

Intact Financial Corporation reports third quarter results

- **Net operating income per share of \$0.41, despite \$1.52 per share in previously announced catastrophe losses**
- **Combined ratio of 102.8%, including 15.2 points of catastrophe losses**
- **Premium growth of 6%, bolstered by the addition of Jevco's product suite**
- **Book value per share 5% higher than a year ago**
- **Integration of acquisitions in final stages and on track for completion in early 2014**

TORONTO, Nov. 6, 2013 /CNW/ - Intact Financial Corporation (TSX: IFC) today reported net operating income for the quarter ended September 30, 2013 of \$59 million, down \$63 million compared to the corresponding quarter of last year. On a per share basis, net operating income decreased by \$0.48 to \$0.41. The decrease reflects the impact of unprecedented pre-tax catastrophe losses of \$273 million net of reinsurance (an after-tax loss of \$201 million or \$1.52 per share). The catastrophe losses incurred during the quarter resulted from major rain and hail storms in Quebec, Ontario and Alberta as well as the Lac-Mégantic tragedy. The decline in net operating income led to net income of \$47 million compared to \$92 million for the same period last year. Adjusted earnings per share, which excludes integration-related costs, was \$0.39 compared to \$0.90. Improved current year results in personal property and higher favourable prior year claims development were outweighed by significantly higher catastrophe losses for an overall combined ratio of 102.8%. Direct premiums written increased 6% to \$1.9 billion, reflecting primarily the addition of Jevco's product suite.

Net operating income for the first nine months of the year was \$357 million versus \$481 million in the previous year. On a per share basis, net operating income decreased 28% to \$2.57. Net income was \$324 million compared to \$394 million for the first three quarters of 2012 and adjusted earnings per share was \$2.56 compared to \$3.53. The combined ratio increased by 5.1 percentage points to 98.6%. Direct premiums written for the first nine months of the year increased 8% versus 2012 to reach \$5.6 billion. The book value per share was up 5% from a year ago to \$33.25.

CEO's Comments

"Despite reporting our first underwriting loss in the last ten years as a result of substantial catastrophe losses incurred by our customers, our underlying operating performance remained sound", said Charles Brindamour, Chief Executive Officer of Intact Financial Corporation. "Furthermore, our financial position remains solid despite the extent of the financial support provided to our customers over the last six months. Such performance would not have been possible without the strategic initiatives we adopted over the years to improve the quality of our activities and the resilience of our business."

"As severe weather events become more extreme and frequent, we will continue to pursue our efforts to ensure that the protection we offer reflects our country's new climate reality and that governments, consumers, businesses and all stakeholders pursue their efforts to better adapt to climate change."

Dividend

The Board of Directors declared a quarterly dividend of 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 preferred shares. The dividends are payable on December 31, 2013 to shareholders of record on December 16, 2013.

Current Outlook

The Company expects that industry premiums will grow at a low single digit rate. The proposed auto rate reductions in Ontario for the next two years will likely have a larger impact on premium growth in 2015 than in 2014. We expect that the Ontario auto premium reductions will be commensurate with additional cost reduction measures and, as such, we do not foresee material margin deterioration. In personal property, the current hard market conditions will accelerate meaningfully as the active summer catastrophe season is negatively impacting the industry's results. In commercial lines, the Company believes that the elevated level of catastrophes in recent months will also negatively impact the loss ratio and could translate into firmer market conditions over time. Overall, the industry's combined ratio is expected to deteriorate this year as a result of the elevated level of catastrophe losses and the industry's ROE is not likely to reach 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	Q3-2013	Q3-2012	Change	YTD 2013	YTD 2012	Change
Direct premiums written (excluding pools)	1,911	1,798	6%	5,617	5,178	8%
Underwriting income (loss) ¹	(50)	67	n/a	75	313	(76)%
Net operating income	59	122	(52)%	357	481	(26)%
Net income	47	92	(49)%	324	394	(18)%
Earnings per share						
Basic and diluted (dollars)	0.32	0.67	(52)%	2.33	2.91	(20)%
Adjusted earnings per share						
Basic and diluted (dollars)	0.39	0.90	(57)%	2.56	3.53	(27)%
Net operating income per share (dollars)	0.41	0.89	(54)%	2.57	3.58	(28)%
ROE for the last 12 months	11.2%	11.7%	(0.5) pts			
Adjusted ROE for the last 12 months	12.5%	15.5%	(3.0) pts			
Operating ROE for the last 12 months	12.7%	16.4%	(3.7) pts			
Combined ratio (excluding MYA)	102.8%	95.9%	6.9 pts	98.6%	93.5%	5.1 pts
Book value per share (dollars)	33.25	31.81	5%			

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.

Operating Highlights

- **Net operating income** for the quarter was \$59 million, down \$63 million from the same quarter in 2012 as a result of a \$117 million decline in underwriting income due to elevated catastrophe losses in the quarter, which amounted to an after tax loss of \$201 million net of reinsurance (\$273 million pre-tax loss). The operating ROE for the last twelve months was 12.7%.

Net operating income for the first nine months of the year was \$357 million, down from the \$481 million recorded during the same period in 2012. The decrease is attributed mainly to the elevated catastrophe losses experienced in the last six months.

- **Direct premiums written** increased 6% in the third quarter to \$1.9 billion mainly as a result of the addition of Jevco's product suite, which represented approximately four percentage points of growth. Direct premiums written in personal insurance increased by 7% from a year ago, while commercial insurance premiums were up by 4% during the same period.

For the first three quarters of the year, total direct premiums written increased by 8% to reach \$5.6 billion.

- **Underwriting** activities in the quarter resulted in a loss of \$50 million compared to an underwriting income of \$67 million during the same period a year ago as a result of pre-tax catastrophe losses of \$273 million net of reinsurance mainly from severe weather events in Quebec, Ontario and Alberta. Altogether, the catastrophe losses during the quarter account for 15 percentage points of the 102.8% combined ratio. The underlying underwriting performance during the quarter, which excludes catastrophes and prior year claims development, remained strong with a current year loss ratio of 62.2%, only 0.2% higher than last year's performance.

Personal property incurred an underwriting loss of \$96 million. The 124.7% combined ratio increased 4.9 percentage points from last year and primarily resulted from severe weather events and the Lac-Mégantic train derailment. These

catastrophes contributed 35.8 percentage points to the combined ratio. Current year loss ratio excluding catastrophes experienced a significant 7.2 percentage point improvement year-over-year.

Personal auto underwriting income increased to \$60 million from the \$39 million recorded in the third quarter of 2012. The combined ratio improved 1.9 percentage points from last year to 93.0% as higher favourable prior year claims development and a reduction in catastrophe losses offset an increase in the expense ratio.

Commercial auto underwriting income of \$22 million was down from \$31 million in the third quarter of 2012. The combined ratio of 86.0% increased 9 percentage points from last year's exceptional performance, primarily due to less favourable current year results and an increase in the expense ratio.

Commercial P&C recorded an underwriting loss of \$36 million. The combined ratio was up 27.6 percentage points to 109.0% as a result of significantly higher catastrophe losses and lower favourable prior year claims development. Excluding the \$95 million catastrophe losses and the lower favourable prior year claims development, the loss ratio increased by only 1.1 points year-over-year.

For the first nine months of the year, total underwriting income was \$75 million, down from \$313 million in the corresponding period of 2012. The decrease reflects the impact of the Alberta floods in June and the high number of catastrophe losses in the third quarter.

- **Net investment income** of \$104 million was up 13% from a year ago. The improvement was the result of migrating the investments of Jevco into our higher-yielding asset mix. The low yield environment continues to offset the underlying growth of our portfolio although the market-based yield of 3.8% was slightly up from a year ago.

For the first nine months of the year, total net investment income increased 5% to \$302 million as a result of the additional investments from Jevco while the market-based yield remained unchanged at 3.7%.

Investment Gains

Net investment gains, excluding fair-value-through-profit-and-loss bonds, were \$11 million in the third quarter compared to \$15 million a year ago. Since the beginning of the year, the Company has recorded net investment gains of \$52 million compared to \$42 million for the same period last year. Total investments amounted to \$12.3 billion at the end of the quarter, down \$0.6 billion from one year ago.

Capital Management

The Company's financial position remained solid at the end of the quarter with an estimated Minimum Capital Test of 199% and \$515 million in excess capital. The Company's book value per share was \$33.25 at the end of the quarter, 5% higher than a year ago.

During the quarter, the Company repurchased 422,500 common shares under its normal course issuer bid, launched in May 2013, at an average price of \$59.27 per share for a total consideration of \$25 million.

AXA Canada and Jevco integration update

The integrations of AXA Canada and Jevco continue to progress very well. We have now reached the final stages of these integrations which should be completed early next year. The Company maintains its \$100 million after-tax synergies target which it expects to achieve once the AXA system is decommissioned in early 2014. At the end of the third quarter, an estimated run-rate of \$89 million in annual synergies had been achieved.

With respect to the Jevco integration, the Company expects to reach its initial annual expense synergies of \$15 million after-tax by the end of the year with \$23 million in after-tax synergies targeted for the end of 2014.

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 \$0.26 and \$0.23, 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 3:00 p.m. ET until midnight on November 13. To listen to the replay, call 1 (855) 859-2056, passcode 71210060. A transcript of the call will also be available on Intact Financial Corporation's website.

About Intact Financial Corporation

Intact Financial Corporation 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.

SOURCE Intact Financial Corporation

Media Inquiries:

Gilles Gratton
Vice President, Corporate Communications
1 (416) 217-7206
gilles.gratton@intact.net

Investor Inquiries:

Dennis Westfall
Vice President, Investor Relations
1 (416) 341-1464 ext. 45122
dennis.westfall@intact.net

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