



FBD Holdings plc
Annual Report 2006

Financial Highlights

Operating profit

€158,515,000

Operating earnings per 60c ordinary share

376.60 cent

Dividend per 60c ordinary share

69.00 cent

Net assets per 60c ordinary share

1,424.76 cent

In excess of 173,000 private cars were licensed for the first time in 2006, the second highest on record in one year. FBD continues to grow its share of this market.



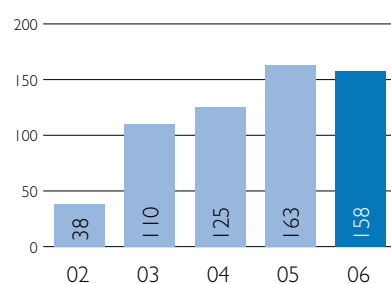
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Financial Highlights

	2006	2005	Change
	€000s	€000s	%
Gross premiums written	407,256	389,472	+4.6%
Net premiums earned	345,959	332,371	+4.1%
Operating profit*	158,515	162,624	-2.5%
Profit on sale of land at La Cala	81,774	-	n/a
Profit before taxation	296,780	185,155	60.3%

Operating profit (€m)

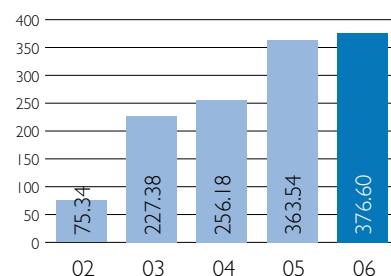


Turnover (€m)

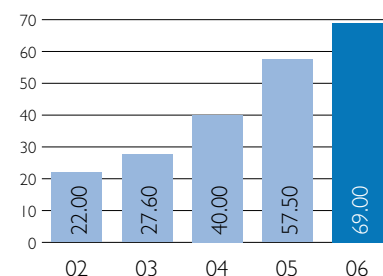


	2006	2005	Change
	Cent	Cent	%
Operating earnings per 60c ordinary share*	376.60	363.54	+3.6%
Dividend per 60c ordinary share	69.00	57.50	+20.0%
Special dividend per share (paid) – La Cala land sale	160.00	-	n/a
Net assets per 60c ordinary share	1,424.76	1,250.62	+13.9%

Operating earnings per 60c ordinary share based on longer term investment return (cent)



Dividend per 60c ordinary share (cent)



Calendar:

Preliminary announcement	7th March 2007
Annual General Meeting	22nd May 2007
Final dividend	25th May 2007

* Based on a longer term rate of investment return



Optimising shareholders' interests

A decision was taken to dispose of development land at La Cala last year, at a significant profit, confirming the ongoing commercial assessment the Group undertakes in relation to all its businesses and the focus it maintains on optimising shareholders' interests.



Chairman's Statement

I am delighted to report that FBD Holdings plc delivered another outstanding performance for the year under review.

A key measure of this performance is the shareholders' funds' figure which amounted to €1,686.6m. at year end. This figure reflects the net earnings achieved in the period amounting to €246.8m., arising from the strong operating performance, the La Cala land sale and the significant returns on our investment portfolio. Capital repatriations, totalling €207.0m. made up of €77.8m. in dividends and €129.2m. in a share buyback, should also be borne in mind in relation to the shareholders' funds figure.

Based on the excellent results and in keeping with our stated policy to increase the dividend payout ratio, the Board is recommending a final dividend of 45.0c per share, bringing the total dividend for the year to 69.0c. This represents a 20% increase on the 2005 figure.

Philip Fitzsimons, Chief Executive, has provided detailed commentary on our results in his Review of Operations. I, therefore, am focusing on the macro picture and on the broad issues that impact on our Group's performance.

UNDERWRITING

As in previous years, FBD Insurance, our primary business, underpinned the Group's performance.

It is widely recognised that insurers and policyholders have benefited from the positive insurance environment that has been achieved in Ireland in recent years. It is equally important to recognise that the key element that has made this possible is the relative reduction in accident claim costs that has occurred. Accident frequency and average claim costs have reduced. The factors that have brought about the improved situation are well known; the reduction in fraudulent claims, the effect of road safety measures and law enforcement that have been implemented (particularly random breath testing) and the impact on legal costs arising from the establishment of the Personal Injuries Assessment Board (PIAB). If further savings in claim costs are to be achieved, in the interests of consumers, business and insurers, it is essential that progress on all these fronts is sustained. Concerted efforts by some lawyers to thwart the PIAB in its objectives continues. The government must remain firm in its support for PIAB and ensure that any legislative

changes necessary to underpin its capacity to deliver on its purpose are effected.

NON-UNDERWRITING

The Group's non-underwriting interests encompass leisure/property development, financial services and the investment of non-allocated capital. As our results show, these activities reported satisfactory outcomes in 2006.

One particular matter I wish to refer to is the successful disposal of development land owned by the Group at La Cala Resort in Spain. As shareholders are aware, this land sale was agreed in February of last year and effected in June. The net profit arising from the transaction, when finally concluded, is estimated to be €90m. The Board decided that the entire net proceeds of the sale would be distributed. Accordingly, a special dividend, amounting to €55m., was paid in August 2006 in respect of the Tranche I land. Payment by the purchaser for the 2nd Tranche of land awaits final approval from the Regional Planning Authority. Due to delays being experienced in this process, the final approval is unlikely to be received before year end. A distribution of the remaining net sale proceeds, estimated at €65m., will be made when payment of final monies, triggered by the planning approval, is received. This disposal confirms the ongoing commercial assessment the Group undertakes in relation to all its businesses and the focus it maintains on optimising shareholder returns.

Another matter which I wish to comment on is the Group's capital position. I referred earlier to non-allocated capital, this being capital retained in the Company which has not been specifically allocated to one of our existing operating businesses. Pending any alternative uses, a portion of this capital has been retained in the insurance company and the remainder invested in a capital fund, comprising blue-chip equities.

I can assure shareholders that capital efficiency is a fundamental principle which the Group applies in all its businesses. Accordingly, the utilisation of capital generated to benefit shareholders to the maximum, is a matter to which the Board pays ongoing attention. The Board's decision in 2006 to invest €129m. on a share buyback, when the Group's largest shareholder undertook a share placing, combined with the decision to distribute the net

By maintaining our focus on maximising benefits for all our stakeholders, FBD is very well positioned to continue developing successfully



proceeds of the La Cala Tranche I land sale, confirms our proactive approach to capital management.

I reiterate the Board's previous position that all appropriate options for the use of capital will continue to be determined in the context of the development strategies which the Group pursues. Meanwhile, shareholders' funds will continue to be prudently invested.

CORPORATE

2006 saw a further sizeable change in the Group's shareholding structure. Farmer Business Developments plc placed 4.5m. shares (i.e. 12% of FBD Holdings plc's issued capital at that time) on the market in June. As stated earlier, the Group bought, and subsequently cancelled, 3.8m. of these shares and the remainder were purchased by other investors. This transaction resulted in the shares' free float moving to 67% and Farmer Business Developments plc's shareholding reducing to 24.4%, thereby increasing share liquidity. As in previous years, I welcome the new investors who have joined the Company and acknowledge their confidence in us.

David Flynn, who has been Company Secretary since 1998, is retiring. David joined FBD in 1978 and has made a major contribution to the success of FBD, not only in the position of Secretary, but also in the senior financial roles he has held over the years. I wish to express my deep appreciation to David and wish him health and happiness in the years ahead.

Mr. Conor Gouldson has been appointed to the position of Company Secretary and will join the Group in the coming weeks. Pending the arrival of Mr. Gouldson, Mr. Andrew Langford will act as Company Secretary in addition to his duties as Finance Director.

PROSPECTS

In the year under review, the growth momentum which the Group has established was maintained. This is borne out by the results which reflected the growth in customer numbers, the new markets that have been sourced and the organisational and infrastructural developments that have been implemented to underpin our progress. These developments, including the establishment of our Support Centre in Mullingar, Co. Westmeath, are ongoing and ensure that our platform for continued success is being strengthened.

In conclusion, I extend my sincere thanks to the Board, Management and Staff for their efforts and dedication in, once again, delivering an outstanding performance for the Group. By maintaining our focus on maximising benefits for all our stakeholders, I am confident that FBD is very well positioned to continue developing successfully.

Michael Berkery
Chairman

6th March 2007





Sustained **growth** and increased **opportunities**

With a record 88,188 new dwellings completed in 2006, Ireland's growing population provides FBD with increased opportunities for business.

Review of Operations

It pleases me to report that 2006 was another excellent year for FBD.

RESULTS

Group operating profit amounted to €158.5m., compared to €162.6m. in 2005.

Total operating income grew to €427.9m. (2005: €404.5m.). It is comprised of net earned premiums of €346.0m. (2005: €332.4m.) and investment income (calculated on the basis of longer term returns) of €48.1m. (2005: €44.4m.) arising in the Group's insurance underwriting business plus net income, i.e. after expenses of €33.9m. (2005: €27.7m.) from the Group's non-underwriting activities.

Expenses amounting to €269.4m. (2005: €241.9m.) related to the Group's underwriting business. They comprise claim costs of €224.7m. (2005: €202.5m.) and operating expenses of €44.7m. (2005: €39.4m.).

Of the Group's operating profit of €158.5m., €124.6m. (2005: €134.9m.) is attributable to underwriting and €33.9m. (2005: €27.7m.) to non-underwriting, as detailed below.

Operating earnings per share, based on longer term investment returns amounted to 376.60c (2005: 363.54c).

Group profit before tax reflects the operating profit of €158.5m. (2005: €162.6m.), profit on the sale of land at La Cala of €81.8m. (2005: no comparative), short-term fluctuations in investment returns of €61.4m. (2005: €26.0m.) and finance costs of €4.9m. (2005: €3.4m.).

UNDERWRITING

Insurance underwriting (FBD Insurance) is the Group's primary business activity.

Gross written premiums (i.e. before reinsurance) increased to €407.3m., compared to €389.5m. in 2005. In the light of the reductions in average premium levels that prevailed in the market in 2006, this increase is satisfactory and reflects continued growth in customer numbers in the period.

Net earned premiums amounted to €346.0m. (2005: €332.4m.).

The net claims incurred charge, amounted to €224.7m. (2005: €202.5m.) and comprised of net claims paid of €193.6m. (2005: €163.7m.) plus the movement in net outstanding claims provisions of €31.1m. (2005: €38.8m.). Increased exposures due to the increase in customer numbers together with less benign weather conditions than those experienced in 2005 contributed to the increase.

Net operating expenses amounted to €44.7m. (2005: €39.4m.).

The foregoing premium/claim/expense figures resulted in an underwriting profit of €76.6m. (2005: €90.5m.). The 2006 net operating ratios were: loss ratio - 65.0% (2005: 60.9%); expense ratio - 12.9% (2005: 11.9%); combined ratio - 77.9% (2005: 72.8%).

After crediting investment income of €48.1m. (2005: €44.4m.), the operating profit of FBD's underwriting business amounted to €124.6m. (2005: €134.9m.).

NON-UNDERWRITING

The Group's non-underwriting activities include leisure/property development, financial services and the investment of non-allocated capital ("capital fund"). The contribution to operating profit from these activities amounted to €33.9m. (2005: €27.7m.)

Leisure and property interests, which include the La Cala and Sunset Beach resorts in Spain and the Tower Hotel Group in Ireland, contributed €10.1m. (2005: €13.6m.) to operating profits. The 2005 comparative figure included fees arising on completion of a property related loan. As noted earlier, the profit of €81.8m. achieved on the Tranche I portion of land sold at La Cala contributed significantly to the Group's pre-tax profits. La Cala's golf and hotel results improved and residential property sales of 38 units were achieved. The Sunset Beach Resort and Tower Hotels Group's results were ahead of 2005.

We have strengthened our market positions in all of our businesses and have geared the organisation for further growth.



The Group's financial service businesses, which embrace insurance broking (FBD Brokers), life assurance/pension broking/investment advice (FBD Life) and instalment finance (Abbey Finance) contributed €4.3m. (2005: €3.3m.) to operating profits. FBD Life maximised the opportunities for growth in the favourable climate that has existed in its markets, particularly for retail investment products. Meanwhile, FBD Brokers continued to be impacted by ongoing reductions in premium levels.

The capital fund, which is invested in "blue chip" equities delivered strong returns which amounted to €19.5m. (2005: €10.8m.).

BALANCE SHEET

Total assets at year end amounted to €1,686.6m. (2005: €1,564.4m.), an increase of 7.8% on 2005. Ordinary shareholders' funds amounted to €497.5m. (2005: €476.1m.), an increase of 4.5% for the year. The strong operating performance, the profit on the sale of land at La Cala and the performance of our equity portfolio contributed to the increase. Included in short term fluctuations in investment returns is a gain of €33.7m. in respect of the disposal of "available for sale investments". Shareholders' funds at 31st December 2005 included €27.0m. of this gain. The share buyback, amounting to €129.0m. undertaken by the Company in June 2006 and the La Cala special dividend of €55.0m. impacted the year end shareholders' funds' figure. Net Assets per share have grown to 1,424.76c (2005: 1,250.62c), an increase of 13.9%. The buyback and cancellation of shares, already mentioned, contributed to this increase.

FINAL DIVIDEND

Reflecting the Group's excellent results and the Board's commitment to increase the dividend/earnings payment ratio, a final dividend of 45.0c (2005: 37.5c) per share is being recommended by the Directors. This will bring the total dividend for the year to 69.0c (2005: 57.5c) an increase of 20%.

The final dividend will be paid on the 25th May 2007 to shareholders on the Company's Register at close of business on 16th March 2007. The final dividend is subject to withholding tax ("DWT") except for shareholders who are exempt from DWT and who have furnished a properly completed Composite Resident Form to the Company's Registrar.

OUTLOOK

We are confident that the Group will continue its successful development and the maximisation of shareholders' interests in the year ahead.

Underwriting:

Year to date, the trend of premium reductions which has been a feature of the Irish insurance market in recent years has continued, with intense price competition occurring across all classes of business. We will continue to target challenging new business volumes at premium levels we deem to be appropriate and are pleased to report that, year to date, premium income is ahead of last year's corresponding figure.

Review of Operations Continued

It is widely accepted that the insurance environment experienced in Ireland in recent years is the result of unique factors. These include fraudulent claim prevention measures that were introduced, road safety initiatives (e.g. random breath testing, better law enforcement, extension of penalty points), health and safety measures in the workplace/home and the establishment of the Personal Injuries Assessment Board ("PIAB"). The assumptions which each individual insurer makes as to the ongoing impact these matters will have on future claims costs influences its pricing decisions. It is generally agreed that unless further ongoing savings from these and other initiatives are achieved, the pace of premium reductions will advance the convergence of Irish & European combined ratios.

FBD is exercising its own judgements in this environment and will continue to focus on strategies and plans that are designed to grow our underwriting business on the basis of efficiency, sustainability and profitability. These are the critical measures we apply in pursuing our growth objectives. Our approach for growing our business in the prevailing market is built around these key performance criteria.

Our ongoing investment in people, technology and facilities underpins our growth plans. This investment commitment is evidenced by the recent establishment of our new Support Centre in Mullingar, Co. Westmeath. The new Centre, which has a start-up complement of 50 new staff, will increase the capacity of our network and play an important role in enabling us to deliver on our business development plans.

Non-Underwriting:

As regards our non-underwriting businesses, we will continue to effect strategies that are focused on maximising returns to shareholders. Our property, leisure and financial service interests face challenges and opportunities that are unique to their individual sectors. Each of these businesses are pursuing ambitious plans to ensure success and we are confident they will perform to expectations.

In my earlier comments on our results, I referred to the significant profit arising on the disposal of development land at La Cala Resort. As regards La Cala's ongoing activities, we expect golf and hotel performances and residential property sales to deliver their budgets for the year. Likewise, we are optimistic that Sunset Beach Resort and Tower Hotel Group will achieve their profit targets.

We are also confident that our financial services businesses will deliver satisfactory performances.

Capital:

In his statement, the Chairman has highlighted the fact that capital efficiency is a fundamental principle which we apply to all our businesses. It is one which we will continue to work to in order to optimise shareholder returns.

In conclusion, I thank all of my colleagues for their excellent work in the year under review. Through their commitment and abilities, we have strengthened our market positions in all of our businesses and have geared the organisation for further growth. I also thank the Chairman and Board for the support and input they provide. Maintaining FBD's successful track record in the year ahead, in the interests of all stakeholders, will continue to be our focus.

Philip Fitzsimons
Chief Executive

6th March 2007

Board of Directors and Other Information

BOARD OF DIRECTORS

Michael Berkery (Chairman)

Executive Directors

Philip Fitzsimons (Chief Executive)

Andrew Langford

Adrian Taheny

Non-executive Directors

John Donnelly

Philip Lynch

Patrick O'Keefe

Joseph Rea

Vincent Sheridan (Senior Independent Director)

Johan Thijs (Belgian)

Padraig Walshe

BOARD COMMITTEES

Audit Committee

Vincent Sheridan (Chairman)

Patrick O'Keefe

Joseph Rea

Remuneration Committee

Michael Berkery (Chairman)

Philip Lynch

Patrick O'Keefe

Nomination Committee

Michael Berkery (Chairman)

John Donnelly

Philip Lynch

Patrick O'Keefe

SECRETARY AND REGISTERED OFFICE

David J. Flynn,

FBD House,

Bluebell,

Dublin 12.

AUDITORS

Deloitte & Touche,

Chartered Accountants,

Deloitte & Touche House,

Earlsfort Terrace,

Dublin 2.

STOCKBROKERS

Bloxham Stockbrokers,

2/3 Exchange Place,

IFSC,

Dublin 1.

SOLICITORS

Dillon Eustace,

Grand Canal House,

1 Upper Grand Canal Street,

Dublin 4.

REGISTRARS AND TRANSFER OFFICE

Computershare Investor Services (Ireland) Limited,

Corrig Road,

Sandyford Industrial Estate,

Dublin 18.



A vibrant, blurred photograph of a city street at night. The scene is filled with the warm glow of streetlights and the bright, colorful signs of various businesses. In the foreground, several people are walking, their figures softened by motion blur, creating a sense of a bustling, active environment. The background shows a mix of architectural details and commercial signage, including a 'Heineken' sign on the left and a 'LOTTO' sign on the right. The overall atmosphere is one of a thriving, energetic urban center.

At the **heart** of a **thriving** economy

FBD is ideally placed to capitalise on the opportunities arising from a thriving economy.

Report of the Directors

The directors present their annual report and audited financial statements for the year ended 31st December 2006.

PRINCIPAL ACTIVITIES

The Company is a holding company. The Group is a diversified insurance group with leisure and property interests in Ireland and abroad.

BUSINESS REVIEW

The affairs of the Group are reviewed in the Chairman's Statement on pages 4 and 5 and in the Review of Operations on pages 8 to 10. A comprehensive review of the key performance indicators and the major risks and uncertainties faced by the Group is included within the Chairman's Statement and the Review of Operations. Credit risk is referred to in note 12 while other risk management issues, including market risk, insurance risk, interest rate risk and liquidity risk are dealt with in note 33.

RESULTS AND DIVIDENDS

The results for the year are shown in the Group Income Statement on page 29. The directors propose a final dividend on the 60c ordinary shares of 45.00c (2005: 37.50c). This brings the total dividend for the year to 69.00c (2005: 57.50c), an increase of 20% on 2005. The Company paid a special dividend during the period of 160c per 60c ordinary share (2005: nil).

RETIREMENT BENEFITS

Information in relation to the Group's pension schemes is given on pages 56 to 58 (Note 23).

SUBSIDIARIES

The Company's principal subsidiaries, as at 31st December 2006 are listed on page 64 (Note 27).

DIRECTORS

The present members of the board of directors are named on page 11.

In accordance with section A.7.2 of the Combined Code on Corporate Governance, Mr. Michael Berkery, Mr. John Donnelly, Mr. Philip Lynch, Dr. Patrick O'Keeffe and Mr. Joseph Rea, all having served longer than nine years, will retire at the Annual General Meeting. All the above are recommended for re-appointment. With regard to non-executive directors proposed by the board for

re-appointment, the Chairman confirms that, following formal performance evaluation, each individual director's performance continues to be effective and demonstrates commitment to the role.

No service contracts exist for the directors proposed for re-appointment.

NON-EXECUTIVE DIRECTORS

MICHAEL BERKERY was elected Chairman of the Company in 1996 and is Chief Executive Officer of the Irish Farmers' Association. He is a Director of the Agricultural Trust. He is also a member of COPA (The European Farmers' Organisation), the National Economic and Social Council and the Central Review Committee of the Government National Partnership Programme and a Director of a number of other companies. There were no changes in his commitments during 2006.

JOHN DONNELLY is a farmer. He is a former President of the Irish Farmers' Association, a member of the EU Economic and Social Committee and is a Director of a number of other companies.

PHILIP LYNCH is a native of Innishannon, West Cork, and was educated at Hamilton High School, Copewood College and Waterford Institute of Technology. He is Chief Executive and an Executive Director of One Fifty One Limited (One51), and IAWS Society. He is a non-executive Director of C & C Group plc, Coillte Teoranta, Harlequin Healthcare Holdings Limited and IAWS Group plc.

DR. PATRICK O'KEEFFE retired as Chairman in 1996 having been Chairman of this company since it was incorporated in 1988. He was Chairman of the original FBD companies, which comprise the Group, since their inception in the early 1970s. A former Editor and Chief Executive of the Irish Farmers' Journal, he is currently Chairman of the Agricultural Trust Limited and is also a Director of a number of other companies.

JOSEPH REA is a farmer. He is a former President of the Irish Farmers' Association and was Chairman of Teagasc, the State Agriculture and Food Development Authority.

VINCENT SHERIDAN has been Chief Executive of Vhi Healthcare since 2001. Prior to that he was Group Chief Executive of the Norwich Union Insurance Group in Ireland for ten years. He is Deputy President of the Institute of Chartered Accountants in Ireland and is a past president of the Irish Insurance Federation, the Insurance Institute of Ireland and the Irish Association of Investment Managers. He was a Director of the Irish Stock Exchange for nine years to June 2004. He is a council member of the International Federation of Health Plans and the Financial Reporting Council in the UK.

JOHAN THIJS is Belgian. He obtained a Master of Science (Applied Mathematics) degree and qualified as an Actuary at KU Leuven. He joined ABB Insurance in 1989 and having held a number of Executive positions is now Senior General Manager - Non-Life at KBC Insurance.

PADRAIG WALSH, a native of Durrow, Co. Laois, is the 12th President of The Irish Farmers' Association and took up office in January 2006. He is a Director of a number of other companies. He is a member of COPA (The European Farmers' Organisation). He was one of the first Irish Nuffield Scholarship Award recipients in 1996. He leads the IFA Social Partnership negotiating team. He is a former President of Macra na Feirme (1987 – 1989).

DIRECTORS' AND SECRETARY'S INTERESTS

Information in relation to directors' and secretary's interests is given on pages 61 to 63 (Note 26).

There has been no contract or arrangement with the Company or any subsidiary company during the year in which a director of the Company was materially interested and which was significant in relation to the Company's business.

SUBSTANTIAL SHAREHOLDINGS

The directors have been informed of the following shareholdings of 3% or more at 31st December 2006.

Ordinary Shares

Farmer Business Developments plc	24.4%
FBD Trust Company Limited	8.5%
Bank of Ireland Asset Managers	7.3%

14% Non-Cumulative Preference Shares

Farmer Business Developments plc	100%
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8% Non-Cumulative Preference Shares

FBD Trust Company Limited	58%
Farmer Business Developments plc	42%

AUDITORS

The auditors, Deloitte & Touche, Chartered Accountants, have signified their willingness to continue in office in accordance with Section 160(2) of the Companies Act, 1963.

CLOSE COMPANY PROVISIONS

So far as the directors are aware, the Company is not a close company within the definition of the Taxes Consolidation Act, 1997. There has been no change in this respect since 31st December 2006.

PROPER BOOKS AND RECORDS

The directors have taken appropriate measures to ensure compliance with Section 202 of the Companies Act 1990. The specific measures taken are the employment of suitably qualified accounting personnel and the maintenance of appropriate accounting systems. The books of account are located at FBD House, Bluebell, Dublin 12.

ANNUAL GENERAL MEETING

The notice of the Annual General Meeting of the Company which will be held at 12 noon on 22nd May 2007 in FBD House, Bluebell, Dublin 12, is set out on page 69.

SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

In addition to the usual business, your board proposes the following special resolutions numbered 7 to 9 which are summarised as follows:-

Resolution 7 – Limited Exemption from Statutory Pre-emption rights

Resolution 7 will be proposed at the meeting to continue the limited exemption from the statutory pre-emption rights and empower the board to allot shares for a further fifteen months, or until the date of the next Annual General Meeting if earlier, up to a maximum of 5% of the ordinary share capital.

Report of the Directors Continued

Resolution 8 – Market Purchases of Own Shares

At last year's Annual General Meeting, shareholders granted authority to the Company and its subsidiaries to purchase up to 10% of the Company's own shares and defines the maximum and minimum price. Resolution 8 renews these powers which will expire at the next Annual General Meeting or at a date which is fifteen months after the date on which the resolution is passed.

Resolution 9 – Re-issue Treasury Shares

Resolution 9 renews the authority granted to the Company at last year's Annual General Meeting to set the price range at which treasury shares may be re-issued off-market by the Company. As with resolution 8, this resolution proposes to renew this authority until the next Annual General Meeting or at a date fifteen months after the date on which the resolution is passed.

Resolution 10 – Shareholder Communication and the Electronic Commerce Act, 2000

The Electronic Commerce Act, 2000 permits the giving and receiving of certain information in electronic form. Accordingly, where a shareholder gives their prior consent and provides the Company with their email address, all notices, reports and accounts, forms of proxy and other communications may be sent by electronic mail.

Resolution 10 proposes a series of amendments to the Articles of Association which explicitly recognise communication by electronic means. These changes will allow the Company to put in place procedures for giving and receiving information using electronic mail. Shareholders who do not wish to receive or send information using electronic mail will continue to receive all communications by post, unless they request otherwise.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board on 6th March 2007.

Signed on behalf of the board:

Michael Berkery
Chairman

Philip Fitzsimons
Chief Executive

6th March 2007

Corporate Governance Statement

COMPLIANCE WITH THE COMBINED CODE

FBD Holdings plc is committed to high standards of corporate governance throughout the Group. The board considers that the Group has been in compliance with the code provisions set out in section 1 of the Combined Code on Corporate Governance issued by the Financial Reporting Council in July 2003 except that the Group Chairman continues to chair the Remuneration Committee. The board's view is that he is the most appropriate person for this position.

THE BOARD OF DIRECTORS

The board leads and maintains effective control over the Group's activities and comprises three executive directors and eight non-executive directors. The board meets on a regular basis and there is a formal schedule of matters reserved to the board. This includes:

- Approval of the Group's objectives and strategy.
- Approval of changes to the Group's structure and capital.
- Approval of financial statements.
- Review of the Group's system of internal control.
- Approval of the annual budget, major acquisitions and significant capital expenditure.
- Approval of board membership and other significant appointments.
- Approval of remuneration policy.

With the exception of the above matters, the board has delegated responsibility for the management of the Group, through the Chief Executive, to executive management. There is a clear division of responsibilities between the Chairman and Chief Executive which is set out in writing and has been approved by the board. The board has also delegated some of its responsibilities to committees of the board.

Directors, on appointment and regularly thereafter are briefed in writing and orally by the executive management and may take independent professional advice at the Company's expense if necessary for the furtherance of their duties. They receive monthly group management financial statements and reports, and board papers are

sent to each in sufficient time before board meetings. Each director has access to the advice and services of the Company Secretary, whose responsibility it is to ensure that board procedures are followed and that applicable rules and regulations are complied with.

BOARD COMMITTEES

The board has established three committees to assist in the execution of its responsibilities. These are

- the Audit Committee,
- the Remuneration Committee, and,
- the Nomination Committee.

Each of the committees has terms of reference, approved by the board, under which authority is delegated to them by the board. These terms of reference are available on request and on the group's website, www.fbd.ie. The current membership of each committee is set out on page 11. Attendance at board and committee meetings held during 2006 is set out on page 19.

THE AUDIT COMMITTEE

The committee consists solely of independent non-executive directors. The Chief Executive, the Finance Director, the Company Secretary and the Head of Internal Audit normally attend meetings of the committee while the external auditors attend as required and have unrestricted access to the committee chairman at all times.

The Audit Committee reviews the financial reporting process, the system of internal control and management of financial risks, the internal and external audit process and the group's process for monitoring compliance with laws and regulations.

The members of the committee during 2006 were:

- Vincent Sheridan (Chairman).
- Patrick O'Keeffe.
- Joseph Rea.

The board has determined that Mr. Sheridan is the Audit Committee financial expert.

Corporate Governance Statement Continued

During 2006 the committee considered the following matters:

- Annual accounts and annual results announcements;
- Interim accounts and interim results announcements;
- Impact of International Financial Reporting Standards;
- External auditor's letter of engagement, audit plan and audit summary;
- External auditor independence and provision of non audit services;
- External auditor's re-appointment and remuneration;
- Internal audit work plans and reports;
- Audit committee's terms of reference;
- Directors' compliance statement;
- Evaluation of the audit committee's own performance;
- The effectiveness of the system of internal control;
- Assessment of significant risks to the achievement of Group objectives;
- Regulatory Compliance;
- Whistle blowing arrangements.

In addition the committee held separate meetings with the external auditors and the Head of Internal Audit, without management present.

The committee has considered external auditor objectivity and independence in the circumstance of the audit firm providing non audit services. As part of its deliberations the committee took into account the relevant sections of Guidance on Audit Committees (The Smith Guidance). The committee concluded that sufficient safeguards are in place to safeguard auditor objectivity and independence, most notably:

- prohibitions on types of work that the external auditor can undertake.
- fee limits above which committee pre-approval is required.
- annual review by the committee of the audit fees and fees for non-audit work paid to the external auditor.

As a consequence of its satisfaction with the results of the above activities, the Audit Committee has recommended to the Board that the external auditors be re-appointed.

The committee's terms of reference are available on request and on the Group's website www.fbd.ie. The committee met four times during 2006.

The qualifications of the members of the audit committee are included within the report of the directors.

THE REMUNERATION COMMITTEE

The committee consists solely of non-executive directors. The members of the committee during 2006 were:

- Michael Berkery (Chairman).
- Philip Lynch.
- Patrick O'Keeffe.

The committee determines the policy for remuneration of the Chief Executive, the Chairman, the executive directors, the non-executive directors, the Company Secretary and other members of executive management.

The committee's terms of reference are available on request and on the Group's website www.fbd.ie. The committee met twice during 2006.

THE NOMINATION COMMITTEE

The committee makes recommendations to the board to ensure that the composition of the board and its committees is appropriate to the needs of the Group. The process used is to assess the skills, knowledge and experience required and determine how these are currently represented on the board. Where disparities are recognised and agreed with the board, the committee establishes the means of identifying suitable candidates for appointment. Neither external search consultancies nor open advertising has been used as the committee considers that it has sufficient internal resources to identify appropriate candidates.

The committee consists solely of non-executive directors. The members of the committee during 2006 were:

- Michael Berkery (Chairman).
- John Donnelly.
- Philip Lynch.
- Patrick O'Keeffe.

The committee's terms of reference are available on request and on the Group's website www.fbd.ie. The committee met twice during 2006.

The terms and conditions of appointment of non-executive directors are available for inspection at FBD House during normal business hours, at the Annual General Meeting and on the Group's website www.fbd.ie.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The board continually reviews the criteria for non-executive director independence set out in Section A.3.1 of the Combined Code on Corporate Governance. The board does not consider the Group Chairman to be independent by virtue of the office he holds. The board concluded that all of the other non-executive directors holding office during 2006 were independent. They arrived at this conclusion because the aforementioned met all of the criteria set out in Section A.3.1. with the exception of:

- (a) holding of cross directorships.
- (b) representing a significant shareholder.
- (c) serving on the board for a period of greater than 9 years.

In relation to (a) and (b), at the year end Dr. Patrick O'Keeffe and Mr. Pdraig Walshe were directors of Farmer Business Developments plc, which is the founding, strategic and major investor (currently with a 24.4% shareholding) in FBD Holdings plc. Farmer Business Developments plc is an investment holding company.

No conflicting business interests exist that impinge, or if they arose would be allowed to impinge, on the directors acting in the best interests of all FBD Holdings plc shareholders at all times. Dr. Patrick O'Keeffe, Mr. Michael Berkery, Mr. John Donnelly and Mr. Pdraig Walshe are all directors of FBD Trust Company Limited which holds 8.5% of the share capital of FBD Holdings plc. The principal objective of the Trust is the provision of grants and scholarships for educational and research progress within the agricultural community. Its shareholding in the Group represents its only investment.

In relation to (c), Mr Michael Berkery, Mr John Donnelly, Mr. Philip Lynch, Dr. Patrick O'Keeffe and Mr Joseph Rea have served on the board for a period of greater than nine years. Having considered the matter, the board was of the view that each of the relevant directors had and continue to hold a challenging outlook on business issues and continue to act at all times in the best interests of FBD Holdings plc shareholders.

PERFORMANCE EVALUATION

Performance evaluation of the board, its committees and individual directors has been conducted by the Group Chairman. This was achieved through discussion and written evaluation submissions. The Group Chairman's performance was evaluated by the non executive-directors, led by Mr. Vincent Sheridan, the senior independent director, and taking into account the views of the executive directors.

ATTENDANCE AT BOARD AND BOARD COMMITTEE MEETINGS DURING 2006

	Board		Audit		Remuneration		Nomination	
	A	B	A	B	A	B	A	B
Michael Berkery	8	8	-	-	2	2	2	2
John Dillon*	1	1	-	-	-	-	-	-
John Donnelly	8	8	-	-	-	-	2	2
Philip Fitzsimons	8	8	-	-	-	-	-	-
Andrew Langford	8	8	-	-	-	-	-	-
Philip Lynch	8	6	-	-	2	2	2	2
Patrick O'Keeffe	8	8	4	4	2	2	2	2
Joseph Rea	8	7	4	4	-	-	-	-
Vincent Sheridan	8	7	4	4	-	-	-	-
Adrian Taheny	8	7	-	-	-	-	-	-
Johan Thijs	8	6	-	-	-	-	-	-
Pdraig Walshe*	7	7	-	-	-	-	-	-

Column A indicates the number of meetings held during the period the director was a member of the board or committee. Column B indicates the number of meetings attended during the period the director was a member of the board or committee.

* Mr. John Dillon resigned as a director on 3rd February 2006. Mr. Pdraig Walshe was appointed as a director on 7th March 2006.

Corporate Governance Statement Continued

DIRECTORS' REMUNERATION

The report on directors' remuneration and interests is set out on pages 61 to 63 (Note 26).

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The following statement, which should be read with the independent auditors' report set out on pages 22 and 23, is made with a view to distinguishing for shareholders the respective responsibilities of directors and of the auditors in relation to the financial statements. The directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group at the end of the financial year and of the profit or loss of the Group for the year. The directors consider that, in preparing the financial statements, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. The directors are responsible for keeping proper books of account which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and comply with Irish statute comprising the Companies Acts, 1963 to 2006, the European Communities (Companies: Group Accounts) Regulations, 1992, Article 4 of the IAS Regulations and the Listing Rules of the Irish and London Stock Exchanges.

The directors have a general responsibility to take reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

RELATIONS WITH SHAREHOLDERS

Communications with shareholders are given high priority. The Group seeks to provide through its Annual Report a review of the Group's performance and prospects. The Group's website www.fbd.ie provides the full text of its Annual and Interim Reports.

Investors are encouraged to attend the Annual General Meeting, at which they receive a presentation on the Group's financial performance and it gives individual shareholders the opportunity to question the Chairman and the Board. Notice of the Annual General Meeting, together with the Annual Report and financial statements, is sent to shareholders at least 20 business days before the meeting. A separate resolution is proposed on each substantially separate issue including a particular resolution relating to the directors' report and financial statements. Details of the proxy votes for and against each resolution are announced after the result of the show of hands.

The Group Chief Executive and other senior executives meet with institutional shareholders and analysts principally at the time of the release of the annual and interim results. All such meetings are conducted in such a way so as to ensure that price-sensitive information is not divulged.

Group management meet with major shareholders bi-annually to ascertain their views.

GOING CONCERN

The financial statements have been prepared on the going concern basis and, as required by the Combined Code, the directors report that they have satisfied themselves that the Group is a going concern, having adequate resources to continue in operational existence for the foreseeable future. In forming this view the directors have reviewed the Group's budget for 2007 and the medium term plans as set out in the Group corporate strategy.

INTERNAL CONTROL

The Company, as required by the Irish and London Stock Exchanges, has complied with the Provision C.2 of the Combined Code, having established the procedures necessary to implement the guidance issued in September 1999 (The Turnbull Committee Report), and by reporting in accordance with that guidance.

The board of Directors has overall responsibility for the Group's systems of internal control and risk management. It is also responsible for monitoring the effectiveness of these systems on an ongoing basis. The system of internal control provides reasonable, but not absolute, assurance of:

- The safeguarding of assets against unauthorised use or disposition; and
- The maintenance of proper accounting records and the reliability of the financial information it produces, for both internal use and for publication.

The board has appointed an Audit Committee, the functions of which include the approval of audit plans and dealing with any significant control issues raised by the internal and external auditors.

A formal process for identifying, evaluating and managing the significant risks facing the group that complies with the guidance "Internal Control: the Revised Guidance for Directors on the Combined Code" has been in place for the year under review and up to the date of approval of the annual report and financial statements. This process is regularly reviewed by the directors.

The board's agenda includes a regular item for assessment of control over the significant risk areas and reports detailing the internal controls over these areas and their effectiveness are submitted by executive management and reviewed by the board as a whole. At its March 2007 meeting, the board carried out its annual assessment for the year 2006 by considering the nature and extent of the significant risks facing the group and the monitoring of those risks by management and the communication of the results of the monitoring to the board. The board has not identified nor been advised of any failings or weaknesses which it has determined to be significant. The board has taken account of events from 31st December 2006 up to the date of this report and considers that no material change has occurred.

Independent Auditors' Report

To the members of FBD Holdings plc

We have audited the financial statements of FBD Holdings plc for the year ended 31 December 2006 which comprise the Group Financial Statements including the Statement of Accounting Policies, the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense, the Group Reconciliation of Movement in Shareholders' Funds and the Company Financial Statements including the Company Balance Sheet, Company Cash Flow Statement, the Company Statement of Changes in Equity and the related notes 1 to 33. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the Company's members, as a body, in accordance with Section 193 of the Companies Act 1990. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible, as set out in the Statement of Directors' Responsibilities, for preparing the Annual Report, including the preparation of the Group Financial Statements and the Parent Company Financial Statements in accordance with applicable law and with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Our responsibility, as independent auditors, is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group Financial Statements and the Parent Company Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union and are properly prepared in accordance with Irish statute comprising the Companies Acts, 1963 to 2006, and the European Communities (Companies: Group Accounts) Regulations, 1992 and Article 4 of the IAS Regulations. We also report to you whether in our opinion: proper books of account have been kept by the Company; whether, at the Balance Sheet date, there exists a financial situation requiring the convening of an extraordinary general meeting of the company; and whether the information given in the Report of the Directors is consistent with the financial statements. In addition, we state whether we have obtained all information and explanations necessary for the purposes of our audit and whether the Company's Balance Sheet is in agreement with the books of account.

We also report to you if, in our opinion, any information specified by law or the Listing Rules of the Irish Stock Exchange regarding directors' remuneration and directors' transactions is not disclosed and, where practicable, include such information in our report.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Irish Stock Exchange and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report and consider whether it is consistent with the financial statements. The other information comprises only the Chairman's Statement, the Review of Operations, the Report of the Directors and the Corporate Governance Statement. Our responsibilities do not extend to other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the affairs of the Group as at 31 December 2006 and of its profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006 and the European Communities (Companies: Group Accounts) Regulations, 1992 and Article 4 of the IAS Regulations;
- the Parent Company Financial Statements give a true and fair view, in accordance with IFRSs, as adopted by the European Union of the state of the Parent Company affairs as at 31 December 2006 and of its profit for the year then ended; and
- the Parent Company Financial Statements have been properly prepared in accordance with the Companies Acts, 1963 to 2006 and Article 4 of the IAS Regulations.

We have obtained all the information and explanations we considered necessary for the purpose of our audit. In our opinion proper books of account have been kept by the Company. The Company's balance sheet is in agreement with the books of account.

In our opinion the information given in the Report of the Directors is consistent with the financial statements.

The net assets of the Company, as stated in the Company Balance Sheet are more than half the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2006 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.

Deloitte & Touche

Chartered Accountants and Registered Auditors
Dublin

6th March 2007

Statement of Accounting Policies

For the year ended 31st December 2006

FBD Holdings plc is an Irish registered public limited Company quoted on the Irish and London Stock Exchanges. The registered office for the Company is FBD House, Bluebell, Dublin 12. The Company is incorporated in Ireland.

BASIS OF PREPARATION

The Group Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group Financial Statements comply with Article 4 of the EU IAS Regulation.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 7	Financial instruments: Disclosures; and the related amendment to IAS 1 on capital disclosures
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of embedded derivatives
IFRIC 10	Interim reporting and impairments
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for the additional disclosures on the capital and financial instruments when the relevant standards come into effect for periods commencing on or after 1 January 2007.

ACCOUNTING POLICIES

The principal accounting policies adopted by the board are:

A) ACCOUNTING CONVENTION

The Group Financial Statements are prepared under the historical cost convention as modified by the revaluation of land and buildings held for own use, investments held for trading at fair value, available for sale investments and investment property.

B) BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings, made up to 31 December.

In subsidiary undertakings control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

All intra Group transactions, balances, income and expenses are eliminated on consolidation.

Individual subsidiary accounts are prepared under local GAAP, with relevant adjustments made during preparation of the Group Financial Statements to align the accounting policies with the group.

Minority interests are credited with their share of income and expense.

C) REVENUE RECOGNITION

Turnover represents gross premiums written, broking commissions, fees, other commissions, interest and dividends receivable, rents receivable, sales of goods and services and sales by the property, hotel and leisure operations, net of discounts, levies, VAT and other sales related taxes. Sales of goods and services are recognised when the goods are delivered and the title has passed. Revenue is measured at the fair value of the consideration received.

Interest income is recognised on an accruals basis with reference to the principal outstanding at the effective interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income is recognised on a straight-line basis over the period of the lease.

D) INSURANCE CONTRACTS

(i) Premiums written

Premiums written relate to business incepted during the year, together with any difference between booked premiums for prior years and those previously accrued, and include estimates of premiums due.

(ii) Unearned premiums

Unearned premiums are those portions of premium income written in the year that relate to insurance cover after 31 December 2006. Unearned premiums are computed on a 365ths basis of premium written.

(iii) Deferred acquisition costs

Deferred acquisition costs represent the proportion of net acquisition costs which are attributable to the unearned premiums.

(iv) Unexpired risks

Provision for unexpired risks is made where the expected claims, related expenses and deferred acquisition costs are expected to exceed unearned premiums, after taking account of future investment income.

(v) Claims incurred

Claims incurred comprise the cost of all claims occurring during the year, whether reported or not, and any adjustments to claims outstanding from previous years.

Full provision, net of reinsurance recoveries, is made at the balance sheet date for the estimated cost of claims incurred but not settled, including claims incurred but not yet reported and expenses to be incurred after the balance sheet date in settling those claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding notified claims and uses this information when estimating the cost of those claims.

The Group uses estimation techniques, based on statistical analysis of past experience, to calculate the estimated cost of claims outstanding at the year-end. It is assumed that the development pattern of the current claims will be consistent with previous experience. Allowance is made, however, for any changes or uncertainties that may cause the cost of unsettled claims to increase or reduce. These changes or uncertainties may arise from issues such as the effects of inflation, changes in the mix of business or the legal environment.

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the insurance liabilities. In performing these tests, current best estimates of future cash flows and claims handling and administration expenses are used. Any deficiency is immediately recognised in the income statement

Provision is also made in respect of the Group's share of the estimated liability for outstanding claims of the Motor Insurers' Bureau of Ireland.

(vi) Reinsurance

The Group cedes reinsurance in the normal course of business, with retention limits varying by line of business. Premiums ceded and claims reimbursed are presented on a gross basis in the income statement and balance sheet as appropriate. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provisions or settled claims associated with the reinsurance contracts.

E) OPERATING PROFIT

Operating profit is reported on the basis of a longer term investment return. Finance costs, the short term fluctuation between the longer term investment return and the actual investment return, which includes realised and unrealised gains and losses and profits or losses arising from substantial non recurring transactions are incorporated as adjustment figures in arriving at profit before tax. As a result, the operating profit is not subject to distortion from short term fluctuations in investment returns.

F) PROPERTY AND EQUIPMENT**(i) Land and buildings**

Land and buildings held for own use in the supply of services or for administrative purposes are stated at their revalued amounts, being the fair value at the date of revaluation determined by professional valuers. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. Any revaluation increase arising on the revaluation of such land and

Statement of Accounting Policies Continued

For the year ended 31st December 2006

buildings is credited to the revaluation reserve. A decrease on revaluation is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to previous revaluation of that asset.

Land and buildings held under financing arrangements which transfer substantially all of the risks and rewards of ownership to the Group are treated as if they had been purchased outright and are included in the balance sheet at valuation. The corresponding commitments are shown as liabilities.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the revaluation reserve unless there is a reversal of a previous decrease in value.

It is the Group's policy and practice to maintain all Group properties in a continual state of sound repair. As a result, the directors consider that the residual values of these properties are such that any depreciation is immaterial and is therefore not provided.

(ii) Fixtures and fittings

Fixtures and fittings are stated at cost less accumulated depreciation. Depreciation is provided in respect of all fixtures and fittings, and is calculated in order to write off the cost or valuation of the assets over their expected useful lives as follows:

Fixtures and fittings: 5 to 10 years

G) INVESTMENTS

(i) Investment property

Investment property which is property held to earn rentals and/or for capital appreciation is stated at fair value. Gains or losses arising from changes in the fair value are included in the income statement for the period in which they arise.

(ii) Investments held for trading at fair value

Investments held for trading at fair value include quoted shares and debt securities. They are recognised and derecognised on a trade date basis at cost and are revalued at subsequent reporting

dates at fair value, with gains and losses being included in the income statement in the period in which they arise.

Investments are held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Investments held to maturity

Investments held to maturity include debt securities where the intention is to hold them to maturity. They are recognised on a trade date basis at amortised cost.

Available for sale investments

Available for sale investments include unquoted investments, and are stated at fair value where fair value can be reliably measured. They are recognised and derecognised on a trade date basis at cost, and are subsequently revalued to fair value, with gains and losses being included directly in equity until the investment is disposed of or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity, is included in the Income Statement for the period.

(iii) Derivative financial instruments

The Group's investment activities expose it to foreign currency exchange risks. The Group uses foreign exchange forward contracts to hedge this exposure. Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise.

(iv) Deposits with banks

Deposits with banks comprise cash held for the purpose of investment.

H) LOANS AND RECEIVABLES

(i) Loans

Loans are carried at fair value using the effective interest rate method. When it is not possible to estimate reliably the cash flows or the expected life of a loan the actual cash flows over the full term of the loan are used to determine fair value. Loans are stated in the Balance Sheet after deduction of provisions for bad and doubtful debts. Specific provisions are made on a case-by-case basis after taking into account factors such as the financial condition of the borrower, security held and costs of realisation.

(ii) Other receivables

Amounts arising out of direct insurance operations and other debtors are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

I) INVENTORIES

Inventories comprise work in progress and land held for development and are stated at the lower of cost and net realisable value. Cost includes all expenditure incurred in bringing the inventory to its present condition. Net realisable value is the estimated selling price less all further costs to completion and the estimated costs necessary to make the sale.

J) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

K) DEFERRED TAXATION

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of tax profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which the temporary differences are expected to reverse based on tax rates and laws enacted or substantially enacted at the balance sheet date.

L) RETIREMENT BENEFITS

The Group provides both defined benefit and defined contribution retirement benefit schemes for the majority of its Irish based employees.

Defined benefit scheme

A full actuarial valuation of the scheme is undertaken every three years and is updated annually to reflect current conditions in the intervening periods for the purposes of the financial statements. Scheme assets are valued at fair value. Scheme liabilities are measured on an actuarial basis and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The surplus or deficit on the scheme is shown on the balance sheet as an asset or liability. Actuarial gains and losses are recognised immediately in equity through the Statement of Recognised Income and Expense.

The current service cost and past service cost of the scheme and the expected return on assets net of the change in the present value of the scheme liabilities arising from the passage of time, are charged to operating profit.

The projected unit credit method is used to calculate scheme liabilities.

Defined contribution scheme

Costs arising in respect of the Group's defined contribution retirement benefit scheme are charged to the profit and loss account in the period in which they are incurred.

Statement of Accounting Policies Continued

For the year ended 31st December 2006

M) CURRENCY

The functional and reporting currency is Euro. Transactions in currencies other than Euro are recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities in foreign currencies have been translated into Euro at closing rates. Gains and losses on translation are recognised in the Group Income Statement in the period in which they arise. Non-monetary items are translated at the exchange rate at the date of transaction.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences are classified as equity and transferred to the translation reserve. On disposal, amounts are recognised in the Income Statement.

N) SHARE-BASED PAYMENT

The Group operates a share option scheme based on non-market vesting conditions. The fair value of the options is determined at the date of grant and expensed in the income statement over the period during which the employees become unconditionally entitled to the options. The expense is credited to a separate reserve in the balance sheet. At each period end the Group revises its estimate of the number of options that it expects to vest and any adjustment relating to current and past vesting period is charged to the income statement. Share options are all equity settled.

O) TREASURY SHARES

Where any Group company purchases the Company's equity share capital, the consideration paid is shown as a deduction from ordinary shareholders' equity. No gain or loss is recognised on the sale, issue or cancellation of treasury shares. Consideration received on the subsequent sale or issue of treasury shares is credited to ordinary shareholders equity. Treasury shares are excluded when calculating earnings per share.

P) DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved.

Q) CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and judgements that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimation of the ultimate liability arising from claims made under insurance contracts written and assumptions used in estimating retirement benefit obligations are the Group's most critical accounting estimates.

R) IMPAIRMENT OF ASSETS

The Group assesses at each balance sheet date whether there is objective evidence that an asset is impaired. Where the value of an asset has been impaired, any impairment losses are recognised in the period in which they occurred.

S) CONTINGENT ASSETS

Contingent assets are not recognised within the financial statements, but are disclosed where an inflow of economic benefits is probable.

Group Income Statement

For the year ended 31st December 2006

		2006	2005
	Notes	€000s	€000s
Turnover	1(a)	693,926	531,747
Income			
Net premiums earned	1(c)	345,959	332,371
Non underwriting operating income	1(a)	33,919	27,739
Investment income – longer term rate of return	2(c)	48,054	44,435
		427,932	404,545
Expense			
Change in insurance liabilities net of reinsurance	1(c)	(31,064)	(38,809)
Claims paid, net of recoveries from reinsurers	1(c)	(193,648)	(163,666)
Other operating expenses	1(c)	(44,705)	(39,446)
Operating profit		158,515	162,624
Profit on the sale of land at La Cala	31	81,774	-
Investment income – short term fluctuation	2(c)	61,350	25,956
Finance costs	3	(4,859)	(3,425)
Profit before tax	4	296,780	185,155
Income tax expense	6	(49,948)	(23,701)
Profit for the year	7	246,832	161,454
Attributable to:			
Equity holders of the parent		246,641	161,500
Minority interest		191	(46)
		246,832	161,454
		2006	2005
		Cent	Cent
Earnings per 60c ordinary share	8	678.82	416.09
Diluted earnings per 60c ordinary share	8	671.30	411.51

The financial statements were approved by the board on 6th March 2007 and signed on its behalf by:

Michael Berkery
Chairman

Philip Fitzsimons
Chief Executive

Group Balance Sheet – Assets

At 31st December 2006

		2006	2005
	Notes	€000s	€000s
Property and equipment			
Land and buildings	9	213,564	196,923
Fixtures and fittings	9	16,815	13,302
		230,379	210,225
Intangible assets			
Deferred acquisition costs		13,517	11,849
Investments			
Investment property	10	81,181	48,856
Investments held for trading		558,850	477,310
Investments held to maturity		171,799	13,740
Available for sale investments		3,727	47,290
Deposits with banks		327,973	443,042
		1,143,530	1,030,238
Inventories	11	66,433	62,496
Loans and receivables	12	122,762	141,673
Reinsurers' share of technical provisions			
Provision for unearned premiums		21,953	19,412
Claims outstanding		50,600	46,622
		72,553	66,034
Cash and cash equivalents		37,423	41,897
Total assets		1,686,597	1,564,412

Group Balance Sheet – Liabilities

At 31st December 2006

		2006	2005
	Notes	€000s	€000s
Equity			
Ordinary share capital	13	21,277	23,557
Capital reserves	14	12,605	9,813
Revaluation reserves	15	27,540	47,706
Translation reserves	16	162	435
Retained earnings	17(a)	435,935	394,616
Shareholders' funds - equity interests		497,519	476,127
Preference share capital	18	2,923	2,923
Total shareholders' funds		500,442	479,050
Minority interests		6,476	6,423
Total equity		506,918	485,473
Liabilities			
Technical provisions			
Provision for unearned premiums		197,507	188,953
Claims outstanding	19	734,439	699,397
		931,946	888,350
Bank and other loans	20	112,350	99,831
Creditors	21(a)	90,841	51,434
Current tax	22(a)	7,728	3,395
Deferred tax	22(b)	33,227	33,873
Retirement benefit obligations	23	3,587	2,056
Total liabilities		1,686,597	1,564,412

The financial statements were approved by the board on 6th March 2007 and signed on its behalf by:

Michael Berkery
Chairman

Philip Fitzsimons
Chief Executive

Group Cash Flow Statement

For the year ended 31st December 2006

	Notes	2006 €000s	2005 €000s
Profit before tax for the year		296,780	185,155
Adjustments for:			
Gains on investments held for trading and held to maturity	24(b)	(30,128)	(41,031)
Depreciation of property and equipment		3,525	3,487
Share-based payment expense		512	774
Increase in fair value of investment property		(4,200)	-
Increase in technical provisions		37,077	44,696
Profit on sale of land at La Cala		(81,774)	-
Operating cash flows before movement in working capital		221,792	193,081
Increase in receivables		(26,261)	(4,274)
Increase (decrease) in payables		29,326	(26,665)
Cash generated from operations		224,857	162,142
Income taxes paid		(44,348)	(20,516)
Net cash from operating activities		180,509	141,626
Investing activities	24(a)		
Investments held for trading		(51,495)	(96,510)
Investments held to maturity		(157,976)	-
Investments available for sale		13,456	(5,162)
Sale (purchase) of land, buildings and inventory		69,469	(13,430)
Purchase of fixtures and fittings		(7,038)	(6,242)
Purchase of investment property		(28,125)	(24,656)
Loans and advances		43,504	(3,789)
Deposits invested with financial institutions		115,069	95,378
Net cash used in investing activities		(3,136)	(54,411)
Financing activities			
Dividends paid	25	(77,672)	(18,158)
Repurchase of ordinary shares		(129,213)	(81,238)
Proceeds of re-issue of ordinary shares		5,432	1,409
Increase in bank loans		19,879	1,243
Net cash used in financing activities		(181,574)	(96,744)
Net decrease in cash and cash equivalents		(4,201)	(9,529)
Cash and cash equivalents at the beginning of the year		41,897	51,362
Effect of foreign exchange rate changes		(273)	64
Cash and cash equivalents at the end of the year		37,423	41,897

Group Statement of Recognised Income and Expense

For the year ended 31st December 2006

	2006	2005
	€000s	€000s
Income recognised directly in equity		
Gain on available for sale investments	806	18,033
Revaluation of owner occupied property	8,476	-
Actuarial loss	(3,869)	(3,802)
Taxation on income/expense recognised directly in equity	(2,400)	(2,254)
Net income recognised directly in equity	3,013	11,977
Transfers		
Transfers to income statement on sale of available for sale investments	(30,913)	(6,384)
Transfer to income statement on sale of land and buildings	-	(1,071)
Taxation on transfers to income statement	3,865	801
	(27,048)	(6,654)
Profit after taxation	246,832	161,454
Total recognised income and expense	222,797	166,777
Attributable to:		
Equity holders of the parent	222,744	166,823
Minority interest	53	(46)
	222,797	166,777

Group Reconciliation of Movement in Shareholders' Funds

For the year ended 31st December 2006

	Ordinary share capital	Capital reserves	Revaluation and other reserves	Translation reserve	Retained earnings	Attributable to ordinary shareholders	Preference share capital	Minority interests	Total
	€000s	€000s	€000s	€000s	€000s	€000s	€000s	€000s	€000s
2005									
Balance at 1st January 2005	25,151	7,445	38,581	371	334,905	406,453	2,923	16,333	425,709
Profit after taxation	-	-	-	-	161,500	161,500	-	(46)	161,454
Exchange translation adjustment	-	-	-	64	-	64	-	-	64
Dividends paid	-	-	-	-	(18,158)	(18,158)	-	-	(18,158)
Buyback of own shares	-	-	-	-	(81,238)	(81,238)	-	-	(81,238)
Cancellation of own shares	(1,594)	1,594	-	-	-	-	-	-	-
Reissue of ordinary shares	-	-	-	-	1,409	1,409	-	-	1,409
Recognition of share based payments	-	774	-	-	-	774	-	-	774
Transfer to income statement on sale of available for sale investments	-	-	(5,583)	-	-	(5,583)	-	-	(5,583)
Gain on available for sale investments	-	-	15,779	-	-	15,779	-	-	15,779
Purchase of minority interest	-	-	-	-	-	-	-	(9,864)	(9,864)
Actuarial loss on pension fund valuation	-	-	-	-	(3,802)	(3,802)	-	-	(3,802)
Sale of land and buildings	-	-	(1,071)	-	-	(1,071)	-	-	(1,071)
Balance at 31st December 2005	23,557	9,813	47,706	435	394,616	476,127	2,923	6,423	485,473
2006									
Profit after taxation	-	-	-	-	246,641	246,641	-	191	246,832
Exchange translation adjustment	-	-	-	(273)	-	(273)	-	-	(273)
Dividends paid	-	-	-	-	(77,672)	(77,672)	-	-	(77,672)
Buyback of own shares	-	-	-	-	(129,213)	(129,213)	-	-	(129,213)
Cancellation of own shares	(2,280)	2,280	-	-	-	-	-	-	-
Reissue of ordinary shares	-	-	-	-	5,432	5,432	-	-	5,432
Recognition of share based payments	-	512	-	-	-	512	-	-	512
Transfer to income statement on sale of available for sale investments	-	-	(27,048)	-	-	(27,048)	-	-	(27,048)
Gain on available for sale investments	-	-	706	-	-	706	-	-	706
Actuarial loss on pension fund valuation	-	-	-	-	(3,869)	(3,869)	-	-	(3,869)
Revaluation of owner occupied property	-	-	6,176	-	-	6,176	-	(138)	6,038
Balance at 31st December 2006	21,277	12,605	27,540	162	435,935	497,519	2,923	6,476	506,918

Company Balance Sheet

At 31st December 2006

		2006	2005
	Notes	€000s	€000s
Investments			
Interest in subsidiaries		223,521	196,616
Deposits with banks		86	3,806
		223,607	200,422
Cash and cash equivalents		15	104
Debtors		312	-
		223,934	200,526
Capital and reserves			
Ordinary share capital	13	21,277	23,557
Capital reserves	14	11,041	8,761
Reserves	17(b)	188,302	165,086
Shareholders' funds - equity interests		220,620	197,404
Preference share capital	18	2,923	2,923
Total shareholders' funds		223,543	200,327
Creditors	21(b)	391	199
		223,934	200,526

The financial statements were approved by the board on 6th March 2007 and signed on its behalf by:

Michael Berkery
Chairman

Philip Fitzsimons
Chief Executive

Company Cash Flow Statement

For the year ended 31st December 2006

	2006	2005
	€000s	€000s
Operating activities		
Profit before tax for the year	191,713	74,081
(Increase) decrease in receivables	(24,937)	25,027
Increase in payables	192	15
Income taxes recovered	191	266
Net cash from operating activities	167,159	99,389
Investment activities		
(Increase) decrease in investments	(2,220)	2,500
Deposits invested with financial institutions	3,720	(3,802)
Sale of subsidiary investment	32,705	-
Net cash used in investment activities	34,205	(1,302)
Financing activities		
Dividends paid	(77,672)	(18,158)
Repurchase of ordinary shares	(129,213)	(81,238)
Proceeds of re-issue of ordinary shares	5,432	1,409
Net cash used in financing activities	(201,453)	(97,987)
Net increase in cash and cash equivalents	(89)	100
Cash and cash equivalents at the beginning of the year	104	4
Cash and cash equivalents at the end of the year	15	104

Company Statement of Changes in Equity

For the year ended 31st December 2006

	Ordinary share capital	Capital reserves	Retained earnings	Attributable to ordinary shareholders	Preference share capital	Total
	€000s	€000s	€000s	€000s	€000s	€000s
2005						
Balance at 1st January 2005	25,151	7,167	188,817	221,135	2,923	224,058
Profit after taxation	-	-	74,256	74,256	-	74,256
Dividends paid	-	-	(18,158)	(18,158)	-	(18,158)
Buyback of own shares	-	-	(81,238)	(81,238)	-	(81,238)
Cancellation of own shares	(1,594)	1,594	-	-	-	-
Re-issue of ordinary shares	-	-	1,409	1,409	-	1,409
2006						
Balance at 31st December 2005	23,557	8,761	165,086	197,404	2,923	200,327
Profit after taxation	-	-	191,964	191,964	-	191,964
Dividends paid	-	-	(77,672)	(77,672)	-	(77,672)
Buyback of own shares	-	-	(129,213)	(129,213)	-	(129,213)
Cancellation of own shares	(2,280)	2,280	-	-	-	-
Re-issue of ordinary shares	-	-	5,432	5,432	-	5,432
Profit on sale of subsidiary	-	-	32,705	32,705	-	32,705
Balance at 31st December 2006	21,277	11,041	188,302	220,620	2,923	223,543

Notes to the Financial Statements

For the year ended 31st December 2006

I SEGMENTAL INFORMATION

(a) Business segments

For management purposes, the Group is currently organised in two operating divisions - underwriting and non-underwriting. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Underwriting – Writing of general insurance business
- Non underwriting – Leisure/Property developments and financial services

2006	Underwriting	Non underwriting	Total
	2006	2006	2006
	€000s	€000s	€000s
Turnover	464,073	229,853	693,926
Operating profit	124,596	33,919	158,515
Profit on the sale of land at La Cala	-	81,774	81,774
Investment return - short term fluctuation	61,350	-	61,350
Finance costs	-	(4,859)	(4,859)
Profit before tax	185,946	110,834	296,780
Other information			
Capital additions	8,185	12,612	20,797
Depreciation and amortisation	3,689	285	3,974
Balance sheet			
Segment assets	1,260,793	425,804	1,686,597
Segment liabilities	(982,699)	(196,980)	(1,179,679)

I SEGMENTAL INFORMATION (Continued)

2005	Underwriting 2005 €000s	Non underwriting 2005 €000s	Total 2005 €000s
Turnover	431,157	100,590	531,747
Operating profit	134,885	27,739	162,624
Investment return - short term fluctuation	25,956	-	25,956
Finance costs	-	(3,425)	(3,425)
Profit before tax	160,841	24,314	185,155
Other information			
Capital additions	5,819	32,072	37,891
Depreciation and amortisation	3,274	213	3,487
Balance sheet			
Segment assets	1,193,044	371,368	1,564,412
Segment liabilities	(930,525)	(148,414)	(1,078,939)
		2006	2005
		€000s	€000s
Non underwriting operating income			
Turnover		229,853	100,590
Sale of land at La Cala		(121,000)	-
Operating income		108,853	100,590
Operating expense		(74,934)	(72,851)
Non underwriting operating profit		33,919	27,739

Notes to the Financial Statements Continued

For the year ended 31st December 2006

I SEGMENTAL INFORMATION (Continued)

(b) Geographical segments

The Group's operations are located in Ireland and the European Union. The Group's underwriting operation is located in Ireland. The Group's property and leisure operations are located in Ireland and the European Union. The Group's financial services operations are located in Ireland.

The following table provides an analysis of the Group's turnover by geographical market irrespective of the origin of the services.

	Turnover by geographical market	
	2006	2005
	€000s	€000s
Ireland	523,387	486,974
European Union	170,539	44,773
	693,926	531,747

Geographical Segments	Ireland	European	Total
	€000s	Union €000s	€000s
2006			
Segment assets	1,511,260	175,337	1,686,597
Segment liabilities	(1,034,131)	(145,548)	(1,179,679)
2005			
Segment assets	1,414,852	149,560	1,564,412
Segment liabilities	(958,204)	(120,735)	(1,078,939)

I SEGMENTAL INFORMATION (Continued)

(c) Underwriting result

	2006	2006	2005	2005
	€000s	€000s	€000s	€000s
Earned premiums, net of reinsurance				
Gross premiums written	407,256		389,472	
Outward reinsurance premiums	(55,284)		(51,212)	
Net premiums written	351,972		338,260	
Change in provision for unearned premiums:				
Gross amount	(8,554)		(3,999)	
Reinsurers' share	2,541		(1,890)	
Change in net provision for unearned premiums	(6,013)		(5,889)	
Earned premiums, net of reinsurance		345,959		332,371
Claims incurred, net of reinsurance				
Claims paid:				
Gross amount	(230,732)		(178,530)	
Reinsurers' share	37,084		14,864	
Claims paid, net of recoveries from reinsurers	(193,648)		(163,666)	
Change in provision for claims:				
Gross amount	(35,042)		(40,966)	
Reinsurers' share	3,978		2,157	
Change in insurance liabilities net of reinsurance	(31,064)		(38,809)	
Claims incurred net of reinsurance		(224,712)		(202,475)
Gross operating expenses	(62,975)		(55,253)	
Reinsurers' share	18,270		15,807	
Net operating expenses		(44,705)		(39,446)
Underwriting result		76,542		90,450

Insurance risk is not concentrated in any one area or any one line of business.

All reinsurance contracts are for no more than one year so have no material effect on the amount, timing and uncertainty of cash flows.

The impact of buying reinsurance was a credit to the income statement of **€6,589,000** (2005: charge of €20,274,000).

The above note shows the movement on the insurance liabilities between 1st January 2006 and 31st December 2006 and the movement on the reinsurance assets for the same period. The movement in deferred acquisition costs for the period was a credit to the income statement of **€1,668,000** (2005: €1,258,000).

Notes to the Financial Statements Continued

For the year ended 31st December 2006

2 INVESTMENT INCOME

(a) Actual return

	2006	2005
	€000s	€000s
Income from interest, dividends and rental properties	37,448	28,616
Unrealised gains on investments	20,568	32,339
Realised gains on investments	51,388	9,436
	109,404	70,391

Realised gains on investments includes **€33,744,000** (2005: €7,681,000) being a gain on the sale of unquoted shares in Farmer Business Developments plc.

(b) Longer term investment return

The rates of investment return underlying the calculation of the longer term investment return are set out below. These rates are reviewed annually and reflect both historical experience and the directors' current expectations for investment returns.

	2006	2005
	%	%
Government gilts	3.50	3.50
Other quoted debt securities	6.00	6.00
Quoted shares	7.00	7.00
Deposits with banks	2.75	2.75
Investment properties held for rental	6.00	6.00
	2006	2005
	€000s	€000s

(c) Comparison of longer term investment return with actual return

Actual investment return	109,404	70,391
Longer term investment return	(48,054)	(44,435)
	61,350	25,956

3 FINANCE COSTS

	2006	2005
	€000s	€000s
Interest payable on bank and other loans	4,859	3,425

4 PROFIT BEFORE TAX

	2006	2005
	€000s	€000s
Profit before tax has been stated after charging:		
Fees paid to audit firms in respect of:		
- Audit services	461	424
- Non audit services :		
Taxation	385	315
Actuarial	90	80
Other	110	166
	585	561
Depreciation	3,525	3,487

The report on directors' remuneration is set out on pages 61 to 63 (Note 26).

5 STAFF COSTS AND NUMBERS

The average number of persons employed in the group in the financial year was **1,980** (2005: 1,796). All staff are employed in underwriting, financial services and leisure/property operations.

The aggregate payroll of these persons was as follows:

	2006	2005
	€000s	€000s
Wages and salaries	62,963	54,734
Social welfare costs	7,757	7,197
Retirement benefit costs	2,315	2,555
Share based payments	512	774
	73,547	65,260

Notes to the Financial Statements Continued

For the year ended 31st December 2006

6 INCOME TAX EXPENSE

	2006	2005
	€000s	€000s
Irish corporation tax	(23,016)	(16,815)
Foreign tax	(26,034)	(222)
Adjustments in respect of prior years	369	(31)
Current tax charge	(48,681)	(17,068)
Deferred tax charge	(1,267)	(6,633)
	(49,948)	(23,701)

The tax assessed for the year is higher than the standard rate of corporation tax in Ireland. The differences are explained below:

	2006	2005
	€000s	€000s
Profit before tax	296,780	185,155
Corporation tax at standard rate of 12.5% (2005: 12.5%)	37,098	23,144
Effects of:		
Double rent relief	-	(39)
Higher rates of tax on overseas earnings	15,985	111
Depreciation for period in excess of capital allowances	34	(174)
Non-taxable income/unrealised gains/losses not chargeable/deductible for tax purposes	(4,181)	(6,297)
Higher rates of tax on other income	114	292
Adjustments in respect of prior years	(369)	31
Current tax charge	48,681	17,068
Deferred tax charge	1,267	6,633
	49,948	23,701

7 PROFIT FOR THE YEAR

Of the profit for the year, **€191,964,000** (2005: €74,256,000) has been dealt with in the financial statements of the holding Company. As permitted by Section 3(2) of the Companies (Amendment) Act, 1986, a separate income statement for the holding Company has not been presented.

8 EARNINGS PER 60C ORDINARY SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary shareholders is based on the following data:

Earnings	2006	2005
	€000s	€000s
Profit for the year	246,832	161,454
Minority interest	(191)	46
Preference dividend	(282)	(282)
Earnings for the purpose of basic and diluted earnings per share	246,359	161,218

Number of shares	2006	2005
Weighted average number of ordinary shares for the purpose of basic earnings per share	36,292,000	38,746,000
Effect of dilutive potential of share options outstanding	407,000	431,000
Weighted average number of ordinary shares for the purpose of diluted earnings per share	36,699,000	39,177,000

The calculation of the operating earnings per share is based on the following data:

	2006	2005
	€000s	€000s
Operating profit after taxation	137,149	141,094
Minority interest	(191)	46
Preference dividend	(282)	(282)
Earnings for the purpose of operating earnings per share	136,676	140,858
Number of shares	36,292,000	38,746,000

Notes to the Financial Statements Continued

For the year ended 31st December 2006

9 PROPERTY AND EQUIPMENT

	Land and buildings held for own use	Hotels and golf resort assets	Total land and buildings	Fixtures and fittings	Total property and equipment
	€000s	€000s	€000s	€000s	€000s
Cost or valuation					
At 1 January 2005	27,935	148,582	176,517	36,077	212,594
Additions	730	30,853	31,583	6,308	37,891
Disposals	-	(11,177)	(11,177)	(66)	(11,243)
At 1 January 2006	28,665	168,258	196,923	42,319	239,242
Additions	745	12,511	13,256	7,541	20,797
Disposals	-	(4,888)	(4,888)	(503)	(5,391)
Revaluations	3,785	4,488	8,273	-	8,273
At 31 December 2006	33,195	180,369	213,564	49,357	262,921
Comprising:					
At cost	-	137	137	49,357	49,494
At valuation	33,195	180,232	213,427	-	213,427
	33,195	180,369	213,564	49,357	262,921
Accumulated depreciation and impairment					
At 1 January 2005	-	-	-	25,530	25,530
Depreciation charge for the year	-	-	-	3,529	3,529
At 1 January 2006	-	-	-	29,017	29,017
Depreciation charge for the year	-	-	-	3,974	3,974
Elimination on disposals	-	-	-	(449)	(449)
At 31 December 2006	-	-	-	32,542	32,542
Carrying amount					
At 31 December 2006	33,195	180,369	213,564	16,815	230,379
At 31 December 2005	28,665	168,258	196,923	13,302	210,225

9 PROPERTY AND EQUIPMENT (Continued)

The following rates are used for the depreciation of property and equipment:

Fixtures and fittings 10% to 20%

Included in hotels and golf resort assets, are assets valued at **€29,011,000** (2005: €34,625,000) on which the Group has recognised obligations under property financing arrangements amounting to **€19,527,000** (2005: €26,887,000) (note 20).

Land and buildings held for own use were valued on an open market basis at 31st December 2006 by CB Richard Ellis, Valuation Surveyors.

Hotels and golf resort assets located outside Ireland were valued on an open market basis at 31st December 2006 by American Appraisal, Valuation Surveyors. Irish hotels and golf resort assets, were valued as at 31st December 2006 on an open market basis by CB Richard Ellis, Valuation Surveyors.

At the 31 December 2006 had the land and buildings been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately **€164,849,000** (2005: €158,120,000).

10 INVESTMENT PROPERTY

	2006	2005
	€000s	€000s
Fair value of investment property		
At beginning of year	48,856	24,200
Increase in fair value during the year	4,200	-
Purchase of investment property	28,125	24,656
At end of year	81,181	48,856

Investment properties held for rental since prior to 1st January 2005 were valued on an open market basis at 31st December 2006 by CB Richard Ellis, Valuation Surveyors. Properties purchased during 2005 and 2006 are included at cost. The directors are of the opinion that the fair value of these properties does not differ materially from cost.

The rental income earned by the Group from its investment properties amounted to **€2,711,000** (€2005: €1,820,000).

The historical cost of investment property is **€72,770,000** (2005: €57,710,000).

Notes to the Financial Statements Continued

For the year ended 31st December 2006

II INVENTORIES

	2006	2005
	€000s	€000s
Work in progress	33,825	26,333
Development land	32,608	36,163
	66,433	62,496

I2 LOANS AND RECEIVABLES

	2006	2005
	€000s	€000s
(a) Loans	36,960	80,464
(b) Other receivables		
Policyholders	29,867	24,525
Intermediaries	1,233	1,617
Due from re-insurers	531	94
Other debtors	39,910	22,622
Prepayments and accrued income	5,440	6,354
Accrued interest and rent	8,821	5,997
	85,802	61,209
	122,762	141,673

The directors consider that the carrying amount of receivables approximates to their fair value. Loans do not have a fixed repayment schedule. All other receivables are due within one year.

Credit Risk

At 31st December 2006, the Group has provided loans with a maximum credit risk exposure of **€36,960,000** (2005: €80,464,000). €29,242,000 of the loans are secured on land and FBD has first charge. The remaining loans outstanding are unsecured. There is no significant concentration of credit risk relating to these loans.

Debtors arising out of direct insurance operations are a low credit risk and there is no significant concentration of risk. As such, the group has not made provision for bad or doubtful debts. There is no significant concentration of risk in other debtors.

13 ORDINARY SHARE CAPITAL

		2006	2005
	Number	€000s	€000s
Authorised:			
At beginning and end of year			
Ordinary shares of 60c each	51,326,000	30,796	30,796
Issued and fully paid:			
At the beginning of year	39,261,206	23,557	25,151
Cancellation of shares	(3,800,000)	(2,280)	(1,594)
At the end of year	35,461,206	21,277	23,557

The Company has one class of ordinary shares which carry no right to fixed income. In the event of the Company being wound up, ordinary shareholders rank behind preference shareholders.

Options outstanding on ordinary shares at 31st December 2006 were **531,793** (2005: 1,179,918). 4,000 of these options may be exercised prior to May 2010 at a subscription price of 300c and the remaining may be exercised prior to October 2013 at a subscription price of 899c. The total number of shares held as treasury shares at 31st December 2006 was 541,775 and the average purchase price was €19.49 per share. 648,125 treasury shares were re-issued during the year and the proceeds credited to distributable reserves (see note 17(a)). The weighted average number of shares in the earnings per share calculation has been reduced by the number of shares held in treasury.

14 CAPITAL RESERVES

	Share premium	Capital conversion reserve	Capital redemption reserve	Total Company	Share option reserve	Total Group
	€000s	€000s	€000s	€000s	€000s	€000s
Balance at 1 January 2005	5,540	1,627	-	7,167	278	7,445
Recognition of share-based payments	-	-	-	-	774	774
Cancellation of shares	-	-	1,594	1,594	-	1,594
Balance at 1 January 2006	5,540	1,627	1,594	8,761	1,052	9,813
Recognition of share-based payments	-	-	-	-	512	512
Cancellation of shares	-	-	2,280	2,280	-	2,280
Balance at 31 December 2006	5,540	1,627	3,874	11,041	1,564	12,605

Notes to the Financial Statements Continued

For the year ended 31st December 2006

15 REVALUATION RESERVES

	Properties	Available for sale investments	Total
	€000s	€000s	€000s
Balance at 1 January 2005	21,240	17,341	38,581
Increase in fair value of available for sale investments	-	18,003	18,033
Transfers to income statement on sale of available for sale investments	-	(6,384)	(6,384)
Deferred tax on available for sale investments	-	(1,453)	(1,453)
Sale of land and buildings	(1,071)	-	(1,071)
Balance at 1 January 2006	20,169	27,537	47,706
Transfer to income statement on sale of available for sale investments	-	(30,913)	(30,913)
Deferred tax on transfer to income statement on sale of available for sale investments	-	3,865	3,865
Increase in fair value of available for sale investments	-	806	806
Deferred tax on available for sale investments	-	(100)	(100)
Revaluation of land and buildings	8,476	-	8,476
Deferred tax on revaluation of land and buildings	(2,300)	-	(2,300)
Balance at 31 December 2006	26,345	1,195	27,540

16 TRANSLATION RESERVES

	Translation reserve
	€000s
Balance at 1 January 2005	371
Exchange differences on translation of foreign operations	64
Balance at 1 January 2006	435
Exchange differences on translation of foreign operations	(273)
Balance at 31 December 2006	162

17 (a) RETAINED EARNINGS - GROUP

	2006	2005
	€000s	€000s
At beginning of year	394,616	334,905
Dividends paid	(77,672)	(18,158)
Profit for the year attributable to equity shareholders	246,641	161,500
Buyback of own shares	(129,213)	(81,238)
Re-issue of ordinary shares	5,432	1,409
Actuarial loss on pension fund valuation	(3,869)	(3,802)
At end of year	435,935	394,616

Distributable reserves amount to **€341,830,000** (2005: €333,880,000)

(b) RETAINED EARNINGS – COMPANY

	2006	2005
	€000s	€000s
At beginning of year	165,086	188,817
Buyback of own shares	(129,213)	(81,238)
Transfer from profit and loss account	114,292	56,098
Re-issue of ordinary shares	5,432	1,409
Profit on disposal of subsidiary company	32,705	-
At end of year	188,302	165,086

18 PREFERENCE SHARE CAPITAL

		2006	2005
	Number	€000s	€000s
Authorised:			
At beginning and end of year			
14% non-cumulative preference shares of 60c each	1,340,000	804	804
8% non-cumulative preference shares of 60c each	12,750,000	7,650	7,650
		8,454	8,454
Issued and fully paid:			
At beginning and end of year			
14% non-cumulative preference shares of 60c each	1,340,000	804	804
8% non-cumulative preference shares of 60c each	3,532,292	2,119	2,119
		2,923	2,923

In the event of the Company being wound up, 8% non-cumulative preference shareholders rank ahead of 14% non-cumulative preference shareholders, who in turn, rank ahead of ordinary shareholders.

Notes to the Financial Statements Continued

For the year ended 31st December 2006

19 CLAIMS OUTSTANDING

	Prior years	2001	2002	2003	2004	2005	2006	Total
	€000s	€000s	€000s	€000s	€000s	€000s	€000s	€000s
Estimate of cumulative claims:								
At end of								
underwriting year	-	204,550	269,756	262,132	329,087	329,501	393,944	
One year later	-	200,668	222,441	225,267	277,415	278,281	-	
Two years later	-	198,406	209,284	206,220	255,510	-	-	
Three years later	-	182,112	198,551	185,363	-	-	-	
Four years later	-	168,013	174,132	-	-	-	-	
Five years later	-	162,933	-	-	-	-	-	
Estimate of								
cumulative claims	1,147,374	162,933	174,132	185,363	255,509	278,281	393,945	2,597,537
Cumulative payments	(1,100,508)	(129,003)	(134,474)	(112,137)	(138,878)	(124,470)	(123,628)	(1,863,098)
Claims outstanding	46,866	33,930	39,658	73,226	116,631	153,811	270,317	734,439

20 BANK AND OTHER LOANS

	2006	2005
	€000s	€000s
Bank loans	92,823	72,944
Obligation under property financing arrangements	19,527	26,887
	112,350	99,831

Liabilities in respect of obligations under property financing arrangements fall due for settlement in 2007 and 2012. There is no interest payable in respect of the obligations under property financing arrangements.

20 BANK AND OTHER LOANS (Continued)

	2006	2005
	€000s	€000s
Bank Loans	92,823	72,944
The borrowings are repayable as follows:		
On demand or within one year	1,723	5,104
In the second year	1,076	1,195
In the third year	3,345	598
In the fourth year	3,341	2,143
In the fifth year	3,109	1,943
After five years	37,784	24,931
	50,378	35,914
Loans with no repayment schedule	42,445	37,030
	92,823	72,944

No repayment schedule has yet been agreed for loans with AIB plc which amounted to **€42,445,000** (2005: €37,030,000).

The Group have agreed with AIB plc to repay the loan or agree a capital repayment schedule prior to 30th September 2007.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Euro	Sterling	Total
	€000s	€000s	€000s
Bank Loans			
31 December 2006	91,754	1,069	92,823
31 December 2005	71,662	1,282	72,944

The average interest rates were as follows:

	2006	2005
Bank Loans	4.6%	3.49%

All bank loans at 31st December 2006 and 2005 are at floating interest rates, exposing the Group to cash flow interest rate risk.

Notes to the Financial Statements Continued

For the year ended 31st December 2006

21 (a) CREDITORS – GROUP

	2006	2005
	€000s	€000s
Creditors arising out of direct insurance operations	12,763	15,014
Amounts falling due within one year:		
Creditors and accruals	76,275	35,129
PAYE/PRSI	1,521	1,122
Proposed dividends on preference shares	282	169
	78,078	36,420
	90,841	51,434

(b) CREDITORS – COMPANY

	2006	2005
	€000s	€000s
Amounts falling due within one year:		
Creditors and accruals	109	30
Proposed dividends on preference shares	282	169
	391	199

22 (a) CURRENT TAX

	2006	2005
	€000s	€000s
Income tax payable	7,728	3,395

(b) DEFERRED TAX

The following are the major deferred tax liabilities recognised by the Group, and the movements thereon, during the current and prior reporting periods.

	Revaluation of land and buildings €000s	Revaluation of investment property €000s	Revaluation of financial investments €000s	Insurance contracts €000s	Retirement benefit obligations €000s	Other timing differences €000s	Total €000s
At 1 January 2005	9,649	828	6,170	8,285	260	595	25,787
Charged to equity	-	-	1,453	-	-	-	1,453
Charged to income statement	-	-	5,958	-	363	312	6,633
At 1 January 2006	9,649	828	13,581	8,285	623	907	33,873
Charged (credited) to equity	2,300	-	(3,765)	-	(448)	-	(1,913)
Charged (credited) to income statement	-	840	830	(1,261)	498	360	1,267
At 31 December 2006	11,949	1,668	10,646	7,024	673	1,267	33,227

Notes to the Financial Statements Continued

For the year ended 31st December 2006

23 RETIREMENT BENEFIT OBLIGATIONS

The Group provides a defined benefit retirement benefit scheme for the majority of its Irish based staff. A full actuarial valuation was carried out on 1st January 2005 and updated to 31st December 2006 by the schemes' independent and qualified actuary. The major assumptions used by the actuary were:

	2006	2005
	%	%
Assumptions used to calculate scheme liabilities:		
Inflation rate increase	2.00	2.00
Salary rate increase	4.00	4.00
Pension payment increase	2.00	2.00
Discount rate	4.75	4.25
Long-term rate of return on scheme assets:		
Equities	7.00	7.00
Bonds	3.50	3.50
Property	6.00	6.00
Mortality Assumptions		
The average life expectancy used in the scheme at age 65 is as follows:		
Current and future retirees	Male	
	21.4	
	Female	
	26.4	
	2006	2005
	€000s	€000s
Assets in schemes at market value:		
Equities	73,059	59,085
Bonds	25,421	26,491
Property and other	10,639	7,069
	109,119	92,645
Actuarial value of liabilities	(112,706)	(94,995)
Deficit in schemes at market value	(3,587)	(2,350)
Related deferred tax asset	-	294
Net pension liability	(3,587)	(2,056)

23 RETIREMENT BENEFIT OBLIGATIONS (Continued)

	2006	2005
	€000s	€000s
Group Income Statement:		
Charged to operating profit:		
Current service cost	3,767	2,854
Death in service cost	41	112
	3,808	2,966
Interest on scheme liabilities	(4,037)	(3,756)
Expected return on scheme assets	5,599	4,167
	1,562	411
	2,246	2,555

Analysis of amount recognised in Group

Statement of Recognised Income and Expenditure:

Actual return less expected return on scheme assets	7,114	9,399
Experience gains and losses on scheme liabilities	(5,000)	(3,289)
Changes in demographic and financial assumptions	(6,137)	(10,206)
Actuarial loss	(4,023)	(4,096)
Deferred tax credit	154	294
Total actuarial loss	(3,869)	(3,802)

	2006	2005	2004	2003	2002
	€000s	€000s	€000s	€000s	€000s

HISTORY OF EXPERIENCE GAINS AND LOSSES

Difference between expected and actual return on assets	7,114	9,399	2,186	(2,352)	(14,838)
% of scheme assets	6.5%	10.1%	2.9%	4.7%	(35.7%)
Experience gains and losses on scheme liabilities	(5,000)	(3,289)	(1,899)	(4,301)	(4,880)
% of scheme liabilities	(4.4%)	(3.5%)	(2.5%)	(6.9%)	(9.2%)
Total actuarial loss	(3,869)	(3,802)	(9,031)	(3,091)	(22,814)
% of scheme liabilities	(2.5%)	(4.0%)	(11.8%)	(4.9%)	(43.1%)

Notes to the Financial Statements Continued

For the year ended 31st December 2006

23 RETIREMENT BENEFIT OBLIGATIONS (Continued)

	2006	2005
	€000s	€000s
MOVEMENT IN (DEFICIT) SURPLUS DURING THE YEAR		
Net (deficit) surplus in scheme at start of year	(2,056)	41
Current service cost	(3,767)	(2,854)
Contributions	4,991	4,148
Interest on scheme liabilities	(4,037)	(3,756)
Expected return on scheme assets	5,599	4,167
Actuarial loss	(4,023)	(4,096)
Deferred tax (credit) charge	(294)	294
Net deficit at end of year	(3,587)	(2,056)

The current best estimate of 2007 contributions to be made by the Group to the pension fund is €5,536,000.

	2006	2005
	€000s	€000s
MOVEMENT ON ASSETS AND LIABILITIES		
Assets		
Assets in scheme at 1st January 2006	92,645	76,577
Actual return less expected return on scheme assets	7,114	9,399
Contributions	4,991	4,148
Employee contributions	245	231
Expected return on scheme assets	5,599	4,167
Benefits paid	(1,475)	(1,877)
Assets in scheme at 31st December 2006	109,119	92,645
Liabilities		
Liabilities in scheme at 1st January 2006	94,995	76,536
Experience gains and losses on scheme liabilities	5,000	3,289
Changes in demographic and financial assumptions	6,137	10,206
Current service cost	3,767	2,854
Employee contributions	245	231
Interest on scheme liabilities	4,037	3,756
Benefits paid	(1,475)	(1,877)
Liabilities in scheme at 31st December 2006	112,706	94,995

The Group recognised an expense of €111,000 (2005: nil) relating to its defined contribution pension scheme.

24 (a) ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2006	2005
	€000s	€000s
Investment activities		
Purchase of investments held for trading	2,048,299	4,547,854
Sale of investments held for trading	(1,996,804)	(4,451,344)
Purchase of investments held to maturity	157,976	-
Purchase of available for sale investments	14,172	10,602
Sale of available for sale investments	(27,628)	(5,440)
Decrease in deposits with banks	(115,069)	(95,378)
Increase in loans and advances	-	15,944
Decrease in loans and advances	(43,504)	(12,155)
Increase in land and buildings	8,368	31,583
Decrease in land and buildings	(81,774)	(10,106)
Increase in inventories	3,937	-
Decrease in inventories	-	(8,047)
Increase in fixtures and fittings	7,038	6,242
Increase in investment property	28,125	24,656
	3,136	54,411

(b) MOVEMENT IN CASH, PORTFOLIO INVESTMENT AND FINANCING

	1/1/06	Cash flow	Changes to market value	31/12/06
	€000s	€000s	€000s	€000s
Cash	41,897	(4,474)	-	37,423
Investments held for trading	477,310	51,495	30,045	558,850
Investments held to maturity	13,740	157,976	83	171,799
Investments available for sale	47,290	(13,456)	(30,107)	3,727
Deposits with financial institutions	443,042	(115,069)	-	327,973
Loans and advances	80,464	(43,504)	-	36,960
Land, buildings and inventory	259,419	12,305	8,273	279,997
Investment property	48,856	28,125	4,200	81,181
Bank loans	(72,944)	(19,879)	-	(92,823)
	1,339,074	53,519	12,494	1,405,087

Notes to the Financial Statements Continued

For the year ended 31st December 2006

25 DIVIDENDS

	2006	2005
	€000s	€000s
Paid in period:		
Dividend of nil (2005: 8.4c) per share on 14% non-cumulative preference shares of 60c each	-	113
Dividend of 4.8c (2005: 4.8c) per share on 8% non-cumulative preference shares of 60c each	169	169
Special dividend of 160.0c (2005: nil) per share on ordinary shares of 60c each	54,979	-
2005 Final dividend of 37.5c (2004: 27.28c) per share on ordinary shares of 60c each	14,277	10,298
2006 Interim dividend of 24.0c (2005: 20.0c) per share on ordinary shares of 60c each	8,247	7,578
	77,672	18,158
Proposed:		
Dividend of 8.4c (2005: nil) per share on 14% non-cumulative preference shares of 60c each	113	-
Dividend of 4.8c (2005: 4.8c) per share on 8% non-cumulative preference shares of 60c each	169	169
Final dividend of 45.0c (2005: 37.5c) per share on ordinary shares of 60c each	15,714	14,277
	15,996	14,446

In respect of 2006, the directors propose that a dividend of 45.00 cents per share will be paid to shareholders on 25th May 2007. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 16th March 2007. The total estimated dividend to be paid is €15,714,000.

26 REPORT ON DIRECTORS' REMUNERATION AND INTERESTS

REMUNERATION POLICY

The objective of the remuneration policy in respect of executive directors is to attract, retain and motivate the executives concerned through remuneration packages which are both competitive and an incentive to the development of the Group, and in the best interests of shareholders. Base salaries for executive directors reflect job responsibilities and reflect levels prevailing in the market for comparable companies. Executive directors participate in annual bonus schemes under which payments are made based on the profit performance of the Group. The remuneration packages of executive directors are reviewed on an annual basis. Executive directors are considered the only key management of the Group.

	Fees	Salary	Bonus	Other Remuneration (a)	Pension Contributions	2006 Total
	€000s	€000s	€000s	€000s	€000s	€000s
Executive Directors:						
Philip Fitzsimons	-	560	280	27	95	962
Andrew Langford	-	285	85	12	48	430
Adrian Taheny	-	285	85	26	48	444
Non-Executive Directors:						
Michael Berkery (Chairman)	135	-	-	-	-	135
John Dillon (i)	7	-	-	-	-	7
John Donnelly	40	-	-	-	-	40
Philip Lynch	40	-	-	-	-	40
Patrick O'Keeffe	40	-	-	-	-	40
Joseph Rea	40	-	-	-	-	40
Vincent Sheridan	75	-	-	-	-	75
Johan Thijs	40	-	-	-	-	40
Padraig Walshe (ii)	33	-	-	-	-	33
	450	1,130	450	65	191	2,286

(i) Retired 3rd February 2006

(ii) Appointed 7th March 2006

Notes to the Financial Statements Continued

For the year ended 31st December 2006

26 REPORT ON DIRECTORS' REMUNERATION AND INTERESTS (Continued)

	Fees	Salary	Bonus	Other Remuneration (a)	Pension Contributions	2005 Total
	€000s	€000s	€000s	€000s	€000s	€000s
Executive Directors:						
Philip Fitzsimons	-	475	230	24	79	808
Andrew Langford	-	200	50	12	32	294
Adrian Taheny	-	220	55	25	41	341
Non-Executive Directors:						
Michael Berkery (Chairman)	100	-	-	-	-	100
John Dillon	30	-	-	-	-	30
John Donnelly	30	-	-	-	-	30
John Duggan (iii)	10	-	-	-	-	10
Philip Lynch	30	-	-	-	-	30
Michael Morley (iii)	10	-	-	-	-	10
Patrick O'Keeffe	30	-	-	-	-	30
Joseph Rea	30	-	-	-	-	30
Hugh Ryan (iii)	10	-	-	-	-	10
Vincent Sheridan	55	-	-	-	-	55
Johan Thijs	30	-	-	-	-	30
	365	895	335	61	152	1,808

(iii) Retired 27th April 2005

(a) Relates to motor allowance

The executive directors' pension benefits earned during the year and accrued at year end are as follows:

	Service Costs 2006 €000s	Increase in accrued benefits during 2006 €000s	Accrued benefit at year end €000s	Transfer value of increase in accrued benefits €000s
Philip Fitzsimons	154	60	352	864
Andrew Langford	47	17	49	60
Adrian Taheny	58	30	130	331
	259	107	531	1,255

The transfer values shown above do not represent sums paid or payable to the individual directors. Instead they represent a potential liability of the pension scheme.

26 REPORT ON DIRECTORS' REMUNERATION AND INTERESTS (Continued)

SHARE OPTIONS

To encourage focus on long-term shareholder value, executive directors are eligible for grants of share options under the terms of the Executive Share Option Scheme approved by shareholders. The exercise of options granted since 18th April 2000 is conditional on growth in earnings per share of at least 2% p.a. compound above the increase in the Consumer Price Index over not less than 3 years from date of grant. The percentage of share capital which may be issued under the Scheme complies with the guidelines of the Irish Association of Investment Managers. Details of the executive directors' share options are given below.

SERVICE CONTRACTS

There are no service contracts in force for any director.

DIRECTORS' AND SECRETARY'S INTERESTS

The beneficial interests of the directors and secretary of the Company and their spouses and minor children in the ordinary share capital of the Company, at 31st December 2006, were as follows:

	SHAREHOLDING	
	31/12/06	1/1/06
DIRECTORS:		
Michael Berkery	20,000	20,000
John Donnelly	23,256	23,256
Philip Fitzsimons	100,000	100,000
Andrew Langford	5,250	3,000
Philip Lynch	20,000	10,000
Patrick O'Keeffe	69,770	69,770
Joseph Rea	3,238	3,238
Adrian Taheny	10,000	10,000
SECRETARY:		
David J. Flynn	47,000	47,000

On 3rd January 2007, Mr. Philip Fitzsimons' shareholding increased to 125,000 shares.

DIRECTORS' SHARE OPTIONS

		Number of	Exercised	Granted	Number of	Exercise	Market Price	Expense
		options at	during	during	options at	price	at date of	2006
		1/1/06	year	year	31/12/06	€	option €	€000s
Philip Fitzsimons	(i)	50,000	50,000	-	-	4.60	4.60	-
	(ii)	112,918	-	-	112,918	8.99	10.59	53
Andrew Langford	(ii)	44,000	14,000	-	30,000	8.99	10.59	21
Adrian Taheny	(ii)	70,000	-	-	70,000	8.99	10.59	33

(i) Options exercisable from May 2003, expire May 2010.

(ii) Options exercisable from October 2006, expire October 2013.

Notes to the Financial Statements Continued

For the year ended 31st December 2006

27 PRINCIPAL SUBSIDIARIES

SUBSIDIARIES	NATURE OF OPERATIONS	% OWNED
FBD Insurance plc	General insurance underwriter	100
FBD Insurance Brokers Limited	General insurance brokers	100
FBD Life & Pensions Limited	Investment services, pensions and life brokers	100
FBD Property & Leisure Limited	Property investment and marketing	100
La Cala Golf Club S.A.	Golf resort	75
Ranchos Reunidos S.A.	Property	100
Sunset Beach Club S.A.	Hoteliers	100
Tower Hotel Group Limited	Hoteliers	100

The Registered Office of each of the above subsidiaries is at FBD House, Bluebell, Dublin 12, with the exception of Ranchos Reunidos S.A. and La Cala Golf Club S.A. which are at La Cala Resort, La Cala de Mijas, 29647 Mijas-Costa, Malaga, Spain and Sunset Beach Club S.A. which is at Avenida Del Sol No. 5, Benalmadena-Costa, Malaga, Spain.

All shareholdings are in the form of ordinary shares.

28 CAPITAL COMMITMENTS

	2006	2005
	€000s	€000s
Capital commitments at 31st December authorised by the directors but not provided for in the financial statements:		
Contracted for	4,246	3,473
Not contracted for	2,456	1,150

29 SHARE BASED PAYMENTS

Equity settled share option scheme

To encourage focus on long-term shareholder value, the Company has an executive share option scheme. The exercise of options granted since the 18th April 2000 is conditional on growth in earnings per share of at least 2% p.a. compound above the increase in the consumer price index over not less than three years from date of grant. The percentage of share capital which may be issued under the scheme complies with the guidelines of the Irish Association of Investment Managers. The options are exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. The vesting period is three years. If the options remain unexercised after a period of seven years from the date of vesting, the options expire. Options are forfeited if the employee leaves the Group before the options vest. In September 2003 options were granted, the fair value of these options are €12.03.

29 SHARE BASED PAYMENTS (Continued)

Details of the options outstanding during the year are as follows:

	2006		2005	
	Number of shares options	Weighted average exercise price €	Number of shares options	Weighted average exercise price €
Outstanding at the beginning of the year	1,179,918	10.11	1,510,900	8.90
Exercised during the year	(648,125)	8.38	(321,000)	4.39
Staff that left during vesting period	-	-	(9,982)	10.59
Outstanding at the end of the year	531,793	8.96	1,179,918	10.12
Exercisable at the end of the year	531,793		94,000	

The weighted average share price at the date of exercise for share options exercised during the year was €39.43.

The options outstanding at the end of the year have a weighted average remaining contractual life of **6.7 years** (2005: 7.5 years).

The fair value was calculated using the Black Scholes option pricing model. The inputs were as follows:

Share price	10.59
Exercise price	10.59
Expected volatility	20%
Expected life	3
Risk free rate	2.98%
Dividend yield	2%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 3 years.

The Group recognised total expenses of **€512,000** (2005:€774,000) relating to equity settled share-based payment transactions during the year.

30 GUARANTEES

The Group has guaranteed a loan secured on Castleknock Hotel and Country Club of €18,112,000.

Notes to the Financial Statements Continued

For the year ended 31st December 2006

31 CONTINGENT ASSETS

On 23rd February 2006, Ranchos Reunidos S.A., a 100% subsidiary of the Group, entered into a conditional agreement to sell a major portion of the building development land which it owned at La Cala Resort, Mijas, Costa del Sol, Spain, for a total consideration of €201,000,000. The consideration was constituted in two parts, apportioned between two tranches of land.

On 22nd June 2006, the initial consideration payment of €100,000,000 arising on the Tranche I land was received. The remainder of the Tranche I consideration, amounting to €21,000,000 is due to be received on 30th June 2007. The Group has recognised a profit of €81,774,000 on the sale of Tranche I development land in the year to 31st December 2006.

The consideration, amounting to €80,000,000, for the Tranche II land, becomes payable at a later date, contingent on receipt of final planning approval from the Spanish Regional Planning Authority.

32 TRANSACTIONS WITH RELATED PARTIES

Farmer Business Developments plc has a 24.4% shareholding in the group at 31st December 2006. During the year FBD Insurance plc, the Group's principal subsidiary, acquired 1,851,365 shares in Farmer Business Developments plc for **€12,894,527** and disposed of 8,323,124 shares for a consideration of **€59,984,727**. A profit of **€33,744,000** is included in the actual investment return (note 2(c)) in respect of the disposal of the Group's shareholding in Farmer Business Developments plc. At the year end, FBD Insurance plc's shareholding in Farmer Business Developments plc is included in the financial statements at a value of **nil** (2005: €44,267,000). Included in the financial statements at the year end is **€139,000** due to (2005: €1,382,000) Farmer Business Developments plc. Interest is charged on this balance at the market rate. The amount due is to be settled in cash. No guarantees have been given or received.

Compensation to directors is outlined in note 26.

33 RISK MANAGEMENT

Interest rate risk

At 31st December 2006, the Group had the following fixed interest quoted debt securities. These financial instruments are exposed to fair value interest rate risk.

	2006		2005	
	Market value	Weighted average interest rate	Market value	Weighted average interest rate
	€000s		€000s	
Time to maturity				
In one year or less	34,927	4.900%	14,934	2.250%
In more than one year, but not more than two years	22,124	3.021%	85,910	4.677%
In more than two years, but not more than three years	13,799	5.750%	-	-
In more than three years, but not more than four years	42,818	2.500%	64,187	3.785%
In more than four years, but not more than five years	187,912	3.500%	-	-
More than five years	102,370	2.375%	4,579	2.375%
	403,950		169,610	

Loans made by the Group are at floating interest rates.

33 RISK MANAGEMENT (Continued)

Fair Value

Quoted shares and debt securities are valued at market value using the closing bid price of the relevant securities.

	2006	2005
	€000s	€000s
Investments held for trading		
Quoted shares at cost	222,007	253,956
Quoted shares at market value	327,170	325,108
Quoted debt securities at cost	230,431	152,605
Quoted debt securities at market value	231,680	152,202
Investments held to maturity		
Quoted debt securities at cost	171,897	13,451
Quoted debt securities at amortised cost	172,270	13,740
Quoted debt securities at market value	171,047	13,740
Available for sale investments at fair value		
Unquoted shares at cost	2,372	15,820
Unquoted shares at market value	3,727	47,490

Liquidity risk

The Group is exposed to daily calls on its cash resources, mainly from claims. The board sets limits on the minimum proportion of maturing funds available to meet such calls.

Market risk

The Group has invested in quoted debt securities and quoted shares. These investments are subject to market risk, whereby the value of the investments may fluctuate as a result of changes in market prices, changes in market interest rates or changes in the foreign exchange rates of the currency in which the investments are denominated. The extent of the exposure to market risk is mitigated by the formulation of, and adherence to, strict investment guidelines, as approved by the board of directors, employment of appropriately qualified and experienced personnel to manage the Group's investment portfolio, and the use of forward foreign exchange contracts.

Insurance risk

The risk attached to any insurance policy written is the possibility that an insured event occurs and the uncertainty of the amount of the resulting claim.

The Group has developed its insurance underwriting strategy to diversify the type of insurance risks and within each of the types of risks, to achieve a sufficiently large population of risks to reduce the variability of the expected outcome. Risks covered include motor, employers and public liability and property. All risks underwritten are located in Ireland, with no significant concentration in any one area.

The frequency and severity of claims can be affected by several factors, most notably the increasing level of awards and inflation on settling claims.

The Group manages these risks through its underwriting strategy, reinsurance arrangements and proactive claims handling.

Notes to the Financial Statements Continued

For the year ended 31st December 2006

33 RISK MANAGEMENT (Continued)

The Group's underwriting strategy is approved by the board of directors and includes the employment of appropriately qualified underwriting personnel; the targeting of certain types of business; constant review of the Group's pricing policy using up-to-date statistical analysis and claims experience; and the surveying of risks carried out by experienced personnel. All risks underwritten are within the terms of the Group's reinsurance treaties.

For its motor, employer's liability and public liability business, the Group has in place excess of loss reinsurance treaties and for its property business, quota share reinsurance treaties operate. The Group's retention rate on all reinsurance treaties is approved by the board of directors on an annual basis.

Key assumptions used in calculating insurance liabilities

When estimating the cost of claims outstanding at year end, the principle assumption underlying the estimates is the Group's past development pattern. This includes assumptions in respect of certain historic average claim costs, claims handling costs, and claims inflation factors.

Delays in settlement and legal rulings are also other key assumptions. The effect of legislative change is not quantifiable.

Effect of changes in assumptions on insurance liabilities and sensitivities

Technical reserves estimated by the Group are sensitive to the above key assumptions. The table below indicates the impact of various changes in assumptions:

31st December 2006		Increase in gross technical reserves	Increase in net technical reserves	Impact on profit before tax	Reduction in shareholders' equity
Change in assumptions		€000s	€000s	€000s	€000s
Average claim costs	+10%	23,528	22,806	22,806	19,955
Claims inflation	+1%	13,815	13,815	13,815	12,088

Credit risk

All of the Group's current reinsurers have credit ratings of BBB or better. The Group has assessed these credit ratings as being satisfactory in diminishing the Group's exposure to the credit risk of its reinsurance receivables.

The Group uses independent actuaries to review its liabilities to ensure that the carrying amount of the liabilities is adequate. Where the liabilities net of any related deferred acquisition costs are deemed to be inadequate, the deficiency is recognised immediately in the Group income statement.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held in FBD House, Bluebell, Dublin 12, on Tuesday, 22nd May 2007, at 12 noon for the following purposes:

AS ORDINARY BUSINESS

- 1 To consider and adopt the Directors' report and financial statements for the year ended 31st December 2006 (Resolution 1).
- 2 To confirm the interim and special dividends and to declare a final dividend on the ordinary shares (Resolution 2).
- 3 To confirm a dividend on the 14% non-cumulative preference shares (Resolution 3).
- 4 To declare a dividend on the 8% non-cumulative preference shares (Resolution 4).
- 5 To re-elect Directors under Article 79 (c):
The following persons are recommended by the board for re-appointment.
Mr. Michael Berkery (Resolution 5(a)).
Mr. John Donnelly (Resolution 5(b)).
Mr. Philip Lynch (Resolution 5(c)).
Dr. Patrick O'Keeffe (Resolution 5(d)).
Mr. Joseph Rea (Resolution 5(e)).
- 6 To authorise the Directors to fix the remuneration of the auditors (Resolution 6).

AS SPECIAL BUSINESS

- 7 To consider and, if thought fit, pass the following Special Resolution (Resolution 7):
"In accordance with the provisions of the Companies (Amendment) Act, 1983, the Directors be and are hereby empowered to allot "equity securities" (as defined in Section 23 (13) of the Companies (Amendment) Act, 1983) pursuant to the authority conferred on them by Special Resolution of the Company passed on the 26th April 2006 as if Section 23 (1) of the Companies (Amendment) Act, 1983 did not apply to any allotment made pursuant to the said authority provided that this power shall be

limited to the allotment of equity securities up to but not exceeding an aggregate nominal value of 5 per cent of the issued ordinary share capital and that the authority hereby conferred shall expire at the close of business on the earlier of the date of the next Annual General Meeting of the Company or a date 15 months from the date of passing hereof and that the Directors be entitled to make at any time prior to the expiry of the power hereby conferred, any offer or agreement which would or might require equity securities to be allotted after the expiry of such power. Provided that such power shall, subject as aforesaid, cease to have effect when the said authority is revoked or would, if renewed, expire but if the authority is renewed the said power may also be renewed, for a period not longer than that for which the authority is renewed, by a further Special Resolution of the Company passed in General Meeting."

- 8 To consider and, if thought fit, pass the following Special Resolution (Resolution 8):
"That the Company and/or any of its subsidiaries be and are hereby generally authorised to make market purchases (as defined in Section 212 of the Companies Act, 1990) of shares of any class of the Company ("the Shares") on such terms and conditions and in such manner as the Directors may from time to time determine but subject, however, to the provisions of the Companies Act, 1990, the Articles of Association of the Company and to the following restrictions and provisions:
 - (a) the aggregate nominal value of the Shares authorised to be acquired pursuant to the terms of this resolution shall not exceed 10 per cent of the aggregate nominal value of the issued share capital of the Company as at the close of business on the date of the passing of this resolution;
 - (b) the minimum price which may be paid for any Share shall be the nominal value of the Share;
 - (c) the maximum price which may be paid for any Share (a "Relevant Share") shall be an amount equal to 105 per cent of the average of the five amounts resulting from determining whichever of the following ((i), (ii) or (iii) specified below) in relation to the Shares of the same class as the Relevant Share shall be appropriate for each of

Notice of Annual General Meeting

the five consecutive business days immediately preceding the day on which the Relevant Share is purchased, as determined from the information published in the Irish Stock Exchange Daily Official List reporting the business done on each of those five business days;

- (i) if there shall be more than one dealing reported for the day, the average of the prices at which such dealings took place; or
- (ii) if there shall be only one dealing reported for the day, the price at which such dealing took place; or
- (iii) if there shall not be any dealing reported for the day, the average of the closing bid and offer prices for the day; and if there shall be only a bid (but not an offer) or an offer (but not a bid) price reported, or if there shall not be any bid or offer price reported, for any particular day then that day shall not count as one of the said business days for the purposes of determining the maximum price. If the means of providing the foregoing information as to dealings and prices by reference to which the maximum price is to be determined is altered or is replaced by some other means, then a maximum price shall be determined on the basis of the equivalent information published by the relevant authority in relation to dealings on the Irish Stock Exchange or its equivalent.

The authority hereby conferred will expire at the close of business on the date of the next Annual General Meeting of the Company or the date which is fifteen months after the date on which this resolution is passed or deemed to have been passed whichever is the earlier, unless previously varied, revoked or renewed in accordance with the provisions of Section 215 of the Companies Act, 1990. The Company or any such subsidiary may before such expiry enter into a contract for the purchase of Shares which would or might be wholly or partly executed after such expiry and may complete any such contract as if the authority conferred hereby had not expired."

- 9 To consider and, if thought fit, pass the following Special Resolution (Resolution 9):

"That for the purposes of Section 209 of the Companies Act, 1990 the re-issue price range at which any treasury shares (as defined by the said Section 209) for the time being held by the Company may be re-issued off-market shall be as follows:

- (a) the maximum price at which a treasury share may be re-issued off-market shall be an amount equal to 120 per cent of the Appropriate Price; and
- (b) the minimum price at which a treasury share may be re-issued off-market shall be an amount equal to 95 per cent of the Appropriate Price;

For the purposes of this resolution the expression "Appropriate Price" shall mean the average of the five amounts resulting from determining whichever of the following ((i), (ii) or (iii) specified below) in relation to shares of the class of which such treasury shares to be re-issued shall be appropriate in respect of each of the five consecutive business days immediately preceding the day on which the treasury share is re-issued, as determined from information published in the Irish Stock Exchange Daily Official List reporting the business done on each of these five business days;

- (i) if there shall be more than one dealing reported for the day, the average of the prices at which such dealings took place; or
- (ii) if there shall be only one dealing reported for the day, the price at which such dealing took place; or
- (iii) if there shall not be any dealing reported for the day, the average of the closing bid and offer prices for the day; and if there shall be only a bid (but not an offer) or an offer (but not a bid) price reported, or if there shall not be any bid or offer price reported, for any particular day, then that day shall not count as one of the said business days for the purposes of determining the Appropriate Price. If the means of providing the foregoing information as to dealings and prices by reference to which the Appropriate Price is to be determined is altered or is replaced by some other means, then the Appropriate Price shall be

- determined on the basis of the equivalent information published by the relevant authority in relation to dealings on the Irish Stock Exchange or its equivalent; or
- (c) such treasury shares may be re-issued off-market to the holders of share options in the capital of the Company ("Options") on the exercise by them of their Options at the exercise price set out in the relevant option agreement(s).

The authority hereby conferred shall expire at the close of business on the date of the next Annual General Meeting of the Company, or the date which is fifteen months after the date on which this resolution is passed or deemed to have been passed whichever is the earlier, unless previously varied or renewed in accordance with the provisions of Section 209 of the Companies Act, 1990".

- 10 To consider and if thought fit, pass the following resolution as a Special Resolution (Resolution 10): "That the Articles of Association of the Company be and are amended by the adoption of the amendments required to facilitate electronic shareholder communication shown in the draft copy of the proposed new Articles of Association of the Company which have been signed by the Chairman and which have been available for inspection at the registered office of the Company since the date of notice of this meeting".

BY ORDER OF THE BOARD

Andrew Langford,
Secretary

Dated: 20th April 2007

NOTES FOR SHAREHOLDERS

- 1 Every member entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend, speak and vote instead of him/her. A proxy need not be a member of the Company. A form to be used for appointing a proxy is enclosed.
- 2 To be valid this proxy form must be completed, signed and returned to reach the registered office of the Company at FBD House, Bluebell, Dublin 12, not less than forty-eight hours before the time of the Meeting.
- 3 Nomination of Directors:
Eligibility for Appointment. No person other than a Director retiring shall be appointed a Director at any General Meeting unless he is recommended by the Directors or, not less than three nor more than twenty-one clear days before the date appointed for the meeting, notice executed by a member qualified to vote at the Meeting has been given to the Company of the intention to propose that person for appointment stating the particulars which would, if he were so appointed, be required to be included in the Company's register of Directors together with notice executed by that person of his willingness to be appointed.
- 4 No Directors' Service Contracts exist.

Notes



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