Intact Financial Corporation (TSX: IFC)

Q1-2022 Review of Performance

Wednesday, May 11, 2022

[intact]

Forward-looking statements

Certain of the statements included in this presentation about the Company's current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely", "potential" or the negative or other variations of these words or other similar or comparable words or phrases, are intended to identify forward-looking statements. Unless otherwise indicated, all forward-looking statements in this presentation are made as at March 31, 2022, and are subject to change after that date. This presentation contains forward-looking statements with respect to the acquisition (the "RSA Acquisition") and integration of RSA Insurance Group PLC ("RSA") and the sale of the Company's 50% stake in RSA Middle East B.S.C. (c) to National Life & General Insurance Company (NLGIC) (the "Sale of Middle East"), the receipt of all requisite approvals of the Sale of Middle East in a timely manner and on terms acceptable to the Company, the realization of the expected strategic, financial and other benefits of both the Sale of Middle East and the sale (the "Sale") of Codan Forsiking A/S's Danish business ("Codan DK") to ALm. Brand A/S group ("Alm.Brand") and with respect to the impact of COVID-19 and related economic conditions on the Company's operations and financial performance.

Forward-looking statements are based on estimates and assumptions made by management based on management's experience and perception of historical trends, current conditions and expected future developments, as well as other factors that management believes are appropriate in the circumstances. In addition to other estimates and assumptions which may be identified herein, estimates and assumptions have been made regarding, among other things, the realization of the expected strategic, financial and other benefits of the RSA Acquisition, the Sale of Middle East and the Sale, and economic and political environments and industry conditions. However, the completion of the Sale of Middle East is subject to customary closing conditions, termination rights and other risks and uncertainties, including, without limitation, regulatory approvals, and there can be no assurance that the Sale of Middle East will be completed in a timely manner, or at all. There can also be no assurance that the strategic and financial benefits expected to result from the RSA Acquisition, the Sale of Middle East or the Sale, will be realized. Many factors could cause the Company's actual results, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors:

- expected regulatory processes and outcomes in connection with its business;
- government regulations designed to protect policyholders and creditors rather than investors;
- the occurrence and frequency of catastrophe events, including a major earthquake;
- catastrophe losses caused by severe weather and other weather-related losses, as well as the impact of climate change;
- intense competition and disruption;
- unfavourable capital market developments or other factors, including the impact of the COVID-19 pandemic and related economic conditions, which may affect the Company's investments, floating rate securities and funding obligations under its pension plans;
- the Company's ability to implement its strategy or operate its business as management currently expects;
- its ability to accurately assess the risks associated with the insurance policies that the Company writes;
- the Company's ability to otherwise complete the integration of the business acquired within anticipated time periods and at expected cost levels, as well as its ability to operate in new jurisdictions relating to the RSA Acquisition;
- the Company's ability to achieve synergies arising from successful integration plans relating to acquisitions;
- the Company's reliance on information technology and telecommunications systems and potential failure of or disruption to those systems, including in the context of the impact on the ability of our workforce to perform necessary business functions remotely, as well as in the context of evolving cybersecurity risk;
- the impact of developments in technology and use of data on the Company's products and distribution;
- the Company's ability to contain fraud and/or abuse;
- periodic negative publicity regarding the insurance industry;
- the Company's reliance on brokers and third parties to sell its products to clients and provide services to the Company and the impact of COVID-19 and related economic conditions on such brokers and third parties;
- the occurrence of and response to public health crises including epidemics, pandemics or outbreaks of new infectious diseases, including, most recently, the COVID-19 pandemic and ensuing events;
- the volatility of the stock market and other factors affecting the trading prices of the Company's securities, including in the context of the COVID-19 crisis;
- litigation and regulatory actions, including with respect to the COVID-19 pandemic;
- changes in laws or regulations, including those adopted in response to COVID-19 that would, for example, require insurers to cover business interruption claims irrespective of terms after policies have been issued, and could result in an unexpected increase in the number of claims and have a material adverse impact on the Company's results;
- COVID-19 related coverage issues and claims, including certain class actions and related defence costs, could negatively impact our claims reserves;
- terrorist attacks and ensuing events;
- the Company's ability to maintain its financial strength and issuer credit ratings;
- the Company's access to debt and equity financing;
- the Company's ability to compete for large commercial business;
- the Company's ability to alleviate risk through reinsurance;
- the Company's ability to successfully manage credit risk (including credit risk related to the financial health of reinsurers);
- the Company's dependence on and ability to retain key employees;
- the cyclical nature of the P&C insurance industry;
- management's ability to accurately predict future claims frequency and severity,
- the Company's ability to successfully pursue its acquisition strategy;
- the Company's ability to execute its business strategy;
- management's estimates and expectations in relation to future economic and business conditions and other factors in relation to the Sale of Middle East, the Sale and resulting impact on growth and accretion in various financial metrics;
- the Company's ability to improve its combined ratio, retain existing and attract new business, attract and retain key employees with the in-depth knowledge and necessary skills, maintain market position arising from successful integration plans relating to the RSA Acquisition, as well as management's estimates and expectations in relation to future economic and business conditions and other factors in relation to the RSA Acquisition and resulting impact on growth and accretion in various financial metrics;
- the Company's participation in the Facility Association (a mandatory pooling arrangement among all industry participants) and similar mandated risk-sharing pools;
- general economic, financial and political conditions;
- the Company's dependence on the results of operations of its subsidiaries and the ability of the Company's subsidiaries to pay dividends;
- the Company's ability to hedge exposures to fluctuations in foreign exchange rates;
- future sales of a substantial number of its common shares;
- the Company's ability to meet its net zero carbon emission targets; and
- changes in applicable tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof.

All of the forward-looking statements included in this presentation, the MD&A and the quarterly earnings press release dated May 10, 2022 are qualified by these cautionary statements and those made in the section entitled Risk management (Sections 30-35) of our MD&A for the year ended December 31, 2021. These factors are not intended to represent a complete list of the factors that could affect the Company. These factors should, however, be considered carefully. Although the forward-looking statements are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. When relying on forward-looking statements to make decisions, investors should ensure the preceding information is carefully considered. Undue reliance should not be placed on forward-looking statements made herein. The Company and management have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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Non-GAAP and Other Financial Measures

We use both GAAP measures ("reported"), as well as non-GAAP financial measures and ratios to assess our performance. Non-GAAP financial measures and Non-GAAP ratios (which are calculated using non-GAAP financial measures) do not have standardized meanings prescribed by IFRS and may not be comparable to similar measures used by other companies in our industry.

The Non-GAAP financial measures included in the MD&A and other financial reports are: operating DPW, operating NPW, operating NEP, operating net claims, operating net underwriting expenses, underwriting income, operating net investment income, distribution income, total finance costs, other operating income (expense), operating and total income tax expense (benefit), PTOI, NOI, NOI attributable to common shareholders, pre-tax income, non-operating results, adjusted net income, adjusted average common shareholder's equity, adjusted average common shareholder's equity (excluding AOCI), debt outstanding (excluding hybrid debt), debt outstanding and preferred shares (including NCI) and adjusted total capital.

The Non-GAAP ratios included in the presentation and other financial reports (other than Consolidated financial statements) are:

- operating growth and operating growth in constant currency (for both operating DPW and NPW);
- operating NEP growth and operating NEP growth in constant currency;
- operating combined ratio, claims ratio (including underlying current year loss ratio, CAT loss ratio and PYD ratio) and expense ratio (including commissions ratio, general expenses ratio and premium taxes ratio);
- operating and total effective income tax rates;
- NOIPS and AEPS, as well as ROE, OROE and AROE;
- book value per share (BVPS) excluding AOCI; and
- adjusted debt-to-total capital ratio and total leverage ratio.

We believe that similar measures and ratios are widely used in the industry and provide investors, financial analysts, rating agencies and other stakeholders with a better understanding of our business activity and financial results over time, in line with how management analyse performance. Non-GAAP and other financial measures used by Management are fully defined and reconciled to the corresponding GAAP measures. We also use other financial measures to assess our performance, including supplementary financial measures and segment measures, which are further presented in our Q1-2022 MD&A. Please see to *Section 23 – Non-GAAP and other financial measures* of the Q1-2022 MD&A for the definition and reconciliation to the most comparable GAAP measures (or "reported measures).

Important notes:

- Abbreviations and definitions of selected key terms used in this presentation are defined in Section 27 – *Glossary and definitions* of our Q1-2022 MD&A
- Other insurance-related terms are defined in *Section 27 – Glossary and definitions* of our Q1-2022 MD&A, as well as in the glossary available in the "Investors" section of our web site at www.intactfc.com.
- Certain totals, subtotals and percentages may not agree due to rounding. Not meaningful (nm) is used to indicate that the current and prior year figures are not comparable, not meaningful, or if the percentage change exceeds 1,000%.

Charles Brindamour

Chief Executive Officer

Key points & highlights

$2.70
NOIPS[1]
increased 13%, driven by the accretion from RSA and strong growth in distribution income

$2.53
EPS
driven by solid operating results and investment gains

91.7%
Operating Combined Ratio[1]
After absorbing 3.8 points of CAT losses, well above expectations for a first quarter

+86% *constant currency*
Operating DPW Growth[1]
driven by the RSA Acquisition and organic growth of 8%

+100%
DPW Growth
as reported under IFRS

+32%
BVPS Growth[1]
to $82.20, driven by strong earnings and the RSA financing

16.6%
OROE[1]

14.9%
ROE[1]

reflecting strong operating performance across the business

$2.6B
Total Capital Margin[2]
with an adjusted debt-to-capital[1] ratio of 23.9% and solid regulated capital ratios in all jurisdictions

[1] This is a non-GAAP measure. See section 23 – *Non-GAAP and other financial measures* of the Q1-2022 MD&A, available on www.sedar.com.
[2] See section 20.3 - *Maintaining a strong capital position* of the Q1-2022 MD&A, available on www.sedar.com

Q1-2022 Canadian results

Personal Auto

$1,115M **+37%**

Operating DPW growth reflects the impact of the RSA acquisition (27 pts), and relief provided in 2021 (9pts).

93.0%

Operating combined ratio reflects the impact of winter weather conditions and increased driving activity, offset by higher favourable PYD and lower expenses.

Personal Property

$716M **+38%**

Excluding the impact of the RSA acquisition, **operating DPW growth** was 5%, mainly driven by firm market conditions, with strong retention levels.

87.6%

Operating combined ratio reflects our profitability actions over time.

Canadian Commercial

$1,078M **+36%**

Excluding the impact of the RSA acquisition, **operating DPW growth** was strong at 13%, reflecting hard market conditions.

88.5%

Operating combined ratio driven by elevated favourable PYD.

Q1-2022 UK&I and US results

UK&I Personal

$479M

Operating DPW growth declined in Q1-2022 as we remained disciplined in competitive market conditions, with recent pricing reforms impacting Home and Motor.

110.4%

Operating combined ratio included 13.8 points of CAT losses and unfavourable PYD development, which offset solid underlying performance and lower expenses.

UK&I Commercial

$820M

Operating DPW growth grew by 6.5%, reflecting continued hard market conditions and strong retention levels.

90.0%

Operating combined ratio was strong after absorbing 7.8 points of CAT losses, driven by favourable PYD.

US Commercial

$470M **+19%** constant currency

Operating DPW growth was driven by new business, increasing exposures, and rate increases in favourable market conditions.

86.8%

Operating combined ratio improved by 9.5 points, reflecting strong underlying performance and our exit from Public Entities during the quarter.

RSA acquisition update

RECENT DEVELOPMENTS & VALUE CREATION

✓ **Optimizing our footprint:**

- On April 4, 2022, RSA's 50% shareholding in RSA Middle East B.S.C. was sold to National Life & General Insurance company, subject to regulatory approvals. The sale is expected to be neutral to NOIPS.
- Closed on the sale of Codan DK to Alm Brand on May 2, 2022, which will result in a gain on sale of approx. $0.4B in Q2-2022
- Reducing our major earthquake exposure by over 40%, in part by winding down CNS operations acquired from RSA

✓ With the sale of the non-core businesses and strong underwriting results, our **internal rate of return (IRR)** on the RSA transaction is expected to **exceed 20%,** well above the 15% target announced with the acquisition

✓ RSA contributed **12% accretion to NOIPS** in the 10-month period since closing
We remain very confident in our target of upper-teens NOIPS accretion in the first 36 months

✓ We remain on track to realize **at least $250 million of synergies,** with approximately 75% expected to be generated in Canada
As at March 31, 2022, we have achieved $125 million in run-rate synergies, ahead of our initial schedule

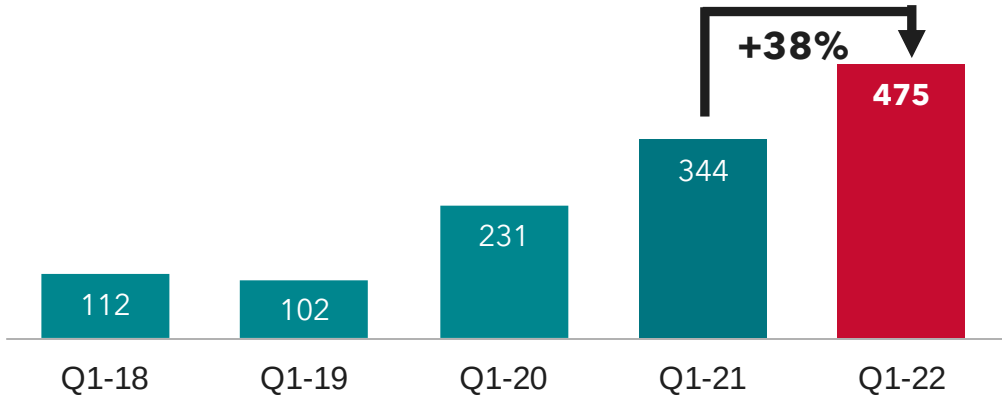
✓ In **Canada**, policy conversion in the broker channel continues to progress well, with **over 50% of Personal Lines and Commercial Lines small business and fleet policies converted** to Intact systems to date

Louis Marcotte

Executive Vice President & Chief Financial Officer

Operating income

Net operating income attributable to common shareholders[1]

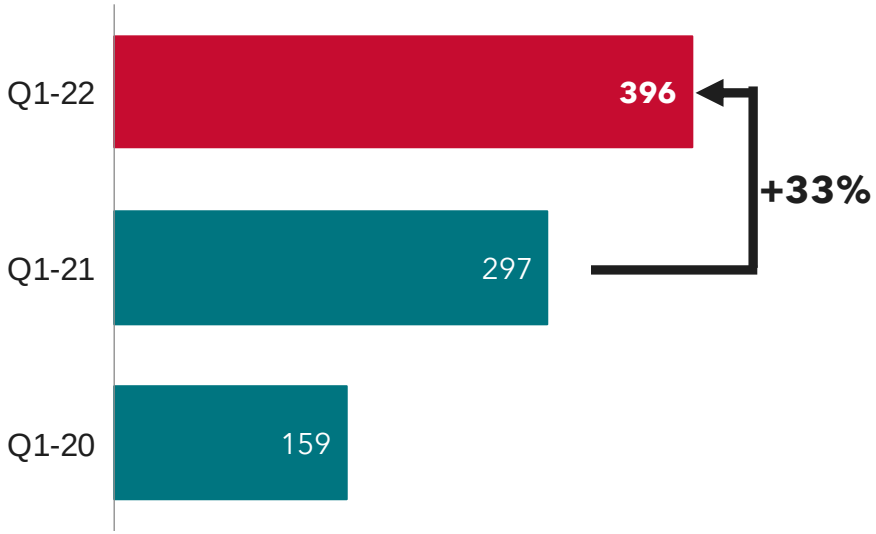


Net operating income attributable to common shareholders up 38% to **$475 million**, reflecting the contribution from RSA and strong growth in distribution income.

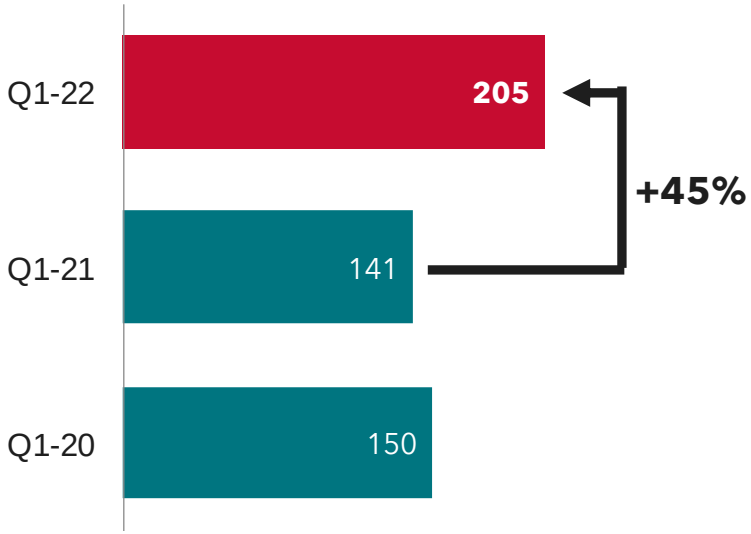
Operating net investment income increased 45% to **$205 million**, mainly driven by the growth in our investment portfolio following the RSA Acquisition. During the quarter, we also increased the turnover pace of the portfolio to capture rising yields.

Distribution income grew by 48% to **$92 million**, mainly driven by higher commission revenues when compared to the same quarter last year, as well as accretive acquisitions.

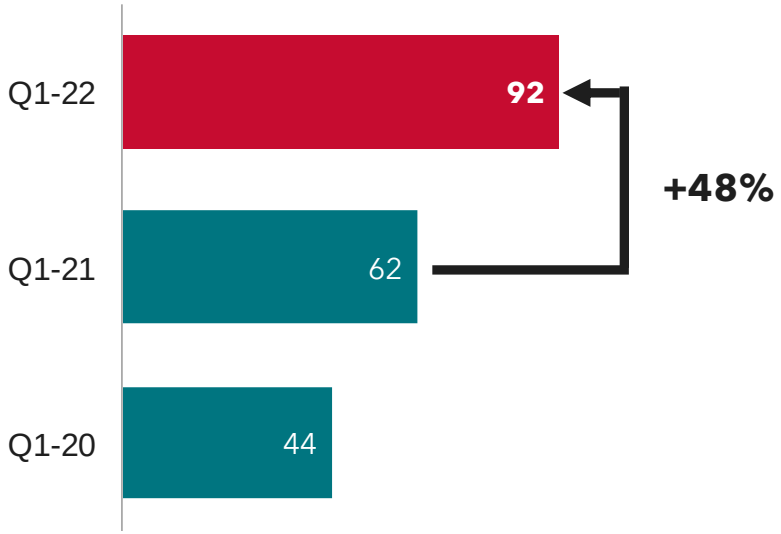
Underwriting income[1]



Operating Net investment income



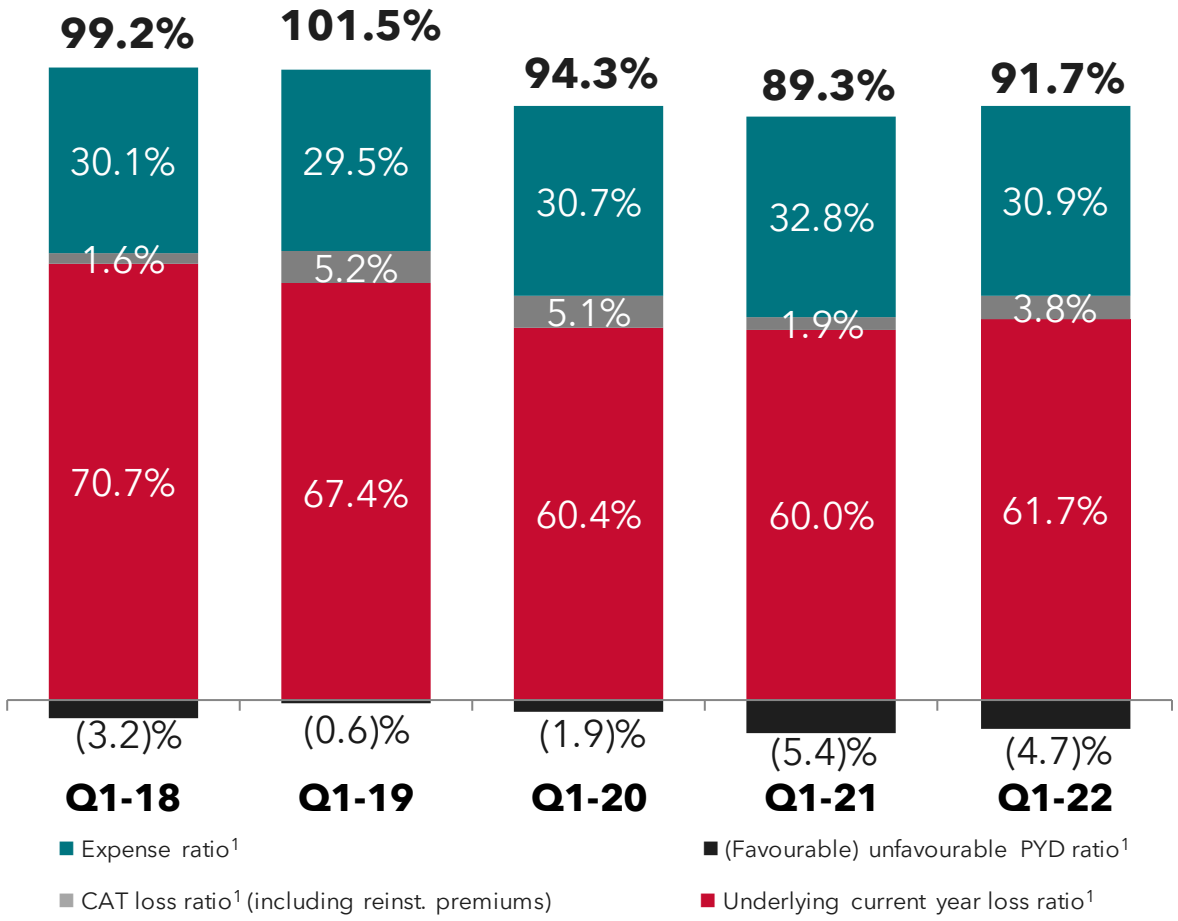
Distribution income[1]



[1]This is a non-GAAP measure. See to section 23 – *Non-GAAP and other financial measures* of the Q1-2022 MD&A, available on www.sedar.com.

Underwriting review

Operating combined ratio of 91.7%, despite CAT losses well above expectations for a first quarter



Operating combined ratio remained strong at 90.1%, reflecting continued strength across all lines. The return to more seasonal winter conditions this year led to an increase in the claims ratio, which was offset by lower expenses.

In the UK&I, the operating combined ratio of 98.9% was heavily impacted by weather-related CAT losses, offsetting solid underlying performance and lower expenses.

In the U.S., the operating combined ratio improved by 9.5 points to a very strong 86.8%, reflecting strong underlying performance and our exit from Public Entities during the quarter.

[1]This is a non-GAAP measure. See to section 23 – *Non-GAAP and other financial measures* of the Q1-2022 MD&A, available on www.sedar.com.

Proven and consistent capital management strategy

CAPITAL DEPLOYMENT

ADJUSTED DEBT-TO-TOTAL CAPITAL RATIO

23.9%

Returned to ~20% with proceeds from sale of our 50% stake in Codan Denmark

CAPITAL INVESTED IN GROWTH SINCE 2009

$14.6B

MANAGE VOLATILITY

MAINTAIN LEVERAGE RATIO

INCREASE DIVIDENDS

INVEST IN GROWTH OPPORTUNITIES

SHARE BUYBACKS

LOW BOOK VALUE PER SHARE SENSITIVITY TO CAPITAL MARKETS VOLATILITY[1]

-3% per 10% decrease in common share prices[2]

-3% per 100 bps increase in interest rates

ANNUAL DIVIDEND INCREASE

Dividend CAGR since 2005

11%

17 consecutive annual dividend increases since 2005

BUYBACKS SINCE 2009

$0.6B

Our share buyback program (NCIB) is in effect until February 2023

[1]See to Section 21 – *Sensitivity analyses* of the Q1-2022 MD&A for additional commentary and break outs. Data as of March 31, 2022.
[2]Including the impact of common shares (net of any equity hedges, including the impact of any impairment) or investment property related to the defined benefit pension plan.

P&C insurance industry outlook[1]

Personal Auto Canada

Industry premium growth expected to remain **muted in the near term, returning to low-to-mid single-digit growth** as driving patterns return to pre-pandemic norms.

Personal Property Canada

Firm market conditions expected to continue as this business is subject to challenging weather and inflation over time.
Industry premium growth expected at a **mid single-digit level** over the next 12 months.

Commercial Lines Canada

Industry premium growth expected at **upper single-digit level** over the next 12 months in favourable market conditions.

Personal Lines UK&I

Pricing reforms in the UK that came into effect January 1, 2022 are currently driving mid-single digit decreases on average in the Motor market.

In the **UK**, property claims inflation and challenging weather expected to drive **rate increases over time**. In **Ireland**, property **rates are experiencing low single-digit** increases.

Commercial Lines UK&I

UK and EU commercial industry premium rates expected to grow at an **upper single-digit level** over the next 12 months

Commercial Lines US

Favourable market conditions expected to persist in the near term and **industry premiums** to grow at an **upper single-digit level** over the next 12 months.

We expect our industry benchmark ROE[2] to be in the high single digit range over the next 12 months.

[1] For more details, please see Section 11 – *P&C insurance industry outlook* of the Q1-2022 MD&A, available on www.sedar.com
[2] Our P&C industry benchmark ROE reflects a weighting based on the approximate amount of capital deployed by IFC in the markets in which we operate.

Strong Q1-2022 performance as we continue to deliver shareholder value

NOIPS up 13% to $2.70, OROE of 16.6% and BVPS up 32% year-over-year

Financial position remains strong

Net proceeds from Codan Denmark sale used to pay down debt subsequent to quarter-end, reducing the adjusted debt-to-total-capital ratio in line with our 20% target

RSA integration and transition progressing well

Increased confidence in delivery of the deal's financial objectives

Strong momentum across the business

with favourable outlook for capital generation

Q&A

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