

Intact Financial Corporation reports Q3-2017 Results

Highlights Q3-2017

- **Net operating income per share up 59% to \$1.61** on improved underwriting performance
- **Combined ratio of 91.8%** reflecting lower catastrophe losses, strong underlying performance in personal property and commercial lines and challenging results in personal auto
- OneBeacon Insurance Group, Ltd. (OneBeacon) transaction closed; profitability action plan under way and growth initiatives launched
- Operating ROE of 13.3% and book value per share increase of 12% over the last twelve months

(TSX: IFC)

TORONTO, Nov. 7, 2017 /CNW/ -

Charles Brindamour, Chief Executive Officer, said:

"Overall our results for the quarter were strong, driven by excellent performance in our personal property and commercial lines. Our personal auto results were disappointing. We took a more cautious reserve position following detailed file-by-file and actuarial reviews and we are increasing our actions to address higher than expected physical damage inflation. Our discipline in this line should bring the combined ratio to a mid-90's level in the coming year.

We are pleased to welcome OneBeacon to the Intact family, creating a leading North American specialty lines insurer. Together we are working towards a low 90's combined ratio for the U.S. specialty business. We have exited underperforming lines, launched risk selection and claims initiatives and are moving fast to realize synergies. Growth initiatives are also underway, including the recent opening of cross border underwriting desks to serve our customers."

Consolidated Highlights¹

(in millions of Canadian dollars except as

otherwise noted)

	Q3-2017	Q3-2016	Change	YTD 2017	YTD 2016	Change
Direct premiums written	2,209	2,193	1%	6,453	6,332	2%
Underwriting income	170	61	109	308	222	86
Combined ratio	91.8%	97.0%	(5.2) pts	95.0%	96.2%	(1.2) pts
Net investment income	101	102	(1)	311	310	1
Net distribution income	30	30	-	104	87	17
Net operating income	219	137	82	535	448	87
Non-operating gains (losses)	(61)	(16)	(45)	27	(100)	127
Net income	171	125	46	560	370	190
Earnings per share (in dollars)	1.25	0.91	37%	4.14	2.70	53%
Net operating income per share (in dollars)	1.61	1.01	59%	3.95	3.30	20%
Operating ROE for the last 12 months	13.3%	13.4%	(0.1) pts			
Book value per share (in dollars)	46.56	41.47	12%			
Total capital margin ²	1,155	881	274			
MCT	201%	215%	(14) pts			
Debt-to-capital ratio	24.7%	19.0%	5.7 pts			

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

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, 21.43725 cents per share on the Class A Series 4 preferred shares, 32.5 cents per share on the Class A Series 5 preferred shares and 49.007 cents per share on the Class A Series 6 preferred shares. The dividends are payable on December 29, 2017 to shareholders of record on December 15, 2017.

OneBeacon Acquisition

- On September 28, 2017, the Company completed its acquisition of OneBeacon.
- **Value creation:** With the addition of the OneBeacon team we have created a leading North American specialty lines insurer focused on small to medium sized enterprises. We expect the acquisition to deliver mid-single digit accretion to net operating income per share by the end of 2019.
- **Profitable growth:** Actions are in progress to grow the many profitable OneBeacon specialty lines through harnessing existing broker relationships and the momentum created by the stability of our ownership. Additional growth pipelines have been opened with commercial lines underwriting desks on each side of the border to support customers with businesses in both countries. We also plan to leverage OneBeacon's expertise in tailored specialty products and services in Canada beginning with the introduction of technology and entertainment products in Q4-2017.
- **Profitability improvement:** We are targeting a low-90s combined ratio for the U.S. specialty business within 24-36 months. The profitability action plan is now in progress, comprising:
 - **Underwriting:** The Company has exited Programs and Architects & Engineers lines of business and is leveraging Intact's analytics and segmentation expertise to take underwriting actions in select other lines.
 - **Claims:** The Company is increasing internalization of claims handling and implementing further indemnity control procedures.
 - **Expense synergies:** We have also begun realizing additional synergies from internalizing investment management, combining the Intact and OneBeacon reinsurance programs, de-listing and eliminating public company reporting in the U.S., as well as shared services and technology savings.
- **Risk management:** We have mitigated the risk of adverse development on the acquired book of claims liabilities which have been recorded at fair value at closing. In addition we purchased adverse development coverage on claims liabilities for 2016 and prior accident years from a major reinsurer. The cost of this coverage was recorded as a non-operating expense in the quarter. The acquisition also brings important diversification benefits to all our operations, including earnings stability and reduced tail risk.
- **Impact on Q3-2017 IFC results:** OneBeacon results and balance sheet are reflected in our financial reporting from the closing date. In the third quarter, the operating results of OneBeacon had a negligible impact on our net operating income, while we recorded \$30 million of acquisition-related integration expenses.

Industry Outlook

- The Company expects that industry premiums in Canada will grow at a low-to-mid single-digit rate. In **personal auto**, claims cost inflation should lead to meaningful 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** are likely to remain competitive. In the U.S., while the commercial pricing environment is competitive, there are early signs of upward trends in certain specialty lines.
- Overall, the Canadian industry's ROE is expected to improve but remain below its long-term average of 10% over the next

12 months.

Underwriting

- **Premium growth** of 1% for the quarter and 2% year to date was tempered as we took robust profitability actions, including rate increases in all lines of business.
- **Underwriting income** was \$170 million in Q3-2017, an increase of \$109 million over last year due to less severe weather conditions. For the first nine months of 2017, underwriting income of \$308 million was \$86 million higher than last year also reflecting less severe weather, and lower expenses.
- **Combined ratio** for the quarter improved 5.2 points over last year to 91.8%, reflecting less severe weather events, strong underlying performance and lower favourable prior year claims development. Results reflect the harmonization of accounting and reserving under IFRS following the closing of the OneBeacon acquisition. This led to a reduction in claims liabilities to reflect increased diversification. Most of this benefit was offset by increases in claims liabilities, mainly from a more cautious approach in auto lines. This net reserve change had a 1.9 points favourable impact on the combined ratio. The expense ratio improved by 1.6 points over last year from lower variable costs and rigorous expense management. For the first nine months of 2017, the combined ratio of 95.0% reflected the benefit of milder weather and lower expenses.

Line of Business

- **Personal auto** premiums were flat in the quarter reflecting rate increases taken across the country, ahead of our competitors. The combined ratio was higher than expected at 105.1% leading to an underwriting loss of \$50 million compared to a loss of \$41 million last year. Prior year claims development was 3.2 points unfavourable reflecting an extensive file-by-file review. Underlying performance deteriorated by 2.2 points mainly from industry pools and net strengthening of claims liabilities following actuarial review. Our profitability actions to date together with reforms have dampened auto claims inflation, but have fallen short of our expectations due to increasing physical damage costs. In response we are increasing our actions. Catastrophe losses were 4.2 points lower than last year. With strengthened claims liabilities and additional profitability actions involving rate, underwriting and claims we are well positioned to bring the combined ratio of this line back to the mid 90's in the coming year.
- **Personal property** premiums grew 4%, as rate increases and growth initiatives continued to be supported by favourable market conditions. The combined ratio improved 14.7 points to 85.0%, reflecting lower catastrophe losses and improved underlying performance. This resulted in underwriting income of \$78 million compared to \$2 million in Q3 last year.
- **Commercial P&C** premiums decreased by 2% as our ongoing pricing and segmentation actions are deployed in competitive markets. The combined ratio improved 9.5 points to 71.8% reflecting continued strong underlying performance, and favourable prior year claims development which includes the net reserve change. Underwriting income totaled \$117 million compared to \$79 million in Q3 last year.
- **Commercial auto** premiums grew 5% led by strong growth in specialty lines. The combined ratio improved slightly to 86.8% from lower expenses. This resulted in underwriting income of \$25 million, an improvement of \$4 million compared to last year.

Investments

- **Net investment income** of \$101 million for the quarter and \$311 million for the nine months of 2017 were essentially flat to last year as the benefit of higher invested assets was partly offset by the continued low rate environment.
- **Net investment losses** of \$59 million for the quarter reflected the impact of higher interest rates on bond prices. Net investment gains of \$75 million for the first nine months were driven by realized equity gains, partly offset by mark-to-market losses on our FVO bonds due to higher interest rates.
- Net investment gains and losses in Q3-2017 and YTD-2017 also included gains on currency derivatives related to the acquisition of OneBeacon of \$23 million and \$64 million year to date respectively related to the hedging of a portion of the book value of OneBeacon. Following the closing of the acquisition, future gains and losses on these hedges will be recorded in OCI.

Distribution

- **Net distribution income** was \$30 million in the quarter and \$104 million for the first nine months. The year to date increase over last year of \$17 million was driven by growth and improved profitability of our broker network.

Net Income

- **Net operating income** of \$219 million, or \$1.61 per share, was up \$82 million over last year mainly on lower catastrophe losses. For the first nine months of 2017, net operating income of \$535 million, or \$3.95 per share was driven by lower catastrophe losses and strong distribution income.
- **Earnings per share** of \$1.25 increased 37% on lower catastrophe losses, partly offset by net investment losses, and integration costs in connection with the acquisition of OneBeacon. For the first nine months of 2017, earnings per share increased 53% to \$4.14 on lower catastrophe losses and strong investment gains.

Balance Sheet

- During the third quarter, the Company completed the \$2.3 billion (US\$1.7 billion) acquisition of OneBeacon with the net proceeds from the issuance of \$754 million of subscription receipts, which were converted to common equity, \$300 million of perpetual preferred shares and \$425 million of medium-term notes. In addition, the Company also increased the amount available under its five-year credit facility to \$750 million, of which \$210 million was drawn as at September 30, 2017 to partly fund the acquisition.
- The Company ended the quarter in a very strong financial position, with an **estimated MCT of 201% and \$1.2 billion in total capital margin**. The Company's book value per share was \$46.56, an increase of 12% from a year ago.
- The Company's **debt-to-capital ratio rose to 24.7%** as at September 30, 2017. The Company expects to return to its target debt-to-capital ratio of 20% within 24 months.
- The **operating ROE** for the last 12 months improved to 13.3% as at September 30, 2017.

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 \$1.54 and \$1.58, 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 Q3-2017 MD&A as well as the Q3-2017 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 from November 8 at 1:45 p.m. ET until midnight on November 15. To listen to the replay, call 416 849-0833 or 1 855 859-2056 (toll-free in North America), passcode 95414221. A transcript of the call will also be made available on Intact Financial Corporation's website.

About Intact Financial Corporation

Intact Financial Corporation (TSX: IFC) is the largest provider of property and casualty (P&C) insurance in Canada and a leading provider of specialty insurance in North America, with close to \$10 billion in total annual premiums. The Company has over 13,000 full- and part-time employees who serve more than five million personal, business, public sector and institutional clients through offices in Canada and the U.S. In Canada, Intact 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. In the U.S., OneBeacon Insurance Group, a wholly-owned subsidiary, provides specialty insurance products through independent agencies, brokers, wholesalers and managing general agencies.

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 and the U.S., 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 and the additional risks of the Company following completion of the acquisition of OneBeacon described in the section entitled Risk Factors (pp S-43 to S-53) of the Company's Prospectus and Supplement dated May 4, 2017. 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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