

Intact Financial Corporation reports Q2-2021 results

(in Canadian dollars except as otherwise noted)

Highlights

- **Net operating income per share up 39% to \$3.26** driven by strong underwriting performance and distribution results
- **Premiums grew 29%**, bolstered by the RSA acquisition and strength in Commercial Lines in both Canada and the U.S.
- **Combined ratio of 86.7%** included Canada at 85.0% and the U.S. at 90.3%, and was driven by **strong underlying performance across all lines**
- **BVPS up 25% from Q1-2021**, driven by the RSA financing and **strong EPS of \$3.59 for the quarter**
- **OROE of 19.8% and robust financial position** with \$2.6 billion of total capital margin and debt-to-total capital of 24.1%
- **RSA acquisition closed on June 1** and was immediately high single-digit accretive to net operating income per share

TORONTO, July 27, 2021 /CNW/ - (TSX: IFC)

Charles Brindamour, Chief Executive Officer, said:

"Our strong results this quarter and year to date were driven by excellent operating performance across the business. After several months of integration and transition planning, on June 1st we welcomed RSA's employees to Intact and increased our premium base by 70%. This added scale enhances our ability to invest in our core capabilities of data, risk selection and claims. We remain focused on growing net operating income per share by 10% annually over time and outperforming the industry ROE by 500 bps every year. With significant momentum in our business, we are well-positioned to emerge from the COVID-19 crisis in a strong position to continue to support our employees and communities, while delivering value for our shareholders."

Consolidated Highlights ¹						
(in millions of Canadian dollars except as otherwise noted)	Q2-2021	Q2-2020	Change	H1-2021	H1-2020	Change
Direct premiums written ¹	4,297	3,382	29%	6,819	5,903	17%
Combined ratio	86.7%	89.5%	(2.8) pts	87.8%	91.9%	(4.1) pts
Underwriting income	464	284	63%	761	443	72%
Net investment income	154	141	9%	295	291	1%
Distribution EBITA and Other	118	78	51%	180	122	48%
Net operating income	515	350	47%	872	593	47%
Net income	573	263	118%	1,087	370	194%
Per share measures (in dollars)						
Net operating income per share (NOIPS)	\$3.26	\$2.35	39%	\$5.69	\$3.96	44%
Earnings per share (EPS)	\$3.59	\$1.74	106%	\$7.10	\$2.40	196%
Return on equity for the last 12 months						
Operating ROE	19.8%	15.6%	4.2 pts			
ROE	19.6%	10.1%	9.5 pts			
Book value per share (in dollars)	\$77.67	\$53.95	44%			
Total capital margin ²	2,558	1,707	851			
Debt-to-total-capital ratio	24.1%	22.1%	2.0 pts			

¹ This press release contains non-IFRS financial measures. Refer to Section 22 – Non-IFRS financial measures in the Q2-2021 Management's Discussion and Analysis for further details.

DPW change (growth) is presented in constant currency.

Common Share Dividend

- The Board of Directors approved the quarterly dividend of \$0.83 per share on the Company's outstanding common shares. The dividend is payable on September 30, 2021, to shareholders of record on September 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 each of the past 15 years.

Industry Outlook

- Industry profitability improved in the twelve months to March 31, 2021, helped in part by lower catastrophe losses, favourable prior year development and temporarily lower auto claims frequency.
- In personal lines in Canada, we expect firm market conditions to continue in personal property, while personal auto rates remain tempered in the current environment.
- In both the U.S. and Canada, hard market conditions in commercial lines are expected to continue.
- In the UK, hard market conditions are prevailing across commercial lines while UK personal lines growth remains muted in the current environment.

Insurance Business Performance

(in millions of Canadian dollars except as otherwise noted)	Q2-2021	Q2-2020	Change	H1-2021	H1-2020	Change
Direct premiums written						
Canada	3,051	2,896	5%	5,176	5,021	3%
U.S.	512	486	19%	909	882	13%
RSA Canada and UK&I*	734	n/a	nm	734	n/a	nm
Total	4,297	3,382	29%	6,819	5,903	17%
Combined ratio						
Canada	85.0%	89.0%	(4.0) pts	86.5%	91.2%	(4.7) pts
U.S.	90.3%	93.2%	(2.9) pts	93.3%	96.7%	(3.4) pts
RSA Canada and UK&I*	90.7%	n/a	nm	90.7%	n/a	n/a
Total	86.7%	89.5%	(2.8) pts	87.8%	91.9%	(4.1) pts
Underwriting income						
Canada	374	257	117	656	415	241
U.S.	37	26	11	51	25	26
RSA Canada and UK&I*	57	n/a	n/a	57	n/a	n/a
Corporate and Other	(4)	1	nm	(3)	3	nm
Total	464	284	180	761	443	318

*For the period from closing on June 1, 2021 to June 30, 2021.

- **Premium growth of 29% in constant currency** reflected the RSA acquisition and strong 7% organic growth led by commercial lines. In particular, U.S. commercial lines growth was very strong at 19%.
- **Combined ratio of 86.7%** was strong, despite a 2.0 point impact from earned relief. The combined ratio was excellent in Canada at 85.0% driven by strong underlying performance across all lines. In the U.S. the combined ratio was a solid 90.3%, also reflecting a strong underlying performance. RSA's combined ratio of 90.7% was strong, despite including 4.1 points of CAT losses.

Lines of Business

P&C Canada (excludes RSA Canada results)

- **Personal auto** premiums increased by 1% mainly reflecting the current muted rate environment. The combined ratio of 82.4% was very strong, despite 4.6 points of total earned relief in the quarter. The 2.3 point improvement over last year was driven by strong favourable prior year claims development.
- **Personal property** premiums increased by 5%, driven by firm market conditions. The combined ratio of 83.3% was driven by strong underlying performance. Compared to last year, the 5.3 point improvement reflected lower catastrophe losses and higher favourable prior year claims development.
- **Commercial lines** (P&C and auto) premium growth of 12% mainly reflected hard market conditions. The combined ratio of 89.6% was strong, improving 5.5 points over last year driven by strong favourable prior year claims development and our profitability actions, partially offset by a higher expense ratio.
- **Distribution EBITA and Other** grew 51%, driven by higher variable commission revenues, as well as accretive acquisitions and continuing expense management.

P&C U.S.

- **Premium growth** was very strong at 19% on a constant currency basis, driven by hard market conditions, strong growth in lines most impacted by the COVID-19 crisis, as well as the impact from recent expansion of MGA relationships.
- **Combined ratio** of 90.3% was solid, reflecting strong underlying performance. The 2.9 point improvement compared to last year was driven by milder weather conditions and higher earned rates, in part due to our profitability actions. This business is well-positioned to run in the low 90s sustainably.

Investments

- **Net investment income** of \$154 million for the quarter increased 9% year-over-year, mainly due to the RSA acquisition. Excluding the impact of RSA, net investment income was flat driven by the impact of lower reinvestment yields and a weaker U.S. dollar, partly offset by the benefit of higher invested assets.
- **Net gains excluding FVTPL bonds** were \$16 million for the quarter reflecting favourable equity markets.

Net Income and ROE

- **Net operating income** of \$515 million in Q2-2021, reflected strong growth in underwriting income and distribution and other income.
- **Earnings per share** of \$3.59 in Q2-2021 was driven by strong operating results.
- **Operating ROE** improved 4.2 points year-over-year to 19.8% for the 12 months to June 30, 2021 driven by strong underwriting and distribution earnings.

Balance Sheet

- The Company ended the quarter in a strong financial position, with **total capital margin of \$2.6 billion**.
- IFC's **book value per share** (BVPS) of \$77.67 as at June 30, 2021, increased 44% since June 30, 2020, driven by strong earnings and the RSA acquisition.
- **The debt-to-total capital ratio of 24.1%** as at June 30, 2021 reflects the completion of the transaction financing and the closing of the RSA acquisition. We expect the debt-to-total-capital ratio to return to 20% within 36 months.

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, 17.4485 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 September 30, 2021, to shareholders of record on September 15, 2021.

RSA Acquisition Update

- **The acquisition of RSA closed on June 1, 2021**, and was immediately accretive, in-line with our target of high single-digit accretion in the first 12 months and upper teens within 36 months.
- In June 2021, **RSA contributed \$734 million of written premiums and \$57 million of underwriting income**. In future quarters, the RSA Canada underwriting results will be included as part of our Canada lines of business results, while the

UK&I division will be reported separately.

- In pre-tax non-operating income, we recorded a **\$200 million gain** reflecting the difference between the RSA purchase price and fair value of net assets, as well as **\$108 million of acquisition and integration related expenses**
- We remain on track to realize **\$250 million of pre-tax annual run-rate synergies within 36 months**.
- On June 11, 2021 we announced the **sale of RSA's Denmark P&C business** to Alm. Brand A/S Group, representing proceeds of DKK 6.3 billion (~\$1.26 billion) for Intact's 50% stake. The transaction is expected to close in H1-2022, with a portion of the proceeds intended to be used to repay short-term debt borrowed to partly finance the acquisition of RSA.
- On July 27, 2021, we entered into a **reinsurance agreement** providing protection for adverse development on UK&I claims liabilities for 2020 and prior accident years. The agreement covers 50% of up to £400 million of adverse development, subject to certain exclusions and limitations.

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 \$1.86 and \$2.37, 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 Q2-2021 MD&A as well as the Q2-2021 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 416 764-8659 or 1 888 664-6392 (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 28, 2021 at 2:00 p.m. ET until midnight on August 4, 2021. To listen to the replay, call 416 764-8677 or 1 888 390-0541 (toll-free in North America), entry code 603688. 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, a leading provider of global specialty insurance, and, with RSA, a leader in the U.K. and Ireland. Our business has grown organically and through acquisitions to over \$20 billion of total annual premiums.

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 also provides affinity insurance solutions through the Johnson Affinity Groups.

In the U.S., Intact Insurance Specialty Solutions provides a range of specialty insurance products and services through independent agencies, regional and national brokers, and wholesalers and managing general agencies.

Outside of North America, the Company provides personal, commercial and specialty insurance solutions across the U.K., Ireland, Europe and the Middle East through the RSA brands.

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, the acquisition of RSA, the sale of Codan Forsikring A/S's Danish business (the "Sale"), and the completion of and timing for completion of the Sale. 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 Q2-2021 Management's Discussion and Analysis (including in its "Risk Management" in sections 19-20), 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 and the risk factors included in the Company's Business Acquisition Report dated June 16, 2021 and available on SEDAR at www.sedar.com. 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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