

Intact Financial Corporation reports Q1-2018 Results

Highlights

- **Net operating income per share of \$0.81 reflecting a \$0.70 impact from the severe winter conditions in Canada and an increase in investment income**
- **Premiums grew 20% bolstered by OneBeacon and strong growth in commercial lines in Canada**
- **Combined ratio of 99.2% reflects the severe winter in Canada and OneBeacon's solid results at 95.3%**
- **Operating ROE of 12.4% and a 10% increase in book value per share over the last twelve months**

TSX: IFC

(in Canadian dollars except as otherwise noted)

TORONTO, May 8, 2018 /CNW/ -

Charles Brindamour, Chief Executive Officer, said:

"We experienced an exceptionally severe winter across Canada which drove higher claims frequency in all lines. Despite the challenging start to the year, the fundamentals of our property and commercial businesses remain very strong. Profitability improvement in personal auto is progressing according to plan and we remain committed to a mid-90s combined ratio run rate by the end of this year. We're also pleased with the progress in our U.S. Specialty business which delivered a 95% combined ratio. In 2017, our ROE outperformance grew to 690 basis points and we expect to continue to exceed our 500 bps target in the coming year."

Consolidated Highlights¹

(in millions of Canadian dollars except

Q1-2018 **Q1-2017** **Change**

as otherwise noted)

Direct premiums written	2,082	1,737	20%
Combined ratio	99.2%	98.2%	1.0 pts
Underwriting income	19	35	(46)%
Net investment income	122	105	16%
Net distribution income	24	24	-
Net operating income	120	123	(2)%
Net income	103	146	(29)%
Per share measures (in dollars)			
Net operating income per share	0.81	0.90	(10)%
Earnings per share	0.68	1.08	(37)%
Operating ROE for the last 12 months	12.4%	10.6%	1.8 pts
Book value per share (in dollars)	47.32	43.14	10%
Total capital margin ²	1,067	1,034	33
Debt-to-total capital ratio	23.4%	18.5%	4.9 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.

Aggregate of capital in excess of company action levels in regulated entities (170% MCT, 200% RBC) plus available cash in unregulated entities. Please refer to Section 12 – Capital

(2) management in the Management's Discussion and Analysis for further details.

Dividend

- The Board of Directors approved the quarterly dividend of \$0.70 per share on the Company's outstanding common shares. 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, 23.87825 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 June 29, 2018, to shareholders of record on June 15, 2018.

Industry Outlook

- In **personal auto**, claims cost inflation is leading to rate increases in all markets. In **personal property**, firm market conditions are expected to continue, as companies adjust to changing weather patterns. **Commercial lines** are benefitting from signs of firming market conditions in some segments.
- In **U.S. commercial**, while the pricing environment remains competitive, there are continuing signs of upward trends in certain specialty lines with low single-digit growth expected in the coming year.
- Overall, the 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

Q1-2018 Q1-2017 Change

as otherwise noted)

Direct premiums written

Canada	1,761	1,737	1%
U.S.	321	-	n/a
	2,082	1,737	20%

Underwriting income

Canada	4	35	(31)
U.S.	15	-	15
	19	35	(16)

Combined ratio

Canada	99.8%	98.2%	1.6 pts
U.S.	95.3%	-	n/a
	99.2%	98.2%	1.0 pts

- Premium growth** of 20% reflected our U.S. acquisition of OneBeacon which contributed a solid 19 points. In Canada, premium growth of 1% was driven by 5% growth in commercial lines, where momentum is improving. This was tempered by the impact of continued profitability actions in personal auto including rate increases.
- Underwriting income** of \$19 million included \$15 million from OneBeacon and \$4 million in Canada after reflecting approximately \$130 million of higher-than-expected losses from the severe winter conditions. Compared to Q1-2017, which also experienced difficult winter conditions, underwriting income in Canada fell \$31 million due to an estimated \$40 million increase in weather-related losses which mostly impacted personal auto and commercial lines.
- Combined ratio** of 99.2% reflected the severe winter conditions in Canada and OneBeacon's solid results. The combined ratio of 99.8% in Canada included an estimated 5 points of higher-than-expected weather-related losses, roughly a 2 point increase from last year. Our U.S. insurance business is showing good progress and achieved a solid 95.3% combined ratio.

Lines of Business

P&C Canada

- **Personal auto** premiums fell modestly as our profitability actions, including rate increases taken ahead of the market and accelerated segmentation initiatives, resulted in unit declines. The underwriting loss of \$59 million reflected higher weather-related claims frequency resulting in a combined ratio of 106.4%. Our underlying performance improved slightly over last year when excluding a 1.7 point increase in weather-related losses and a lower benefit from industry pools. Our enhanced initiatives focused on dampening elevated physical damage costs are gaining traction. We remain on track to deliver a mid-90's run-rate combined ratio by year end.
- **Personal property** premiums grew 2% driven by rate increases in firm market conditions, but were tempered by slowing unit growth related to our profitability actions in personal auto. The combined ratio of 88.3% was strong despite a severe winter, improving 4.5 points over last year on higher favourable prior year claims development and lower expenses.
- **Commercial lines** (P&C and auto) saw growth of 5% driven by ongoing rate increases in firming market conditions and strong growth in specialty lines. The combined ratio deteriorated 3.6 points from last year to 99.5%, due to higher weather-related losses and lower favourable prior year development. As a result, underwriting income declined by \$21 million to \$3 million in Q1-2018.
- **Net distribution income** of \$24 million remained solid, though flat versus Q1-2017. Full year net distribution income is expected to grow 10% in 2018 relative to 2017.

P&C U.S.

- **Premiums** of \$321 million included organic mid-single-digit growth in profitable lines, which represent about two-thirds of the portfolio. Segments undergoing profitability improvement saw premium declines, as expected.
- **Underwriting income** of \$15 million, resulting in a 95.3% combined ratio, included favourable prior year claims development of 1.3 points and healthy underlying performance. We remain on track to achieve a low-90s combined ratio within 24-36 months of deal close.

Investments

- Net investment income of \$122 million increased 16% in the quarter, largely reflecting higher invested assets from the addition of OneBeacon. We expect optimization initiatives following the integration of the OneBeacon portfolio and higher interest rates to positively impact net investment income in 2018.
- Net gains excluding fair-value-through-profit-and-loss fixed-income securities amounting to \$61 million in the quarter and \$72 million in Q1-2017 were driven by strong capital markets in 2017.

Net Income

- **Net operating income** of \$120 million (or \$0.81 per share) reflected higher than expected weather-related losses in Canada of approximately \$130 million (or \$0.70 per share), as well as solid results from OneBeacon. Net operating income was 2% lower than Q1-2017, which also experienced difficult winter conditions. On a per share basis, net operating income decreased 10% to \$0.81 reflecting lower underwriting performance and the financing of OneBeacon.
- Earnings per share of \$0.68 for the quarter decreased 37% from a year ago impacted by the items discussed above, as well as non-operating items related to OneBeacon.
- Operating ROE for the last 12 months was 12.4% as at March 31, 2018, improving from 10.6% in Q1-2017.

Balance Sheet

- The Company ended the quarter in a strong financial position, with a total capital margin of close to \$1.1 billion. MCT in Canada was estimated at 201%.
- IFC's book value per share was \$47.32, increasing 10% from a year ago driven by earnings and the equity financing of OneBeacon.
- The debt-to-total capital ratio was 23.4% at March 31, 2018. The Company expects to return to its target debt-to-total capital ratio of 20% in 2019.

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 \$0.78 and \$0.88, 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 Q1-2018 MD&A as well as the Q1-2018 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 10:00 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 on May 9, 2018 at 1:00 p.m. ET until midnight on May 16. To listen to the replay, call 416-849-0833 or 1-855-859-2056 (toll-free in North America), passcode 6163899. 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

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