

Intact Financial Corporation reports Q4-2017 and 2017 Annual Results

Highlights

- **Net operating income per share up 3% to \$1.63** for Q4-2017 and up 15% to \$5.60 for the full year
- **Premiums grew 17%** in the quarter, bolstered by OneBeacon
- **Combined ratio of 92.6%** in Q4-2017 reflects strong performance in Canadian property and commercial operations, and the inclusion of OneBeacon
- **Earnings per share up 45% to \$5.75** in 2017 driving book value per share growth of 12%
- **Operating ROE of 13%** with over \$1.1 billion in total capital margin
- **Quarterly dividend increased** by 9% to \$0.70 per share

(TSX: IFC)

TORONTO, Feb. 6, 2018 /CNW/ -

Charles Brindamour, Chief Executive Officer, said:

"2017 was a landmark year as we expanded our reach by entering the U.S. specialty market. For the quarter, our underwriting results were healthy with a 92.6% combined ratio, led by strong performance in Canadian property and commercial lines. While personal auto results continued to underperform, we are making progress on our action plan to improve performance. In the U.S. our transition and profitability plans to enhance OneBeacon are on track. With a strong balance sheet and improving performance outlook we are pleased to increase dividends again to our shareholders."

Consolidated Highlights¹

(in millions of Canadian dollars except as

otherwise noted)	Q4-2017	Q4-2016	Change	2017	2016	Change
Direct premiums written	2,294	1,961	17%	8,747	8,293	5%
Combined ratio	92.6%	92.5%	0.1 pts	94.3%	95.3%	(1.0) pts
Underwriting income	178	153	25	486	375	111
Net investment income	121	104	17	432	414	18
Net distribution income	28	24	4	132	111	21
Net operating income	236	212	11%	771	660	17%
Net income	232	171	36%	792	541	46%
Per share measures (in dollars)						
Net operating income per share	1.63	1.58	3%	5.60	4.88	15%
Earnings per share	1.60	1.27	26%	5.75	3.97	45%
Operating ROE for the last 12 months	12.9%	12.0%	0.9 pts			
Book value per share (in dollars)	48.00	42.72	12%			
Total capital margin ²	1,135	970	165			
MCT (Canada)	205%	218%	(13) pts			
Debt-to-total-capital ratio	23.1%	18.60%	4.5 pts			

⁽¹⁾ This table contains non-IFRS financial measures. Please refer to Section 27 – Non-IFRS financial measures in the Management's Discussion and Analysis for further details.

Dividend increase

- The Board of Directors approved a 6 cents per share increase in the quarterly dividend to 70 cents per share on the Company's outstanding common shares. This represents a 9% increase in our dividend and the thirteenth consecutive annual increase in our dividend since our IPO in 2004.
- The Board also approved a quarterly dividend of 21.225 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, 21.7725 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 33.125 cents per share on the Class A Series 6 preferred shares. The dividends are payable on March 29, 2018 to shareholders of record on March 15, 2018.

Industry Outlook

- The Company expects that overall industry premiums in Canada will grow at a mid-single-digit rate in 2018. In **personal auto**, claims cost inflation remains a headwind which is leading to rate increases in all markets. In **personal property**, the current firm market conditions are expected to continue, as companies adjust to changing weather patterns, while **commercial lines** are likely to remain competitive.
- In **U.S. commercial**, while the pricing environment is competitive, there are early signs of upward trends in certain specialty lines with low single-digit growth expected in 2018.
- Overall, the Canadian industry's ROE is expected to improve but remain below its long-term average of 10% over the next 12 months.

Insurance Business Performance

(In millions of Canadian dollars except
as otherwise noted)

Q4-2017 Q4-2016 Change 2017 2016 Change

Direct premiums written

Canada	1,987	1,961	1%	8,440	8,293	2%
U.S.	307	-	nm	307	-	nm
	2,294	1,961	17%	8,747	8,293	5%

Underwriting income

Canada	170	153	17	478	375	103
U.S.	8	-	8	8	-	8
	178	153	25	486	375	111

Combined ratio

Canada	91.9%	92.5%	(0.6) pts	94.2%	95.3%	(1.1) pts
U.S.	97.4%	-	nm	97.4%	-	nm
	92.6%	92.5%	0.1 pts	94.3%	95.3%	(1.0) pts

- **Premium growth** of 17% for the quarter and 5% for the year, mostly reflects the acquisition of OneBeacon which added 16 pts and 3 pts respectively. In Canada, premium growth of 1% and 2% for the fourth quarter and year, respectively, was driven by personal property and commercial lines. This was tempered by personal auto where we took robust profitability actions including rate increases.
- **Underwriting income** of \$178 million in Q4-2017 increased 16% over last year with strong profitability in Canadian commercial lines offsetting weaker personal auto. U.S. commercial contributed \$8 million for the first full quarter since closing OneBeacon. For the full year 2017, underwriting income of \$486 million increased 30% over last year reflecting less severe weather, lower expenses, and OneBeacon.

- **The combined ratio** in Canada improved 0.6 points over last year to 91.9% in Q4-2017. This reflects improved commercial results offset by higher weather related losses in property and weaker personal auto results. The expense ratio improved 1.7 points over last year in Canada driven by lower variable costs and the benefits of rigorous expense management. Results include the first full quarter of U.S. insurance which achieved a 97.4% combined ratio after accounting for our share of prior year losses. For the full year, the overall 94.3% combined ratio includes the benefits of lower catastrophes, milder weather, as well as an improved expense ratio.

Lines of Business

P&C Canada

- **Personal auto** premiums were down slightly in the quarter reflecting rate increases that were taken ahead of our competitors and the impact of segmentation initiatives. The combined ratio in the quarter was 0.3 points higher than last year at 101.2%. This resulted in an underwriting loss of \$11 million in the quarter, compared to a loss of \$9 million last year. Prior year development improved 1.4 points, while underlying profitability declined 2.9 points from increased physical damage costs and weather-related claims. We are making progress with rate increases, segmentation and claims management to dampen inflation and our actions will continue. We remain committed to bringing the combined ratio of this line back to the mid 90's.
- **Personal property** premiums grew 4% in Q4-2017, as rate increases and growth initiatives continued to be supported by favourable market conditions. The combined ratio remains very strong at 79.7% with the increase over Q4-2016 due to higher weather related claims. This resulted in underwriting income of \$106 million compared to \$120 million in Q4 last year. The full year 2017 combined ratio was also very strong at 89.1%, despite elevated catastrophes.
- **Commercial lines** premiums (P&C and auto) increased 2% in the quarter with strong growth in specialty lines tempered by pricing, and segmentation actions in commercial P&C deployed in competitive markets. The combined ratio of 87.4% improved 5.8 points over last year reflecting strong underlying performance and lower large losses. Underwriting income increased to \$75 million compared to \$42 million in Q4-2016. For the full year 2017, the combined ratio improved 5.0 points to 86.5% from successful profitability initiatives.
- **Net distribution income** was \$28 million in the quarter and \$132 million for the year, an increase of 17% and 19% respectively over the prior year driven by the expansion and improved profitability of our broker network.

P&C U.S.

- Results reflect the first full quarter within IFC following the close of OneBeacon in Q3-2017. Underwriting income from continuing operations was \$8 million resulting in a 97.4% combined ratio. Underlying performance was healthy while prior year development was unfavourable at 4.6%, which included our net share of prior year losses, and the impact of discounting on the amount recoverable under the adverse development cover.
- The profitability action plan for OneBeacon is on track to achieve a low-90s combined ratio within 24-36 months of closing and mid-single digit accretion to net operating income per share by the end of 2019. The profitability action plan is composed of:
 - **Underwriting:** We exited the Programs and Architects & Engineers lines of business and are leveraging Intact's analytics and segmentation expertise to take underwriting actions in select other lines.
 - **Claims:** We are increasing internalization of claims handling and implementing further indemnity control procedures.
 - **Expense synergies:** We expect US\$25 million in expense synergies over three years. These comprise internalizing investment management, combining reinsurance programs, de-listing and eliminating U.S. public company reporting, as well as shared services and technology savings. On a run-rate basis we have realized approximately one-third of these expense synergies at the end of 2017.

U.S. Tax Reform

- Following enactment of the U.S. Tax Cuts and Jobs Act ("U.S. Corporate Tax reform") we recorded a net non-operating tax recovery of \$27 million in the quarter, primarily associated with the remeasurement of deferred tax liabilities related to the acquisition of OneBeacon.
- Overall the tax reform provisions are expected to have a negligible impact on IFC's NOIPS and EPS in 2018 and beyond.

Investments

- Net investment income of \$121 million increased \$17 million for the quarter relating to higher invested assets from the addition of OneBeacon. Net investment losses of \$24 million for the quarter improved \$67 million over last year as

sovereign yields rose less sharply than in Q4-2016 leading to lower mark-to-market losses on FVO bonds.

- Net investment losses for the year ended 2017 also includes \$65 million in gains from currency derivatives related to hedging a portion of the book value of OneBeacon prior to the transaction closing on September 28, 2017. Since closing, gains and losses on these hedges are now recorded in OCI.

Net Income

- Net operating income increased 11% to \$236 million on improved underwriting performance in Canada and the addition of OneBeacon. This represented \$1.63 on a per share basis. For the twelve months of 2017, net operating income increased 17% to \$771 million, or \$5.60 per share driven by lower catastrophe losses and strong distribution income.
- Earnings per share of \$1.60 for the quarter increased 26% from a year ago, reflecting a non-operating benefit of \$27 million (\$0.19 per share) related to the U.S. Corporate Tax reform, partly offset by integration costs associated with the acquisition of OneBeacon. For the year ended 2017, earnings per share improved 45% from last year to \$5.75 from the U.S. Corporate Tax reform related tax recovery, lower catastrophe losses, and increased net investment gains.
- Operating ROE for the last 12 months improved to 13% as at December 31, 2017.

Balance Sheet

- The Company ended the year in a very strong financial position, with a total capital margin of over \$1.1 billion. MCT in Canada was estimated at 205%.
- IFC's book value per share was \$48.00, increasing 12% from a year ago driven by robust earnings, capital markets strength, and the equity financing of OneBeacon.
- The debt-to-total-capital ratio was 23.1% at December 31, 2017 reflecting the financing of the \$2.3 billion (US\$1.7 billion) acquisition of OneBeacon during the third quarter of 2017. The Company expects to return to its target debt-to-total-capital ratio of 20% in 2019.

Normal Course Issuer Bid

- During 2017 the Company repurchased 20,400 shares for cancellation for a total consideration of approximately \$1.9 million under its normal course issuer bid ("NCIB") program which expired on February 11, 2017. A further 51,100 shares were repurchased for cancellation for a total consideration of \$4.8 million under the 2017 NCIB program which expires February 12, 2018.

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 \$1.62 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 Q4-2017 MD&A as well as the Q4-2017 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 11:00 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 February 7 at 1:45 p.m. ET until midnight on February 14. To listen to the replay, call 416 849-0833 or 1 855 859-2056 (toll-free in North America), passcode 7997438. 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.

SOURCE Intact Financial Corporation

Media Inquiries: Stephanie Sorensen, Director, External Communications, 1 416 344-8027, stephanie.sorensen@intact.net;
Investor Inquiries: Ken Anderson, Vice President, Investor Relations & Treasurer, 1 855 646-8228 ext. 87383, kenneth.anderson@intact.net

<https://newsroom.intactfc.com/2018-02-06-Intact-Financial-Corporation-reports-Q4-2017-and-2017-Annual-Results>