

Intact Financial Corporation reports Q2-2019 Results

Highlights

- **Net operating income per share increased 4% to \$1.44**, with strong net investment income and distribution results
- **Strong premium growth of 8%** was fuelled by improving market conditions, with strong growth in commercial lines across North America and accelerating growth in personal lines
- **Combined ratio of 97.0%** reflects strong underlying performance in personal auto offset by 3.7 points from an increase in reserves for prior years; solid results in commercial lines in Canada and the U.S.
- Strong financial position with **\$1.3 billion of total capital margin** and **operating ROE of 12%**

(TSX: IFC)

(in Canadian dollars except as otherwise noted)

TORONTO, July 30, 2019 /CNW/ -

Charles Brindamour, Chief Executive Officer, said:

"The fundamentals across all our businesses are strong. I was disappointed to see more activity than anticipated on older auto files which led us to prudently bolster reserves. At the same time our action plans in auto are working, driving an excellent underlying performance. Hard market conditions continue across the business allowing us to capture growth opportunities."

	Consolidated Highlights ¹					
(in millions of Canadian dollars except as otherwise noted)	Q2-2019	Q2-2018 ²	Change	YTD 2019	YTD 2018 ²	Change
Direct premiums written ¹	3,152	2,908	8%	5,367	4,990	7%
Combined ratio	97.0%	96.1%	0.9 pts	99.2%	97.6%	1.6 pts
Underwriting income	75	93	(19)%	38	112	(66)%
Net investment income	148	137	8%	288	262	10%
Distribution EBITA	72	62	16%	108	92	17%
Net operating income	212	201	5%	325	321	1%
Net income	168	161	4%	327	264	24%
Per share measures (in dollars)						
Net operating income per share (NOIPS)	\$1.44	\$1.38	4%	\$2.17	\$2.19	(1)%
Earnings per share (EPS)	\$1.13	\$1.10	3%	\$2.19	\$1.78	23%
Return on equity for the last 12 months						
Operating ROE	12.0%	11.9%	0.1 pts			
ROE	10.6%	10.0%	0.6 pts			
Book value per share (in dollars)	\$49.90	\$48.64	3%			
Total capital margin ³	1,269	1,243	26			
Debt-to-total-capital ratio	21.6%	22.5%	(0.9) pts			

This press release contains non-IFRS financial measures. Refer to Section 16 – *Non-IFRS financial measures* in the Management's Discussion and Analysis for further details. DPW

(1) change (growth) is presented in constant currency. The impact of fluctuations in foreign exchange rates was not material to our consolidated results. Impact on the U.S. segment's performance is outlined in the Insurance Business Performance section hereafter.

(2) Refer to Section 14 – *Presentation changes* in the Management's Discussion and Analysis for further details on the reclassification of comparatives.

(3) Aggregate of capital in excess of company action levels in regulated entities (170% MCT, 200% RBC) plus available cash in unregulated entities. Refer to Section 12 – *Capital management* in the Management's Discussion and Analysis for further details.

Dividend

- The Board of Directors approved the quarterly dividend of \$0.76 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, 27.392 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 September 30, 2019, to shareholders of record on September 16, 2019.

12-month Industry Outlook

- For the **Canadian P&C** industry, we expect **mid-to-upper single-digit premium growth**. Market conditions are hard as weak industry profitability in all lines of business continues to put upward pressure on rates.
- In **U.S. commercial**, the pricing environment remains competitive with improving upward trends. We expect **mid single-digit growth** in the coming year.
- 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)	Q2-2019	Q2-2018	Change	YTD 2019	YTD 2018	Change
Direct premiums written ¹						
Canada	2,727	2,534	8%	4,580	4,295	7%
U.S. ¹	425	374	10%	787	695	9%
	3,152	2,908	8%	5,367	4,990	7%
Combined ratio						
Canada	97.4%	96.6%	0.8 pts	100.1%	98.2%	1.9 pts
U.S.	94.8%	93.8%	1.0 pts	94.4%	94.5%	(0.1) pts
	97.0%	96.1%	0.9 pts	99.2%	97.6%	1.6 pts
Underwriting income						
Canada	55	71	(16)	(4)	75	(79)
U.S.	18	21	(3)	39	36	3
Corporate & other ²	2	1	1	3	1	2
	75	93	(18)	38	112	(74)

¹ DPW change (growth) is presented in constant currency. Refer to Section 16 – *Non-IFRS financial measures* in the Management's Discussion and Analysis for further details. In the U.S., DPW change (growth) as reported was 14% for the quarter and 13% year-to-date.

² Reflects the impact of our internal catastrophe reinsurance treaty.

- Premiums grew 8%** in the quarter and year-to-date (or 8% and 7% respectively on a constant currency basis), reflecting strong growth across all lines of business. In Canada, premiums grew 8% in Q2-2019 supported by improving competitive

positioning. Strong double-digit growth in commercial lines and the acceleration of growth in personal lines are fueling topline momentum. With hard market conditions in Canada we saw average rate increases of 7% overall. U.S. commercial lines grew 14% in the quarter (or 10% on a constant currency basis) mainly driven by strong new business.

- **Combined ratio of 97.0%** in the quarter increased 0.9 points over last year. The combined ratio of 97.4% in Canada reflected strong underlying performance in personal auto. The 0.8 points increase versus Q2-2018 was driven by the unfavourable prior year claims development in personal auto offset by lower catastrophe losses. U.S. performance remained solid at 94.8% in the quarter.
- Year-to-date, IFC's **combined ratio of 99.2%** was 1.6 points higher than H1-2018, as improved underlying performance and expense management were more than offset by unfavourable prior year claims development.

Lines of Business

P&C Canada

- **Personal auto** premiums increased 6% in the quarter, driven by rate increases in hard market conditions. The combined ratio increased 3.9 points over last year to 99.5% in Q2-2019. The underlying current year loss ratio of 66.8% was strong, improving 2.9 points over last year driven by the success of our action plans. This was more than offset by an unfavourable 7.6 point change in prior year claims development mostly related to reserve increases on Alberta and pre-reform Ontario files.
- **Personal property** premiums grew 6% in Q2-2019 driven by rate increases and accelerating unit growth supported by hardening market conditions. The combined ratio of 99.6% improved 3.1 points reflecting lower catastrophe losses compared to last year. However, the underlying current year loss ratio of 59.0% increased 5.3 points over last year's strong performance mainly due to higher non-catastrophe weather and fire losses.
- **Commercial lines** (P&C and auto) premiums increased 11% in the quarter with contributions from all segments, led by rate increases deployed in hard market conditions. The combined ratio of 92.8% in the quarter was solid and remained stable over last year. Catastrophe losses were 4 points lower than last year's elevated level, while favourable prior year claims development was lower by 3.9 points.
- **Distribution EBITA** grew 16% to \$72 million in Q2-2019 due to growth and improved profitability in our broker network.

P&C U.S.

- **Premiums** grew to \$425 million or 10% in constant currency, with all lines showing strong growth except lines under profitability improvement plans. Strong new business, rate increases and higher retention levels are driving growth as market conditions remain favourable across most business lines.
- **Combined ratio of 94.8%** was solid, but 1.0 point higher than last year. The positive impact of our profitability actions and continued growth in profitable lines were more than offset by higher large losses. The expense ratio increased by 1.8 points, driven by higher commissions. We continue to make steady progress on OneBeacon's profitability improvement plan and remain on track to achieve a sustainable low-90s combined ratio by the end of 2020.

Investments

- **Net investment income** of \$148 million was particularly strong increasing 8% in the quarter, largely reflecting higher reinvestment yields captured in 2018.

Net Income

- **Net operating income** increased 5% to \$212 million (or \$1.44 per share) largely due to strong distribution EBITA and net investment income growth offset by lower underwriting income.
- **Earnings per share** of \$1.13 improved 3% driven by operating performance.
- **Operating ROE** for the last 12 months was 12.0% as at June 30, 2019 and below our historical track record due to personal auto challenges in 2019, as well as severe weather.

Balance Sheet

- The Company ended the quarter in a strong financial position, with a total capital margin of \$1.3 billion. MCT in Canada was estimated at 191%.
- IFC's **book value per share** was \$49.90 as at June 30, 2019, increasing 3% from a year ago mainly driven by earnings.
- The **debt-to-total capital ratio** was 21.6% as at June 30, 2019 and we expect to achieve our goal of 20% by the end of the year.

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 \$1.65 and \$1.79, 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 Q2-2019 MD&A as well as the Q2-2019 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, 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 July 31st, 2019 at 2:00 p.m. ET until midnight on August 7th. To listen to the replay, call 1- 855- 859-2056 (toll-free in North America), passcode 6729129. 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 over \$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 and public-sector 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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