

Intact Financial Corporation reports Q3-2018 Results

Highlights

- **Net operating income per share of \$1.62**, driven by a solid combined ratio of 93.8% across North America and strong net investment income
- **Premiums grew 23%** fuelled by OneBeacon and strong organic growth in commercial lines
- **Combined ratio of 93.9% in Canada** with significant improvement in personal auto, and **solid OneBeacon results at 93.5%**
- **Operating ROE of 11.6% and a 6% increase in book value per share** over the last twelve months, with \$1.2 billion of total capital margin

(TSX: IFC)

(in Canadian dollars except as otherwise noted)

TORONTO, Nov. 6, 2018 /CNW/ -



Charles Brindamour, Chief Executive Officer, said:

"Our businesses delivered solid results this quarter, and we made further progress on our near-term objectives. Personal auto continues to improve and remains on track for a mid-90's combined ratio run-rate by year-end. The anniversary of the OneBeacon acquisition marks a year of delivering tangible results towards creating a leading North American specialty insurer. Market conditions across North America continue to evolve favourably and should support stronger organic growth in the coming year."

Consolidated Highlights¹

(in millions of Canadian dollars except as otherwise noted)

	Q3-2018	Q3-2017	Change	YTD 2018	YTD 2017	Change
Direct premiums written	2,708	2,203	23%	7,698	6,437	20%
Combined ratio	93.8%	91.8%	2.0 pts	96.3%	95.0%	1.3 pts
Underwriting income	152	170	(18)	264	308	(44)
Net investment income	133	101	32	389	311	78
Net distribution income	34	30	4	110	104	6
Net operating income	237	219	8%	558	535	4%
Net income	199	171	16%	463	560	(17)%
Per share measures (in dollars)						
Net operating income per share (NOIPS)	1.62	1.61	1%	3.80	3.95	(4)%
Earnings per share (EPS)	1.34	1.25	7%	3.12	4.14	(25)%
Return on equity for the last 12 months						
Operating ROE	11.6%	13.3%	(1.7) pts			
ROE	9.8%	12.7%	(2.9) pts			
Book value per share (in dollars)	49.27	46.56	6%			
Total capital margin ²	1,177	1,155	22			

(1)	This table contains non-IFRS financial measures. Please refer to Section 14 – Non-IFRS financial measures in the Management's Discussion and Analysis for further details.
(2)	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 11– Capital 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 Class A Series 1 preferred shares, 20.825 cents per share on the Class A Series 3 preferred shares, 26.2705 cents per share on the Class A Series 4 preferred shares, 32.5 cents per share on the Class A Series 5 preferred shares, 33.125 cents per share on the Class A Series 6 preferred shares and 30.625 cents per share on the Class A Series 7 preferred shares. The dividends are payable on December 31, 2018, to shareholders of record on December 14, 2018.

Industry Outlook

- Overall for the **Canadian P&C** industry, we expect **mid-single-digit premium growth** in the coming year, reflecting firming market conditions. In **personal auto**, industry profitability is putting upward pressure on auto rates. In **personal property**, companies continue to adjust to changing weather patterns. While **commercial lines** remain competitive, market conditions are improving.
- In **U.S. commercial**, the pricing environment is competitive with modest upward trends, and the economic backdrop is favourable. We expect **low-to-mid single-digit growth** 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 as

otherwise noted)

Direct premiums written

	Q3-2018	Q3-2017	Change	YTD 2018	YTD 2017	Change
Canada	2,239	2,203	2%	6,534	6,437	2%
U.S.	469	-	n/a	1,164	-	n/a
	2,708	2,203	23%	7,698	6,437	20%

Combined ratio

Canada	93.9%	91.8%	2.1 pts	96.7%	95.0%	1.7 pts
U.S.	93.5%	-	n/a	94.2%	-	n/a
	93.8%	91.8%	2.0 pts	96.3%	95.0%	1.3 pts

Underwriting income

Canada	129	170	(41)	204	308	(104)
U.S.	22	-	22	58	-	58
Corporate & other ¹	1	-	1	2	-	2
	152	170	(18)	264	308	(44)

¹ Corporate & other segment reflects the impact of our internal reinsurance treaty.

- **Premiums grew** 23% in the quarter and 20% year-to-date, with OneBeacon contributing 21 points and 18 points, respectively. In Canada, premium growth of 2% in the quarter and year-to-date reflected strong growth in commercial lines tempered by the impact of our profitability actions in personal auto.
- **Combined ratio** of 93.8% in the quarter was driven by solid underlying performances in both Canada and the U.S. The year-over-year deterioration of 2.0 points is largely related to the 2017 net reserve change recorded in Q3-2017. The combined ratio of 93.9% in Canada reflects strong underlying performance in personal lines including significant year-over-year improvement in personal auto results. This was offset by elevated large losses in commercial lines. OneBeacon delivered another solid quarter with a 93.5% combined ratio.
- Year-to-date, IFC's **combined ratio** of 96.3% deteriorated by 1.3 points compared to the same period last year, as solid results from OneBeacon and progress in personal auto were offset by elevated large losses in Canadian commercial lines and personal property.

Lines of Business

P&C Canada

- **Personal auto** premiums declined 2% compared to the same quarter last year, as rate increases taken ahead of the market and segmentation initiatives impacted unit growth. The combined ratio of 99.0% improved 6.1 points over last year driven by significant improvement in underlying performance. Results included 1.9 points of unfavourable prior year claims development. Our profitability actions are yielding results and we remain on track to achieve our mid-90s combined ratio run-rate target by year-end.
- **Personal property** premiums grew 2% driven by rate increases in firm market conditions, tempered by the impact of our profitability actions in personal auto. The combined ratio of 83.8% was strong and improved 1.2 points over last year driven by lower catastrophe losses. The year-to-date combined ratios remain resilient at a low-90s level for both years, despite severe weather in 2017 and 2018.
- **Commercial lines** (P&C and auto) premiums saw strong growth of 8% as both segments continued to benefit from rate momentum in firming market conditions. The combined ratio of 94.9% increased year-over-year by 18.4 points, of which about 8 points related to the 2017 net reserve change recorded in Q3-2017. Elevated large losses and catastrophe losses were each roughly 5 points higher than last year.
- **Net distribution income** of \$34 million grew 13% versus last year, driven by continued growth of our broker network.

P&C U.S.

- **Premiums** of \$469 million reflected organic growth of 5% in the quarter. Growth initiatives are generating strong new business. Business lines not undergoing profitability improvement again delivered low double-digit growth.
- **Combined ratio** was a solid 93.5%. Since closing the OneBeacon acquisition one year ago, we have made good progress in improving profitability. We are well on track to achieve a sustainable low-90s combined ratio within 24 months.

Investments

- **Net investment income** of \$133 million increased 32% compared to the same quarter last year, reflecting the integration of the OneBeacon portfolio, investment optimization initiatives, and higher yields.

Net Income

- **Net operating income** of \$237 million for the quarter increased 8%, driven by strong growth in net investment income and a solid underlying underwriting performance including improved results in personal auto. On a per share basis, net operating income of \$1.62 was slightly higher than last year, after reflecting the impact of the common shares issued as part of the financing of OneBeacon.
- **Earnings per share** of \$1.34 for the quarter increased 7% from a year ago. This reflects the items discussed above, as well as lower net investment losses and lower integration costs related to OneBeacon.
- **Operating ROE** for the last 12 months was 11.6% as at September 30, 2018 reflecting weak personal auto results in the past year.

Balance Sheet

- The Company ended the quarter in a **strong financial position**, with a total capital margin of \$1.2 billion. MCT in Canada was estimated at 196%.
- IFC's **book value per share** was \$49.27 as at September 30, 2018, increasing 6% from a year ago largely driven by earnings.
- The **debt-to-total capital ratio** decreased to 21.7% as at September 30, 2018, and continues to track towards our goal 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 \$1.48 and \$1.61, 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 Q3-2018 MD&A as well as the Q3-2018 Consolidated Financial Statements, which are available on the Company's website at www.intactfc.com and 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, 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 November 7, 2018 at 2:00 p.m. ET until midnight on November 14. To listen to the replay, call 1-855-859-2056 (toll-free in North America), passcode 9792999. 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 approximately 14,000 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. 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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