

Intact Financial Corporation reports Q2-2017 Results

Highlights Q2-2017

- Net operating income per share up 73% to \$1.44 with strong underlying underwriting performance and distribution results
- Combined ratio of 95.0% despite elevated catastrophe losses, 4.2 points better than last year which was impacted by the Fort McMurray wildfires
- Operating ROE improved sequentially to 12.1% with over \$1.0 billion of total excess capital
- OneBeacon Insurance Group Ltd. ("OneBeacon") acquisition progressing well and on track to close in Q3 or early Q4-2017

(TSX:IFC)

TORONTO, Aug. 1, 2017 /CNW/ -

Charles Brindamour, Chief Executive Officer, said:

"Our business delivered solid results this quarter, despite elevated catastrophe losses. All of our lines of business are performing well or improving on an underlying basis. We remain on track to achieve mid-single digit improvement in the personal auto combined ratio in the latter part of this year. The OneBeacon transition planning is well underway and we are confident in our plans to bring the combined ratio of that business to the low 90's".

Consolidated Highlights¹

(in millions of dollars except as otherwise noted)	Q2-2017	Q2-2016	Change	YTD 2017	YTD 2016	Change
Direct Premiums Written	2,500	2,458	2%	4,244	4,139	3%
Underwriting income	103	16	87	138	161	(23)
Combined ratio	95.0%	99.2%	(4.2) pts	96.6%	95.8%	0.8 pts
Net investment income	105	104	1	210	208	2
Net distribution income	50	43	7	74	57	17
Net operating income	193	114	69%	316	311	2%
Non-operating gains (losses)	57	(26)	83	88	(84)	172
Net income	243	93	161%	389	245	59%
Earnings per share (in dollars)	1.82	0.67	172%	2.90	1.78	63%
Net operating income per share (in dollars)	1.44	0.83	73%	2.34	2.29	2%
Operating ROE for the last 12 months	12.1%	14.6%	(2.5) pts			
Book value per share (in dollars)	42.16	40.57	4%			
Total excess capital	1,014	857	157			
MCT	224%	212%	12.0 pts			
Debt-to-capital ratio	22.8%	19.3%	3.5 pts			

(1) This table contains non-IFRS financial measures. Refer to Section 15 – *Non-IFRS financial measures* in the Management's Discussion and Analysis for further details.

Industry Outlook

- The Company expects that industry premiums will grow at a low-to-mid single-digit rate. In **personal auto**, claims cost inflation should lead to further 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, while **commercial lines** remain highly competitive.

- Overall, the **industry's ROE** is expected to improve but remain slightly below its long-term average of 10% over the next 12 months.

Dividend

- The Board of Directors approved the quarterly dividend of 64 cents 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, 20.095 cents per share on the Class A Series 4 preferred shares and 45.945 cents per share on the Class A Series 5 preferred shares. The dividends are payable on September 29, 2017 to shareholders of record on September 15, 2017. Should the Company's acquisition of OneBeacon be completed after the record date of September 15, 2017, holders of the Company's subscription receipts will be eligible to receive an amount equivalent to the dividend payable to holders of the Company's common shares on the dividend payment date.

Underwriting

- **Premium growth** was 2% for the quarter and 3% for the first half of 2017, reflecting robust profitability actions in competitive markets, including rate increases in all lines of business.
- **Underwriting income** was \$103 million in Q2-2017, an increase of \$87 million mainly due to lower catastrophe losses than last year, which was impacted by the Fort McMurray wildfires. Last year's catastrophe losses amounted to \$164 million compared to an elevated level of \$105 million in Q2-2017. For the first six months of 2017, the Company generated \$138 million of underwriting income, \$23 million lower than last year, which had experienced milder winter conditions and a similar level of year-to-date catastrophe losses.
- **Combined ratio** of 95.0%, despite elevated catastrophe losses, was 4.2 points better than last year and reflected improved underlying performance. Commercial lines were strong in the quarter, while the personal property line of business was most affected by the spring's severe storms and water events. For the first six months of 2017, the combined ratio deteriorated slightly to 96.6%, as improved underlying performance was muted by more challenging winter conditions, lower favourable prior year claims development and elevated catastrophe losses. Results for the quarter and year-to-date 2017 both benefited from lower commissions and variable compensation, as well as cost saving initiatives introduced in Q4-2016.

Line of Business

Q2-2017

- **Personal auto** premium growth of 1% led by rate increases across the country taken in competitive market conditions. The combined ratio was 97.8% as the improvement in underlying performance, driven by our profitability actions, was offset by unfavourable prior year claims development. This resulted in underwriting income of \$22 million compared to \$23 million last year. The Company's profitability actions involving rate, underwriting and claims actions are gaining traction, with the majority of the benefits expected in the latter part of 2017.
- **Personal property** premium growth of 6% was driven by rate increases and growth initiatives in favourable market conditions. The combined ratio of 99.5% included 16.9 points of catastrophe losses mainly due to heavy precipitation in Q2-2017, obscuring a very strong underlying performance. We delivered underwriting income of \$2 million compared to a loss of \$30 million in Q2 last year, which was affected by the Fort McMurray wildfires.
- **Commercial P&C** premiums declined by 3% as our ongoing pricing and segmentation actions are deployed in continued competitive markets. The combined ratio improved to a very strong 85.3%, driven by lower catastrophe losses and a very strong underlying performance. This resulted in underwriting income of \$60 million compared to \$7 million last year, which had been impacted by the Fort McMurray wildfires.
- **Commercial auto** premiums grew 7% on the back of initiatives in specialty lines including new products for the sharing economy. Profitability measures, including segmented rate increases, continued to be deployed in competitive markets. The combined ratio improved slightly to 89.9%, as the Company continued its profitability actions to drive a combined ratio sustainably in the low 90s. As a result, we delivered an underwriting income of \$19 million compared to \$16 million last year.

Investments

- **Net investment income** of \$105 million for the quarter and \$210 million for the first half of 2017 was slightly higher than

last year as the benefit of higher invested assets was partly offset by the continued low rate environment.

- **Net investment gains** of \$59 million for the quarter and \$134 million for the first half of 2017 were driven by realized equity gains, reflecting the improvement on common share markets in the last year. Net investment gains in Q2-2017 and H1-2017 included gains on currency derivatives related to the planned acquisition of OneBeacon.

Distribution

- **Net distribution income** improved to \$50 million in the quarter and \$74 million for the first six months driven by continued growth in our broker network and improved profitability.

Net income

- **Net operating income** of \$193 million (or \$1.44 per share) was up 69% on lower catastrophe losses and strong distribution results. For the first six months of 2017, net operating income of \$316 million (or \$2.34 per share) despite \$1.08 per share of catastrophe losses, reflected continued growth in distribution income.
- **Earnings per share** of \$1.82 increased 172% on lower catastrophe losses and strong investment gains. For the first six months of 2017, earnings per share increased 63% to \$2.90 mainly on strong investment gains.

Balance Sheet

- The Company ended the quarter in a very strong financial position, with **an estimated MCT of 224% and over \$1.0 billion in total excess capital**. The Company's book value per share was \$42.16, an increase of 4% from a year ago.
- The Company's **debt-to-capital ratio was 22.8%** at June 30, 2017. During the quarter, the Company completed a \$425 million offering of Series 7 unsecured medium term notes to partially fund the planned acquisition of OneBeacon. The Company expects to return below its target debt-to-capital ratio of 20% within 24 months following the closing of the acquisition.
- The **operating ROE** for the last 12 months remained healthy at 12.1%.

OneBeacon acquisition

- The Company's proposed acquisition of OneBeacon is progressing well and on track to close in Q3 or early Q4-2017. OneBeacon's shareholders voted in favour of the acquisition on July 18, 2017 and approval under the *Hart-Scott-Rodino Antitrust Improvements Act* has been received along with approval from the Bermuda Monetary Authority. All other regulatory applications have been filed and are in various stages of approval.
- During the quarter, a portion of the \$2.3 billion purchase price, as well as related transaction expenses, was secured by the completion of a \$754 million common equity financing in the form of subscription receipts, \$150 million issuance of perpetual preferred shares and \$425 million of Series 7 10-year medium-term notes. The remaining balance is expected to be financed through excess capital, debt and preferred shares.
- OneBeacon is scheduled to release its Q2-2017 results on August 4, 2017.

Normal Course Issuer Bid

- As at June 30, 2017, the Company had repurchased and cancelled 71,500 common shares for approximately \$7 million under its normal course issuer bid ("NCIB"). After announcing its intention to acquire OneBeacon, the Company suspended its purchases under its NCIB in order to direct excess capital to the transaction.

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 \$1.30 and \$1.33, 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 Q2-2017 MD&A as well as the Q2-2017 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 tomorrow 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 August 9. To listen to the replay, call 1 855 859-2056 passcode 95212325. 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 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 outlook for the property and casualty insurance industry in Canada, the Company's business outlook, the timing related to the completion of the acquisition of OneBeacon, the Company's plans and ability to return to its target debt-to-capital ratio, the timing and details related to the financing of the acquisition of OneBeacon, the payment of any dividend equivalent amount on the Company's subscription receipts 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 and prospectus supplement dated May 4, 2017 related to the issuance of the Company's subscription receipts. 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.

SOURCE Intact Financial Corporation

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