

Intact Financial Corporation reports Q4-2016 and 2016 Annual Results

Highlights

- **Net operating income per share of \$1.58** for Q4-2016 and \$4.88 for the full year
- **Q4-2016 combined ratio of 92.5%** from strong property lines performance, offset by weaker results in personal auto from weather-related frequency and industry pools
- **Premiums grew 3%** in the quarter and a robust 5% for the full year
- **Operating ROE of 12.0%** despite \$385 million in pre-tax catastrophe losses and total excess capital of \$970 million at year end
- **Book value per share grew 7%** year-over-year
- **Quarterly dividend increased 10%** to \$0.64 per share

TORONTO, Feb. 8, 2017 /CNW/ -

Charles Brindamour, Chief Executive Officer, said:

"The success of our commercial P&C and personal property profitability initiatives allowed us to deliver a healthy combined ratio of 92.5% this quarter, in spite of weaker auto results. Looking ahead, there is good momentum in both auto lines as a result of the action plans already in place. We remain confident in the underlying strength of our operations, as demonstrated by our solid 2016 results in a year of record-breaking industry catastrophe losses. I am especially proud of the hard work and dedication of our employees as they helped customers get back on track after these events, and look forward to delivering more customer-focused innovations in 2017."

Consolidated Highlights¹

(in millions of dollars except as otherwise noted)

	Q4-2016	Q4-2015	Change	2016	2015	Change
Direct Premiums Written	1,961	1,908	3%	8,293	7,922	5%
Underwriting income	153	221	(68)	375	628	(253)
Combined ratio	92.5%	88.6%	3.9 pts	95.3%	91.7%	3.6 pts
Net investment income	104	110	(6)	414	424	(10)
Net distribution income	24	22	2	111	104	7
Net operating income	212	265	(53)	660	860	(200)
Net income	171	198	(27)	541	706	(165)
Earnings per share (in dollars)	1.27	1.46	(13)%	3.97	5.20	(24)%
Net operating income per share (in dollars)	1.58	1.97	(20)%	4.88	6.38	(24)%
Operating ROE for the last 12 months	12.0%	16.6%	(4.6) pts			
Book value per share (in dollars)	42.72	39.83	7%			
Total excess capital	970	625	345			
MCT	218%	203%	15.0 pts			
Debt-to-capital ratio	18.6%	16.6%	2.0 pts			

(1) This table contains non-IFRS financial measures. Please refer to Section 23 – *Non-IFRS financial measures* in the Management's Discussion and Analysis for further details.

Industry Outlook

12 month

- The Company expects that industry premiums will grow at a low to mid single-digit rate. In **personal auto**, claims cost

inflation is leading to rate increases in all markets. In **personal property**, the current firm market conditions are expected to continue, as companies are adjusting to changing weather patterns. The **commercial lines** remain competitive and the economy in Western Canada continues to pressure industry growth.

- Overall, the **industry's ROE** is expected to improve but remain slightly below its long-term average of 10% over the next twelve months.

Dividend

- The Board of Directors approved a quarterly dividend of \$0.64 per share on the Company's outstanding common shares. The Board also approved a quarterly dividend of 26.25 cents per share on the Company's Class A Series 1 preferred shares, 20.825 cents per share on the Class A Series 3 preferred shares, and 19.535 cents per share on the Class A Series 4 preferred shares. The dividends are payable on March 31, 2017 to shareholders of record on March 15, 2017.

Normal Course Issuer Bid

- As at December 31, 2016, the Company had repurchased and cancelled 493,000 common shares for approximately \$44 million under its normal course issuer bid ("NCIB"). The NCIB allows for the purchase, for cancellation, of up to 6,577,156 common shares until February 11, 2017, representing approximately 5% of the Company's issued and outstanding common shares as at February 1, 2016. The Board has authorized renewal of the NCIB for a subsequent year, for up to 5% of the Company's issued and outstanding common shares, subject to TSX approval.

Underwriting

- **Premiums grew** 3% in the quarter despite robust profitability actions taken in all lines of business. For the full year 2016, the Company delivered solid premium growth of 5% as customers responded positively to new products, improved digital experiences, distribution and branding initiatives.
- **Combined ratio of 92.5%** in the quarter, with strong profitability in property lines and weaker results in auto. The Company is continuing its profitability initiatives, with particular focus on auto, implementing further rate, underwriting and claims actions. For the full year 2016, the combined ratio was 95.3%, including 5.0 points of catastrophe losses.
- **Underwriting income** was \$153 million in the quarter, \$68 million lower than Q4-2015 which had benefitted from mild weather conditions. For the full year 2016, the Company generated \$375 million of underwriting income, \$253 million lower than last year, driven by the increase in catastrophe losses including the Fort McMurray wildfires.

Lines of Business

Q4 2016

- **Personal auto** premiums grew 3%, influenced by the Company's profitability actions and growth initiatives. The combined ratio of 100.9% was mainly impacted by higher weather-related claims frequency, losses from industry pools, and lower favourable prior year development. This resulted in an underwriting loss of \$9 million compared to income of \$28 million last year. The Company continues to implement its profitability initiatives to improve results through further rate, underwriting and claims actions.
- **Personal property** premiums grew 7%, as growth initiatives continue to be supported by favourable market conditions. The combined ratio was very strong at 75.6% as the profitability measures remained effective, but 2.9 points worse than last year on higher catastrophe losses and variable commissions. This resulted in underwriting income of \$120 million compared to \$123 million last year. The full year 2016 combined ratio was a strong 90.9%, meeting our target of operating at 95% or better even with elevated catastrophe losses.
- **Commercial P&C** premiums decreased by 3%, as rate increases were outweighed by difficult economic conditions in Western Canada and competitive market conditions. The combined ratio was solid at 89.4% due to the Company's profitability initiatives, but increased 9.3 points mainly due to fire-related losses and catastrophe losses. This resulted in underwriting income of \$45 million compared to \$83 million last year.
- **Commercial auto** premiums grew 8%, driven by innovative products for the sharing economy. The combined ratio improved 6.0 points to 101.9%, helped by ongoing profitability actions but suffered from unfavourable prior year development on large losses. This resulted in an underwriting loss of \$3 million compared to a loss of \$13 million last year. On a full year basis, the combined ratio improved 4.4 points to 94.6% but the Company is continuing its profitability initiatives to drive a combined ratio sustainably in the low 90s.

Investments

- **Net investment income** of \$104 million was \$6 million lower than Q4-2015 as the low rate environment continued to contribute to a mild reduction in income as expected. Net investment losses for Q4-2016 were \$97 million, mainly driven

by unrealized losses on our bond portfolio due to rising interest rates. For the full year 2016, the Company delivered net investment income of \$414 million, \$10 million lower than last year. Net investment losses of \$72 million were driven by lower bond prices.

Distribution

- **Net distribution income** of \$24 million was 9% higher than Q4-2015, driven by growth in our broker network, offset in part by lower variable commissions. For the full year, net distribution income increased \$7 million to \$111 million due to growth in our broker network and improved profitability.

Net Income

- **Net operating income** of \$212 million, or \$1.58 per share, was down 20% from last year reflecting challenges in personal auto, as well as higher large losses and catastrophe losses. For the full year 2016, net operating income was \$660 million, or \$4.88 per share, hampered by elevated catastrophe losses.
- **Earnings per share** of \$1.27 for the quarter was down from \$1.46 a year ago, reflecting decreased underwriting income and net investment losses from lower bond prices. For the full year 2016, earnings per share were \$3.97.

Balance Sheet

- The Company ended the quarter in a very strong financial position, with an **estimated MCT of 218% and \$970 million in total excess capital**. The Company's book value per share was \$42.72, an increase of 7% from a year ago.
- The Company's **debt-to-capital ratio was 18.6%** at December 31, 2016, higher than last year after issuing \$250 million of medium term notes in Q1 2016, and below the Company's target level of 20%.
- The **operating ROE** for the last 12 months remains healthy at 12.0%, despite absorbing elevated catastrophe losses and maintaining the Company's strong excess capital position throughout the year.

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 \$1.72 and \$1.75, respectively.

Management's Discussion and Analysis (MD&A) and Consolidated Financial Statements

This press release, which was approved by the Company's Board of Directors on the Audit Committee's recommendation, should be read in conjunction with the 2016 MD&A as well as the 2016 Audited Consolidated Financial Statements, which are available on the Company's website at www.intactfc.com and later today on SEDAR at www.sedar.com.

For the definitions of measures and other insurance-related terms used in this Press Release, please refer to the MD&A and to the glossary available in the "Investors" section of the Company's website at www.intactfc.com.

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, MD&A, presentation slides, the Supplementary financial information and other information not included in this press release, visit the Company's website at www.intactfc.com and link to "Investors".

The conference call is also available by dialing (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 until midnight on February 15. To listen to the replay, call 1 (855) 859-2056 passcode 40845928. A transcript of the call will also be available on Intact Financial Corporation's website.

About Intact Financial Corporation

Intact Financial Corporation (TSX: IFC) is the largest provider of property and casualty insurance in Canada with over \$8.0 billion in annual premiums. Supported by over 12,000 employees, the Company insures more than five million individuals and businesses through its insurance subsidiaries and is the largest private sector provider of P&C insurance in British Columbia, Alberta, Ontario, Québec, Nova Scotia and Newfoundland & Labrador. The Company distributes insurance under the [Intact Insurance](#) brand through a wide network of brokers, including its wholly owned subsidiary [BrokerLink](#), and directly to consumers through [belairdirect](#).

Forward-Looking Statements

Certain statements made in this news release are forward-looking statements. These statements include, without limitation, statements relating to the evaluation of losses relating to the Fort McMurray wildfires as well as catastrophe losses caused by severe weather, the outlook for the property and casualty insurance industry in Canada, the Company's business outlook and the Company's growth prospects. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Forward-looking statements, by their very nature, are subject to inherent risks and uncertainties and are based on several assumptions, both general and specific, which give rise to the possibility that actual results or events could differ materially from our expectations expressed in or implied by such forward-looking statements as a result of various factors, including those discussed in the Company's most recently filed Annual Information Form and annual MD&A. As a result, we cannot guarantee that any forward-looking statement will materialize and we caution you against relying on any of these forward-looking statements. Except as may be required by Canadian securities laws, we do not undertake any obligation to update or revise any forward-looking statements contained in this news release, whether as a result of new information, future events or otherwise. Please read the cautionary note at the beginning of the MD&A.

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