

Intact Financial Corporation reports Q1-2021 results

(in Canadian dollars except as otherwise noted)

TORONTO, May 11, 2021 /CNW/ - (TSX: IFC)

Highlights

- **Net operating income per share up 49% to \$2.40 and OROE of 19.0%**, driven by strong underwriting performance and distribution results
- Premiums grew 1% impacted by an additional **\$75 million of COVID-19 related relief** for personal auto customers
- **Combined ratio of 89.3%** was strong, with Canada at 88.2% and the U.S. at 96.3%, which included 7.6 points of weather-related catastrophe losses in the U.S.
- **EPS of \$3.51 for the quarter and BVPS up 20% year-over-year to \$62.19**, driven by strong operating results and investment gains
- **Integration and transition planning with the RSA team is progressing well**; all financing is secured, and closing is expected on June 1, 2021

Charles Brindamour, Chief Executive Officer, said:

"We've had a solid start to the year, providing additional relief to our customers and delivering a robust operating performance. Our fundamentals remain strong on both sides of the border. In 2020, our ROE outperformance versus the industry was 570 basis points, again exceeding our 500-basis point target. We have made great progress collaborating with the RSA teams as we prepare for integration and transition following closing. I look forward to welcoming our new colleagues to the Intact family. We are going to hit the ground running together to deliver on our strategic and financial objectives."

Consolidated Highlights ¹			
(in millions of Canadian dollars except as otherwise noted)	Q1-2021	Q1-2020	Change
Direct premiums written ¹	2,522	2,521	1%
Combined ratio	89.3%	94.3%	(5.0) pts
Underwriting income	297	159	87%
Net investment income	141	150	(6)%
Distribution EBITA and Other	62	44	41%
Net operating income	357	243	47%
Net income	514	107	380%
Per share measures (in dollars)			
Net operating income per share (NOIPS)	\$2.40	\$1.61	49%
Earnings per share (EPS)	\$3.51	\$0.66	432%
Return on equity for the last 12 months			
Operating ROE	19.0%	14.0%	5.0 pts
ROE	17.6%	9.2%	8.4 pts
Book value per share (in dollars)	62.19	51.71	20%
Total capital margin ²	3,008	1,485	1,523
Debt-to-total-capital ratio	22.5%	24.1%	(1.6) pts

¹ This press release contains non-IFRS financial measures. Refer to Section 21 – *Non-IFRS financial measures* in the Q1-2021 Management's Discussion and Analysis for further details.

DPW change (growth) is presented in constant currency.

² Aggregate of capital in excess of company action levels (165% MCT effective April 1, 2020, previously 170% MCT, 200% RBC) in regulated entities plus available cash and investments in unregulated entities. Refer to Section 16 – *Capital management* in the Q1-2021 Management's Discussion and Analysis for further details.

Common Share Dividend

- The Board of Directors approved the quarterly dividend of \$0.83 per share on the Company's outstanding common shares. The dividends are payable on June 30, 2021, to shareholders of record on June 15, 2021.
- With a strong financial position and confidence in earnings growth, we will continue to protect our people, support our customers and advance on our strategic objectives. We intend to increase our dividend this year as we have in the past 15 years.

Industry Outlook

- The Canadian industry combined ratio was 97% and the industry ROE was above 9% for the full year 2020. We expect firm to hard market conditions in Canada and hard market conditions in the U.S. to continue, driven by low industry underwriting profitability and low investment yields.
- In commercial lines on both sides of the border, hard market conditions are expected to continue. In personal lines, firm market conditions are expected in personal property, while in the personal auto market rates increases are prudently lower in the current environment.

Insurance Business Performance

(in millions of Canadian dollars except as otherwise noted)	Q1-2021	Q1-2020	Change
Direct Premiums Written ³			
Canada	2,125	2,125	0%
U.S.	397	396	6%
	2,522	2,521	1%
Combined Ratio			
Canada	88.2%	93.3%	(5.1) pts
U.S.	96.3%	100.1%	(3.8) pts
	89.3%	94.3%	(5.0) pts
Underwriting Income			
Canada	282	158	124
U.S.	14	(1)	15
Corporate & other	1	2	(1)
	297	159	138

³ DPW change (growth) is presented in constant currency. Refer to Section 5 – U.S. in the Management's Discussion and Analysis for further details. In the U.S., DPW change (growth) as reported was 0% for the quarter.

- **Premium growth of 1% in constant currency** reflected solid topline growth of 6% in the U.S., while growth in Canada was flat, tempered by an estimated 3 points from additional relief in personal auto.
- **Combined ratio of 89.3%** was strong, despite a 4.2 point impact from earned relief. The combined ratio in Canada of 88.2% improved 5.1 points year-over-year, reflecting strong performance across all lines. In the U.S., the combined ratio improved 3.8 points year-over-year to 96.3%.

Lines of Business

P&C Canada

- **Personal auto** premiums declined by 8% after reflecting 9 points (\$75 million) of additional relief and 2 points due to the B.C. auto exit. The combined ratio of 93.4% was strong, including 9.3 points of total earned relief in the quarter. The 1.2 point improvement over last year was driven by solid underlying performance and healthy favourable prior year claims

development.

- **Personal property** premiums increased by 6%, driven by firm market conditions and unit growth. The combined ratio improved 4.4 points year-over-year to a very strong 77.4%, reflecting higher favourable prior year claims development and lower catastrophe losses.
- **Commercial lines** (P&C and auto) premium growth of 5% reflected hard market conditions and strong new business, tempered by lower volumes related to the sharing economy in Commercial auto. The combined ratio of 90.1% was solid, improving 10.6 points year-over-year driven by our profitability actions, strong favourable prior year claims development and mild weather conditions.
- **Distribution EBITA and Other** grew 41%, driven by continued solid organic revenue growth, accretive acquisitions and continuing expense management.

P&C U.S.

- **Premiums** grew a solid 6% in constant currency to \$397 million in Q1-2021, driven by hard market conditions and recent MGA acquisitions, tempered by the impact of the economic slowdown in some lines of business driven by the COVID-19 crisis.
- **Combined ratio** of 96.3% included 7.6 points of catastrophe losses, well above expectations and related to the severe Texas winter storms. The underwriting performance was solid and this business is positioned to run in the low 90s sustainably.

Investments

- **Net investment income** of \$141 million for the quarter declined 6% year-over-year, driven by lower reinvestment yields combined with a weaker U.S. dollar, partly offset by the benefit of higher invested assets.
- **Net gains excluding FVTPL bonds** were \$283 million for the quarter largely driven by a gain of \$273 million related to a venture investment.

Net Income and ROE

- **Net operating income** of \$357 million in Q1-2021, reflected strong growth in underwriting and distribution performances.
- **Earnings per share** of \$3.51 in Q1-2021 was driven by strong operating results and investment gains.
- **Operating ROE** improved 5 points year-over-year to 19.0% for the 12 months to March 31, 2021 driven by strong underwriting and distribution performances.

Balance Sheet

- The Company ended the quarter in a strong financial position, with a total capital margin of \$3.0 billion, including \$850 million in debt and hybrids issued to partly finance the RSA acquisition. MCT in Canada was estimated at 224%.
- IFC's **book value per share** (BVPS) of \$62.19 as at March 31, 2021, increased 20% since March 31, 2020, driven by a strong operating performance and mark-to-market investment gains due to the market rebound since Q1-2020.
- The **debt-to-total capital ratio** decreased 1.6 points to 22.5% as at March 31, 2021, compared to 24.1% as of December 31, 2020. Included in the debt-to-total capital ratio is \$600 million of medium-term notes to fund the RSA transaction. We expect the debt-to-total-capital ratio to be below our initial estimate of approximately 26% at closing of the RSA acquisition and return to 20% within 36 months following closing.

Preferred Share Dividends

- The Board of Directors 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, 17.03450 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, 30.625 cents per share on the Class A Series 7 preferred shares and 33.75 cents per share on the Class A Series 9 preferred shares. The dividends are payable on June 30, 2021, to shareholders of record on June 15, 2021.

M&A Update

- **The acquisition of RSA is expected to close on June 1, 2021** As of May 6, 2021, all required anti-trust and regulatory approvals have been received. A court hearing is scheduled for May 25, 2021 for a formal approval of the transaction by

the High Court of Justice in England and Wales. Upon approval, the Acquisition is expected to close on June 1, 2021.

- In March 2021, \$250 million of fixed-to-fixed subordinated debt notes were issued to partly finance the RSA acquisition. The acquisition financing is now completed.
- The RSA acquisition is expected to generate over 15% internal rate of return, high single digit NOIPS accretion in the first year, increasing to upper teens within 36 months, and a 25% increase in BVPS on closing. Operating ROE is expected to be in the mid-teens level in the medium term.

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 \$2.02 and \$2.16, 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 Q1-2021 MD&A as well as the Q1-2021 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 Details

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 May 12, 2021 at 2:00 p.m. ET until midnight on May 19, 2021. To listen to the replay, call 416 849-0833 or 1 855 859-2056 (toll-free in North America), passcode 5025566. A transcript of the call will also be made available on Intact Financial Corporation's website.

About Intact Financial Corporation

Intact Financial Corporation 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 \$12 billion in total annual premiums. The Company has over 16,000 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. Intact Public Entities, a Canadian Managing General Agent (MGA), distributes public entity insurance programs including risk and claims management services in Canada.

In the U.S., Intact Insurance Specialty Solutions provides a range of specialty insurance products and services through independent agencies, regional and national brokers, wholesalers and managing general agencies. Products are underwritten by the insurance company subsidiaries of Intact Insurance Group USA, LLC.

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, the Company's growth prospects, the impact on the Company of the occurrence of and response to the coronavirus (COVID-19) pandemic and ensuing events, and the Company's proposed acquisition of RSA and the completion of and timing for completion of the RSA acquisition. 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 dated March 31, 2021 and those made in our Q1-2021 Management's Discussion and Analysis (including in its "Risk Management" in section 20), our 2020 Annual Management's Discussion and Analysis (sections 28-33), in Notes 10 and 13 of our Consolidated Financial Statements for the year ended December 31, 2020 and the additional risk factors of the Company related to the proposed RSA acquisition as described at pages 24-28 of the Company's Presentation entitled "Building a Leading P&C Insurer - Acquisition of RSA's Canada and UK&I operations," dated November 18, 2020. 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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