.32	0.62	113%	4.33	3.96	9%
Adjusted earnings per share Basic and diluted (dollars)	1.51	1.14	32%	5.15	4.82	7%
Net operating income per share (dollars)	1.42	1.14	25%	5.00	3.91	28%
ROE for the last 12 months ²	13.8%	14.3%	(0.5) pts			
Adjusted ROE for the last 12 months ²	16.5%	17.4%	(0.9) pts			
Operating ROE for the last 12 months ²	16.8%	15.3%	1.5 pts			
Combined ratio (excluding MYA)	92.1%	92.7%	(0.6) pts	93.1%	94.4%	(1.3) pts
Book value per share (dollars)	33.03	29.73	11%			

¹ Underwriting income is defined as underwriting income excluding market yield adjustment (MYA). The MYA is the impact on claims liabilities due to movement in discount rates.

² For ROE, Adjusted ROE and Operating ROE in 2012, the average equity calculation has been adjusted on a pro rata basis to account for the \$229 million of common shares issued as at September 4, 2012. The 2011 calculation was adjusted for the \$921 million of common shares issued as at September 23, 2011.

Operating Highlights

- **Net operating income** for the quarter was \$194 million, up \$42 million from the equivalent quarter in 2011. The 28% increase is attributable to improved underwriting income driven by an exceptional performance in home insurance. The operating ROE for the last twelve months improved by 1.5 percentage points to 16.8%.

Net operating income for the year was \$675 million, up 47% from \$460 million recorded in 2011. The increase reflects the contribution of AXA Canada to both underwriting and investment income as well as an improvement in the combined ratio.

- **Direct premiums written** increased 7% in the fourth quarter to \$1.7 billion, as a result of the addition of JEVCO and organic growth.

For the year, total direct premiums written increased by \$1.8 billion to \$6.9 billion. The increase is mainly attributable to the additions of AXA Canada and JEVCO.

- **Underwriting income** in the quarter increased by \$20 million to \$138 million compared to the same period a year ago, led by unusually strong results in home insurance. Overall, the combined ratio improved by 0.6 percentage points to 92.1%.

Personal property combined ratio improved 21.5 percentage points to an exceptional 67.1% from the very strong underwriting performance recorded in the fourth quarter of 2011. The improvement was the result of unusually high favourable prior year claims development, a decline in catastrophe losses, our continued actions to improve profitability and benign weather. Excluding the impact of the catastrophes and prior year claims development, the loss ratio improved by 5.8 percentage points year-over-year.

Personal auto combined ratio increased by 9.8 percentage points to 103.1% compared to the same period last year, primarily due to unfavourable prior year claims development related to actions that we took to protect against early signs of deterioration in bodily injury claims in Alberta and uncertainty in Ontario.

Commercial auto combined ratio improved 8.8 percentage points from a year ago to 84.2%, reflecting higher favourable prior year claims development.

Commercial P&C combined ratio of 95.9% was largely unchanged from the corresponding quarter of last year. Improvements in the claims ratio were offset by an increase in the expense ratio due to higher variable commissions related to improved profitability.

Despite catastrophe losses that reached \$245 million, total underwriting income for the year was up \$178 million to \$451 million, largely reflecting the addition of AXA Canada. Overall, the combined ratio improved 1.3 percentage points during the year to 93.1%.

Investment income of \$102 million remains relatively flat from the corresponding period in 2011 as an increase in investments resulting from the acquisition of JEVCO was offset by the impact of declining yields. For the year, total investment income was up 19% to \$389 million, as a result of increased investments. The market-based yield was 3.6% for both the quarter and the year, down from the comparable periods.

Investment Gains

Net investment gains, excluding fair-value-through-profit-or-loss bonds, were \$30 million in the fourth quarter compared to a loss of \$7 million a year ago due to lower equity impairments. In 2012, the company had investment gains of \$72 million compared to \$140 million in 2011. Total investments amounted to \$13.0 billion at the end of the year, up \$1.1 billion from a year ago as a result of the acquisition of JEVCO.

Capital Management

The company's financial position at the end of 2012 remained solid with a minimum capital test of 205% and \$599 million in excess capital. The company's book value per share was \$33.03 at the end of the year, 11% higher compared to twelve months ago.

AXA Canada Acquisition

After completing the renewal of all one-year policies in personal lines and non-specialty commercial lines, the company is now in the process of converting commercial specialty lines and two-year policies. Once all policies have been converted, the company expects to decommission AXA systems in the first part of 2014. As such, the company maintains its \$100 million in after-tax synergies target which it expects to achieve after the AXA system shutdown is complete in the early part of 2014. At the end of the fourth quarter, an annual synergies run-rate of \$52 million had been recorded. Integration expenses, which typically occur earlier in the integration process than synergies, amounted on a pre-tax basis to \$71 million in 2011 and \$79 million in 2012.

JEVCO Acquisition

On September 4, 2012, the company completed its \$530 million acquisition of JEVCO

Insurance Company. The conversion of the acquired book of business has begun for all lines of business. The company expects to progressively reach annual expense synergies of approximately \$15 million after-tax, largely by the end of 2014. In 2012, the company recorded pre-tax integration expenses of \$29 million.

Analysts' Estimates

The average estimate of earnings per share and net operating income per share for the quarter among the analysts who follow the company was \$1.28 and \$1.34 respectively.

Conference Call

Intact Financial Corporation will host a conference call to review its earnings results later today at 1:00 a.m. ET. To listen to the call via live audio webcast and to view the company's Financial Statements, Management's Discussion & Analysis, presentation slides, the statistical supplement and other information not included in this press release, visit our website at www.intactfc.com and link to "Investor Relations." 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 2:00 p.m. ET through 11:59 p.m. ET on Wednesday, February 13. To listen to the replay, call 1 (855) 859-2056, passcode 87223420. 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 Canada. Intact offers home, auto and business insurance through Intact Insurance, belairdirect, Grey Power, BrokerLink and JEVCO.

Forward Looking Statements

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

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