Building a resilient future

Dear shareholders,

Charles Brindamour
Chief Executive Officer

Introduction

When I sat down to write the first draft of this letter in February, I planned to share my thoughts with you on Intact Financial Corporation's (IFC) milestone year in 2019, where we were headed in the next decade, and how we could build a resilient future.

Then the world changed with the onset of the COVID-19 pandemic. As I publish this letter, we are in the midst of extraordinary and unprecedented times. Despite the current disruption and market volatility, I believe this situation is temporary, and I remain optimistic that we will pull through this together.

At Intact, our success has always been guided by our values and rooted in why we built our business – to help people. That matters now more than ever. Our values, clear purpose, and belief that insurance is about people, not things, grounds us and gives us a solid footing as we work our way through this crisis.

The priority in the short term is to ensure the safety and well-being of our employees, while supporting our customers, brokers and communities. Insurance is essential to society and we play an important role in helping to protect people from the impacts of accidents, natural disasters and catastrophes.

It's not just us. It's also thousands of brokers across North America, as well as auto body shops, rental car companies and home restoration services to name a few that help our customers through adversity and get them back on track.

I strongly believe that we will see a recovery within 18 to 24 months. We will be ready. While there may be some short-term adjustments, our strategic roadmap for the next decade is largely in place. We will be focused on four big ideas: strengthening our leadership position in Canada; building a leading North American Specialty insurer; transforming our competitive advantages and; investing in people to sustain our strong culture and engaged workforce.

As the world recovers from this major shock, we will still need to navigate a world where data is exploding, technology is changing how we live, and the effects of climate change are becoming irreversible.

COVID-19

At this time, dealing with the COVID-19 pandemic is our number one priority. It is a difficult time for communities in Canada, the United States and the rest of the world. We are working around the clock to remain as responsive as possible.

Our operations are strong, and our robust infrastructure means we are open for business and continue to serve customers across North America. Over 98% of our employees are working from home, with no impact in our IT systems or ability to deliver service. We are leveraging our digital platforms even more now as customers adapt to physical distancing.

While the financial markets are extremely volatile, our operations and capital position are strong. We are well-positioned to continue to serve our customers and brokers and support communities through this stressful period. We will come out the other side of this stronger.

2019 year in review

Although the beginning of 2020 is clearly challenging, we are facing the crisis from a very strong footing. Overall, 2019 marked a successful year. We saw strong premium growth across all business lines, and solid growth in net operating income per share (NOIPS), while achieving a mid-90s combined ratio, despite elevated catastrophe events. Our balance sheet remained strong and market conditions were favourable.

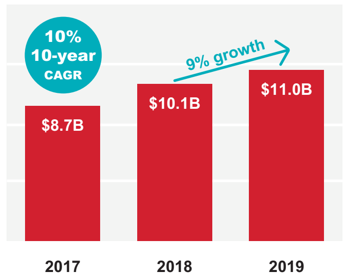
Direct Premiums Written (DPW)[1] grew by 9%, driven by rate increases across all lines of business. NOIPS grew by 7% to $6.16, with solid underwriting performance on both sides of the border and we had good growth in both net investment income and distribution earnings.

We completed two strategic acquisitions in the year, The Guarantee Company of North America and Frank Cowan Company, and On Side Restoration, expanding our customer reach and widening our competitive advantage.

The combined ratio for Canada was 95.9%. While underlying performance in personal auto improved, it was offset by lower favourable prior year claims development (PYD) and higher non-catastrophe weather-related losses. Despite these headwinds, our personal auto business is well-positioned, and we are growing by double-digits. We have a strong focus on quality and on sustaining a mid-90s performance in this segment moving forward.

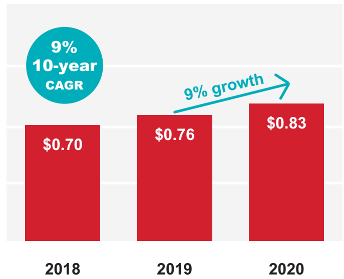
We are pleased with our performance in personal property despite catastrophe losses well above historical averages, which is a testament to the success of our actions over time. Canadian commercial lines had a difficult year as large losses including catastrophes were elevated and we strengthened prior year reserves in commercial auto.

DPW[1]



NOIPS[1]

Quarterly dividend per common share



1. These are non-IFRS financial measures. See glossary on page 179 for definitions.

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In our U.S. commercial segment, we have made substantial progress on our strategy. Premiums grew a strong 8% in constant currency in 2019, despite the mid-year exit from the healthcare business. Our action plans to improve profitability delivered results. The combined ratio was strong at 93.2%.

Operating ROE was 12.5% in 2019. We outperformed the industry by 580 basis points (bps), a significant margin and above our 500 bps AROE objective.

We ended the year in a strong financial position with total capital margin in excess of $1.2 billion. Our debt-to-capital ratio was 21.3% – only slightly above our 20% target level following the acquisition of The Guarantee and Frank Cowan. With a strong balance sheet and confidence in our outlook for growth and profitability, we were pleased to raise our quarterly dividend by 9% to $0.83 per share. This marks the 15th consecutive annual dividend increase since our 2004 IPO, a testament to the quality of our business model.

Industry Outlook

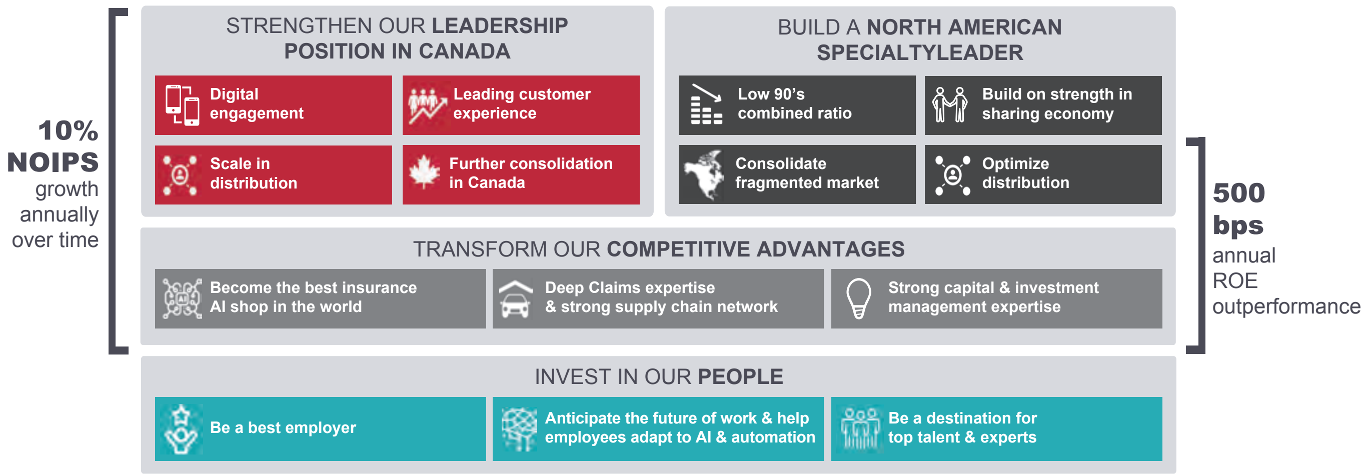
2019 continued to be a challenging year for the P&C industry. Claims inflation and elevated weather-related damages contributed to Industry ROE for full year 2018 & 2019 of 2.80% and 5.6% respectively, well short of a longer-term average closer to 10%. This has led to the hard market conditions which prevailed through late 2019 and into 2020.

We expect the industry will respond to help customers through the dislocation created by COVID19, which may temper pricing conditions. We expect the pricing environment will return to pre-crisis levels once the COVID-19 pandemic is behind us. This would be a necessary condition to see the industry return to reasonable profitability levels.

Strategy and a roadmap for the next decade

Our achievements in 2019, along with our strategy and roadmap for the next decade, provide a plan to deliver strong results for all stakeholders. I would like to walk you through our four big ideas.

Our strategic roadmap for the next decade



1. Strengthen our leadership position in Canada:

We are the recognized leader in the Canadian marketplace. While we are close to 80% bigger than the second largest player and approximately 17 times larger than the average P&C insurer, the market remains fragmented and that creates opportunities to strengthen our position in Canada.

We are transforming the customer experience to fuel organic growth. We aim to have three out of four customers as advocates and three out of four digitally engaged. We have made substantial progress this year with two out of four customers now advocates.

With 80% of the modernization of our technology systems complete, we are leveraging our platforms to advance the digitization of our business and improve the customer experience. We have been rolling out digital tools to customers in all distribution channels across the country, including digital proof of insurance last fall. Two-thirds of our mobile app users have already used this feature.

With the contribution of our design thinking and software engineering practices, we are creating active digital relationships with one out of four customers and half of new customers. A growing number of people are engaging monthly with our Usage Based Insurance (UBI) program to get feedback on their driving behaviours and safety score.

We offer multiple options to buy our products – from full advice-based support through our broker channels, to simplified, online convenience through belairdirect. We are continuing to build scale by investing in our distribution network. In 2019, BrokerLink acquired 23 brokerages across Canada – a new record.

In 2019, we strengthened our position through the acquisition of The Guarantee Company of North America and Frank Cowan Company – adding approximately $490 million in premiums and a new high net worth segment to our business.

Built on the success of Guarantee Gold, we launched Intact Prestige in March 2020 to reposition and elevate our high net worth, full-service solution. Under the new brand, we will expand this product line to compete with best-in-class providers and offer an effortless customer experience to this segment. Our objective is to quadruple our high net worth penetration by 2025 and become a key player in this segment.

2. Build a North American Specialty Leader:

We are on track to meet our goal to build a leading North American specialty lines insurer with premiums close to $3 billion and a low 90s combined ratio.

We set ambitious targets with the acquisition of OneBeacon in 2017. We wanted to reduce the combined ratio to low 90s by repositioning the business and improving the claims experience, creating a resilient platform to scale

The needle is moving on all our targets. Our industry-leading segments grew significantly at 8% in constant currency in 2019. We exited the non-performing healthcare business this year. Targeted run rate savings have been achieved and important synergies have been realized.

We have leveraged Intact's deep distribution relationships to grow our Canadian specialty operations by roughly 15% annually since the OneBeacon acquisition. We have also expanded our North American portfolio to technology, entertainment, financial institutions, surety and marine.

The Guarantee acquisition in 2019 gave us a key opportunity to enhance our surety platform. The Guarantee writes $190 million of surety business and when combined with our existing portfolio makes IFC the sixth largest surety provider in North America. We now have a team of individuals with recognized industry experience across multiple segments – including contract, commercial, and developer surety with a proven track record of profitable premium growth in Canada and U.S.

The North American specialty market over the next decade has roughly $175 billion of available premium, with no carrier having more than 10% market share. Over 50% of the brokers we deal with only do business with one or two of our current product lines. We can broaden and deepen those distribution relationships.

In this environment we plan to achieve compounded double-digit premium growth organically and through acquisitions. We are aiming to double the size of North American specialty operations over the next five years to $6 billion in DPW while delivering top quartile underwriting performance with a sustainable low 90s combined ratio.

3. Transform our competitive advantages:

We made tremendous progress in the past decade, but we cannot stand still. We will continue to transform our competitive advantages.

The first – and its an advantage that generates one-third of our outperformance – is in **risk selection**. Data is fundamental to extending our leadership in this area and we have moved quickly to integrate machine learning into how we price for and choose risks and how we are building sustainable operations.

Our Data Lab has more than 140 experts who have developed over 60 AI algorithms now in production in our business.

Through Telematics and UBI we have collected about one trillion data points — 20 data points for every second of every car trip and growing at about 45 billion data points every month. With this data we are leveraging our AI expertise to create proprietary algorithms for pricing, while providing value added services for customers like distracted driving scores.

As a large user and custodian of data we recently adopted a set of data governance principles to ensure the responsible use of data and AI. Our principles are based in the following areas: security; helping society; data quality; scientific excellence; and, accountability.

Our goal is to be recognized as the best AI insurance shop in the world. We continue to stay connected to cutting edge research through our university partnerships and we recently launched our Hong Kong Data Lab to tap into a new talent pipeline and get exposed to new ways of thinking.

The second element is ensuring we continue to leverage scale in **claims** to the fullest extent – particularly as it relates to supply chain pricing and data use. And, while digital options are important, our customers' claims experience happens in the physical world.

We have almost 4,000 dedicated employees helping more than 500,000 people with their claims each year. We are progressively internalizing our claims services. As of this year, 99% of adjusting and 70% of legal work is done in house. This ensures we get our customers back on track as quickly as possible.

We are serving 15,000 auto customers per year at our four one-stop claims service centres. We have been able to reduce repair and resolution times for customers by 40% and our Net Promoter Score (NPS) is nine points higher this year.

On the digital front, we see about 60% of our digital claims coming from a mobile device and 40% of those are coming with photos. Customers are seeing a 15% faster claims process because we are digitally pre-filling policy information.

To improve the experience in property claims we acquired On Side Restoration this year. Our goal is to provide a faster, simpler customer claims experience by increasing capacity in this fragmented market. This deal was also financially attractive and brings diversification to our property insurance results.

For our customers, we aim to reduce total resolution time in property claims by 50%. We have started deploying video capabilities in the estimation process, repair planning and real-time monitoring. And in the event of a catastrophe, On Side can mobilize teams between regions for faster results.

The third element is to build on our proven strengths in **investment and capital management**.

Our Montreal-based Intact Investment Management team has delivered close to 150 bps of annual ROE outperformance since 2010. This team is among the best in Canada and they continue to create sustainable value while actively managing a $19 billion international investment portfolio.

We continue to maintain a clear and simple capital management philosophy: capital should always be available in good times and in bad. Our ability to maintain a strong capital ratio provides us with flexibility to invest in opportunities while being able to manage large unexpected events. This strength has helped fuel NOIPS growth over the last decade and it will remain our approach going forward.

4. Invest in our people:

Our people are at the heart of everything we do, and our 16,000 employees are essential to our success.

We are focused on three elements to support a strong culture and engaged employees. The first is to remain a best employer – a place with energized people who enjoy coming to work. The second is to be a destination for top talent – we need the best people in North America to fuel growth and outperformance. Third, we need to prepare our people for the evolving future of work driven by technology and automation.

Our employee engagement score increased again this year and we remain well above our peers; 10 points higher than the Canadian insurance industry and 17 points higher than the U.S. industry.

We ask our people to live our values, bring their best selves to work every day and have pride in what they do. And we commit to providing an inspiring, diverse and inclusive work environment where everyone has a voice at the table.

Our diversity and inclusion journey began a decade ago with a commitment to gender equality. We focused on the development of talented women through mentorship and challenging assignments to build a strong talent pool.

Those efforts are paying off. Currently 54% of all management positions in North America are held by women. We aim at replicating this at the executive level. We've also made concerted efforts to diversify our board over the last 15 years and today 42% of our board members are women.

As we navigate how technology changes the future of work, we have tapped current and future leaders at Intact to help us develop a people-centric plan. The team provided research and recommendations across five key areas that included a rethink of our people development approach. We will be investing in new ways to train and develop our people with a focus on behaviors. At the leadership level we have already started to enhance our development programs to prepare leaders for a future that is more dynamic, collaborative and focused on innovation.

Change in our business is a constant. We are committed to supporting employees by providing opportunities to develop skills, expand knowledge and learn more about our business. In return, we ask our employees to be customer-driven, open to change and be willing to invest in themselves and their careers.

Social Impact:

We have a commitment to our customers, employees, and communities to be financially strong and achieve our financial objectives. We won't compromise on our values of integrity and respect to achieve this because they matter as much as results.

Intact was founded on those values and a clear purpose – to be here to help people, businesses and society prosper in good times and be resilient in bad times. This matters more now then ever as we help our employees, customers and communities manage through and recover from the severe impacts of a global pandemic.

One of our values is Generosity and it drives our efforts to care for people and to give our time, financial resources and talent. We are challenging ourselves to raise the bar by helping others through the current COVID-19 crisis, protecting the environment and making our communities more resilient. I encourage you to read more about this in our 2019 Social Impact Report.

While our current efforts are focused on how we support our communities to navigate the COVID-19 crisis, I want to address the importance of our longer-term efforts around climate adaptation.

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Climate change is an existential threat to our industry and a defining trend of the 21st century – the effects are irreversible. We need to mitigate the impact of human influence but more importantly as a society we need to protect our communities and our businesses against the changes we continue to face.

Four years ago, we committed to take a leading position on climate adaptation. We made a substantial investment in the Intact Centre on Climate Adaptation at the University of Waterloo. The Intact Centre works with homeowners, communities, governments and businesses to identify and reduce the impacts of extreme weather and climate change.

This year the Intact Centre released two new reports: *Ahead of the Storm: Developing Flood-Resilient Guidance for Canada's Commercial Real Estate*; and, *Water on the Rise: Protecting Canadian Homes from the Growing Threat of Flooding.* The Centre's work also informed a flood resilient design standard for new communities that was released by the Canadian Standards Association in December.

We had productive discussions with the federal and provincial governments on the importance of infrastructure and other adaptation measures in 2019. We were pleased to see a commitment in the federal government's platform to help prepare communities for climate risks and realities, including the development of a national flood insurance program.

While this is a large, multi-year undertaking, we are hopeful some immediate steps can be taken such as: working with provinces and territories to complete all flood maps in Canada; developing a national action plan to assist homeowners with potential relocation for those at the highest risk of repeat flooding; and, investing in natural infrastructure solutions, like grasslands and wetlands, that act to reduce the impacts of floods.

We welcome the opportunity to work with governments to develop these policies and share our expertise. We will also continue to engage with shareholders directly and work with academia and other businesses to build a resilient future by finding solutions to protect, adapt, restore and manage climate-related risks.

The challenges are big, and I remain optimistic. I see governments, people and businesses focusing on the solutions. That's good because we need all hands on deck.

Conclusion:

We have laid out a strategic roadmap for the next decade and outlined what we believe are the components necessary to continue to outperform and build a resilient future for our customers, employees, communities and our business.

Our roadmap may have some short-term detours as the global economy finds it footing and recovers from the pandemic. With the best team in the business, robust operating platforms and solid fundamentals, we are well positioned to manage through this crisis. Our dedicated and talented people are stepping up and making a difference every day in the face of many challenges.

I want to thank our customers, employees, brokers, shareholders and our board of directors for your support in achieving another successful year in 2019. Your continued confidence in what we have set out to achieve, and in the team we have built to lead us there, will serve us well as we manage through 2020 and enter the next decade.

Charles Brindamour
Chief Executive Officer