



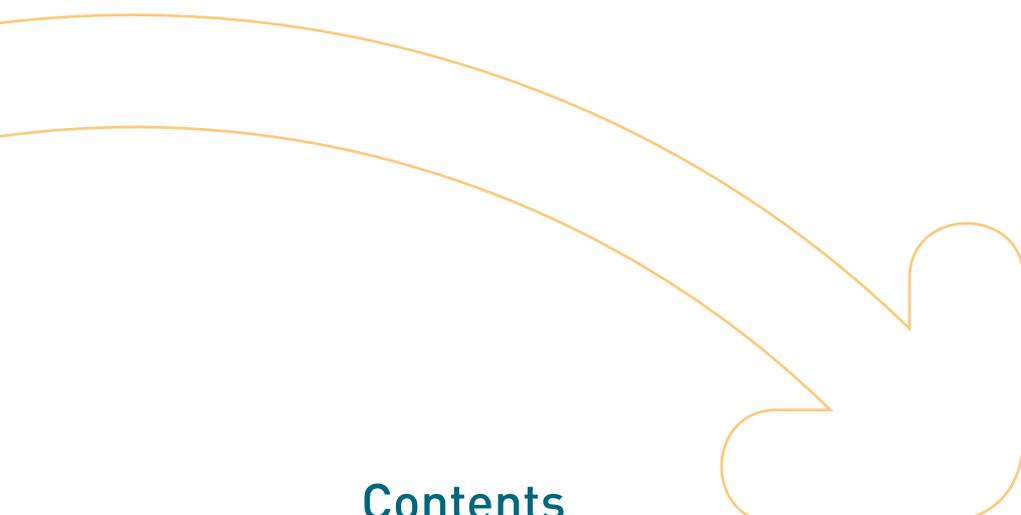
DELIVERING RESULTS BY INVESTING IN

OUR CUSTOMERS,  
OUR PEOPLE AND  
INNOVATION

**F|B|D**

**FBD Insurance plc**  
Annual Report 2013





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# Chairman's Statement

## OVERVIEW

FBD delivered another excellent performance in 2013, with profit before taxation of €47.4m. Gross premiums written were up 2%, its first increase since 2010. While initial signs of economic recovery were evident in the second half of 2013, industry premium and profitability remain challenging. The Company again demonstrated its ability to deliver superior returns by outperforming peers.

Gross premium written increased by 2% to €351.2m (2012: €344.3m) while the market declined by approximately 5%-6%. By continuing to develop solutions that meet the needs of existing and new customers, the Company increased market share to approximately 13.5% (2012: 12.6%), its highest ever share while at the same time maintaining underwriting discipline within the Company's risk appetite. FBD has grown market share in 12 of the last 13 years whilst also delivering market leading combined operating ratios over the same period.

The Company further strengthened its capital base and balance sheet. The Company had a solvency level of 78.1% of net premium earned at the end of 2013 (2012: 73.8%).

## BUSINESS REVIEW

### Premium Income

The Irish property and casualty insurance market contracted by approximately 5%-6% in 2013, as insurable risk and values reduced further, while rates continued to decline. The market combined operating ratio in 2012 was 106%. Pressure on market rates suggests further deterioration in industry profitability in 2013. There were some early signs of industry rate increases in the final quarter of 2013, particularly in car insurance.

FBD's gross premium written increased by 2.0% to €351.2m (2012: €344.3m), increasing FBD's market share from 12.6% to approximately 13.5%. Policy volume grew by 2.6% while average premium rates were 0.6% lower. The stabilisation in the economy in 2013 led to a marginal increase in FBD insurable values, which had declined 15% since 2008.

FBD delivered this growth by meeting the needs of existing and new customers through the following market initiatives;

- A key strategic priority for FBD is to deliver on all the insurance needs of farming customers. In 2013, FBD further increased the number of farms it insured and the number of policies per farming customer. FBD now protects more farming customers than at any time in its history;
- The initiative to enter into partnerships with insurance brokers to increase penetration of the business insurance market progressed positively. Business written through Brokers increased by 31% over 2012. The increase in broker business more than offset the decline in business insurance written directly, as the economic challenges facing Ireland have had a significant impact on small, rural consumer facing businesses.
- The Company's online offerings, FBD.ie and No Nonsense.ie, continued their managed growth, increasing FBD's share of urban personal lines in 2013. No Nonsense's 'readymade' motor insurance packages have been particularly successful in attracting the cost-conscious consumer while its telematics product 'SmartDriver', aimed at drivers under the age of 30, also helped deliver growth. During 2013, the 'TopDriver' app was launched to allow prospective policyholders gauge their driving behaviours prior to taking out a telematics product with No Nonsense. This has the added benefit of encouraging positive selection where drivers with good habits and safe driving styles are more likely to take out a policy.
- In the second half of 2013, the Company launched a car insurance product for the broker market under the 'Clan Insurance' brand. This initiative provides the Company with access to a large customer segment that was previously out of reach, and will enable the Company to increase its share of the Irish car insurance market in a controlled and sustainable manner.

These initiatives provide the Company with a sustainable platform for growth. The gains in premium arising from the above were somewhat offset by a decline in the numbers of homes insured by FBD. In 2013, market pricing for home insurance was insufficient to generate an acceptable return and, as a result, FBD maintained its underwriting discipline rather than compete with uneconomic rates in the market.

Although gross premium written increased by 2% in 2013, net premium earned, which is determined not only by the gross premium written in 2013 but also by the lower gross premium written in 2012, decreased by 1.4% to €296.4m

### Claims

Net claims incurred were €201.2m, an increase of 4.9% on 2012, bringing the loss ratio from 63.8% to 67.9%.

While the weather was benign for most of 2013, storm and flood claims in the final weeks of 2013 cost €4.5m, net of reinsurance. The Company also experienced a small number of very large accident and liability claims (costing more than €1m each) in 2013. The combined cost of severe weather and large claims, which will fluctuate from year to year, was 18.7% of net earned premium, significantly higher than the 13.1% cost in 2012 and two percentage points higher than the seven year average cost of 16.7%. Ultimately, FBD provides its customers with certainty when such events arise, and therefore an element of variability in the loss ratio is to

be expected. The Company mitigates this variability through reinsurance and its decisions are made based on longer term trends rather than short term variations.

The Company's attrition loss ratio, which measures the cost of routine claims and excludes the combined cost of severe weather and large claims, improved again in 2013 to 49.2% (2012: 50.7%), the fifth consecutive year of improvement for this key performance indicator.

Further savings were made in reducing those elements of claims costs that are within the Company's control, including risk selection, rating, claims management initiatives and underwriting improvements. While the weather events experienced in Ireland in late 2013 and early 2014 have been severe, the Company's use of risk selection tools has curtailed the impact of flood related damage.

The 17% increase in road deaths in Ireland in 2013 is disappointing, albeit from a historic low. While an element of this may relate to growth in economic activity, every fatality is a cause for concern. A concerted plan needs to be put in place to ensure that progress made in previous years does not continue to reverse.

### Expenses

Net underwriting expenses were €78.0m compared to €77.5m in 2012. The net expense ratio was 26.3% in 2013 compared to 25.8% in 2012, with the increase primarily attributable to the lower level of net premium earned in 2013. The Company has maintained its competitive cost advantage while at the same time investing in a platform for growth.

The Company's combined operating ratio for 2013 was 94.2% (2012: 89.6%) resulting in an underwriting profit of €17.2m, compared to €31.2m achieved in 2012.

### Investment return

The Company maintained its tactical position of a low allocation to long-dated bonds to protect shareholders and customers from the risk of rising bond yields. Actual investment return for 2013 was €27.9m compared to €27.2m in 2012, representing a 3.4% return on investments. This excellent return was delivered despite the low interest rates prevalent in the market and was aided by the Company's decision not to invest in long-dated bonds and the strong return on the 8.5% (2012: 7.0%) of investment assets invested in equities.

The longer term rate of return was €28.7m, up from €27.8m in 2012 resulting in an operating profit of €48.1m (2012: €60.8m).

### Profit before taxation

Actual investment return was €0.7m lower (2012: €0.06m) than the longer term rate of return. There was a property impairment charge of €1.1m (2012: €1.0m) and restructuring costs of €2.1m (2012: €2.1m).

Profit before taxation amounted to €47.4m (2012: €60.2m). After a taxation charge of €6.2m (2012: €7.4m), the profit after taxation was €41.2m (2012: €52.8m).

Table 1 shows how the assets of the Company were invested at the beginning and end of the year.

**Table 1 – Asset Allocation**

	31 December 2013		31 December 2012	
	€m	%	€m	%
<b>Investment assets</b>				
Deposits and cash	454	53%	499	59%
Corporate bonds	147	17%	152	18%
Government bonds	134	16%	111	13%
Equities	72	8%	60	7%
UCITs	24	3%	-	-
Own land & buildings	15	2%	16	2%
Investment property	11	1%	11	1%
<b>Investment assets</b>	<b>857</b>	<b>100</b>	<b>849</b>	<b>100%</b>
Trade, other debtors and DAC	102		99	
Reinsurers' share of technical provisions	44		55	
Plant and equipment	30		19	
<b>Total underwriting assets</b>	<b>1,033</b>		<b>1,022</b>	

## BALANCE SHEET

The Company's balance sheet further strengthened in 2013. Ordinary shareholders' funds grew to €243.0m (2012: €230.9m). The increase in shareholders' funds is attributable to profit after taxation of €41.2m, offset by the payment of a dividend of €30.1m.

The Company continues to be encouraged by the improvement in confidence in the global economy and by policymakers' actions to address the dislocation in the international monetary system. As a result, the Company reduced the proportion of assets invested in cash and bonds from 90% to 86% during 2013. The average term of these assets remains shorter than the Company's technical reserves, with more term deposits and less fixed interest securities than the Company's strategic investment allocation. This tactical asset allocation demonstrates the Company's desire to preserve capital, particularly as the reward available on longer dated assets does not justify the additional risk. This protects customers and shareholders and positions the Company well for a rising yield environment.

The Company had a solvency level of 78.1% of net premium earned at the end of 2013, up from 73.8% at the end of 2012 which represents 387% (2012: 367%) of the minimum solvency margin, and a reserving ratio of 235% (2012: 232%). FBD had a healthy surplus over best estimate and a €46.5m positive run-off of prior-year claims reserves in 2013, continuing the Company's long history of recording positive run-offs on its claims reserves.

In line with all European insurers, the Company is preparing for the introduction of the new Solvency II regulations which are to come into effect on 1 January 2016. FBD Insurance has calculated its solvency capital requirement on the basis that Solvency II, as currently proposed, was effective at 31 December 2013. The results showed that FBD Insurance had excess capital over the expected requirement.

## OUTLOOK

There are initial signs of a recovery in the Irish economy, and domestic demand, the best indicator of the trend in insurable risk available in the market, became positive in the second half of 2013 and is forecast to grow, albeit marginally, in 2014. Increased economic activity will lead to increased claims frequency. Given the profitability challenges already faced by the industry, and the extent of weather claims in recent months, market rates should rise. Market size in 2014 will depend on the speed and extent to which the market chooses to adjust rates to deliver an acceptable return.

FBD is committed to achieving profitable growth by constantly evolving its business to reflect the needs of customers. The Company intends to continue delivering products and services that matter to its farming and direct business customers. In 2014, FBD expects to further increase penetration of key urban markets, in particular Dublin, and of the business insurance market, in partnership with brokers. These initiatives, along with personal lines business written through FBD, No Nonsense and the Clan Insurance brand, provide the Company with the ability to outperform the market again in 2014.

During 2013, the combined cost of severe weather claims and large claims were above historic norms. The Company expects that these claims costs will revert to normal levels in 2014 and that the initiatives on those aspects of claims costs that are within the Company's control will continue to have a positive impact on the loss ratio. The improving economy will lead to increased claims frequencies in 2014 for both the industry and FBD. Changes in rates tend to lag claims trends and this will have an impact on profitability in 2014.

The wind storm that hit Ireland in the middle of February 2014 is likely to cost the industry €130m. The Company budgets for catastrophic weather events, net of reinsurance and the February wind storm will not exceed that budget. However the persistent bad weather over the previous month, whilst not amounting to a catastrophic event, will lead to an increase in the cost of 2014 claims.

The Board is confident that FBD will continue to outperform the market. The Company will continue to invest to drive the capacity for growth, while at the same time maintaining its competitive cost advantage. The Company has the ambition, capital strength and capability to take advantage of appropriate market opportunities that present themselves as the economic recovery takes hold.

Finally, I would like to again extend my sincere thanks to the Board, the management and the staff for their combined efforts in delivering an excellent performance in a difficult environment. We will continue to focus on maximising benefits for all stakeholders.

**Vincent Sheridan**

*Chairman*

26 February 2014

# Board of Directors and Other Information

## BOARD OF DIRECTORS

Vincent Sheridan (*Chairman*)  
Andrew Langford (*Chief Executive*)  
Michael Berkery  
Walter Bogaerts (*Appointed 1 January 2013*)  
David Martin  
Enda O'Brien (*Appointed 25 June 2013*)  
Cathal O'Caomh

## SECRETARY AND REGISTERED OFFICE

Conor Gouldson,  
FBD House,  
Bluebell,  
Dublin 12.

## INDEPENDENT AUDITORS

Deloitte & Touche,  
Chartered Accountants & Statutory Audit Firm,  
Deloitte & Touche House,  
Earlsfort Terrace,  
Dublin 2.

# Report Of The Directors

The Directors present their annual report and audited financial statements for the year ended 31 December 2013.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is the underwriting of fire and accident insurance within the Republic of Ireland. There has been no significant change in this activity during the year.

## BUSINESS REVIEW

During 2013 the Company generated premium income of €351,195,000 (2012: €344,255,000). The operating profit for the year was €48,131,000 (2012: €60,764,000).

A comprehensive review of the financial and non-financial key performance indicators of the Company is included within the Chairman's Statement starting on page 2. The key financial performance indicators include gross written premium (2013: €351.2m, 2012: €344.3m), combined operating ratio (2013: 94.22 %, 2012: 89.6%) and solvency ratio (2013: 78.1%, 2012: 73.8%).

## FUTURE DEVELOPMENTS

The Directors expect that the present level of activity will be sustained for the foreseeable future.

## RISK MANAGEMENT AND RISK APPETITE

The Directors have established a risk management process, the objective of which is to provide a systematic, effective and efficient way for managing risk in the organisation and to ensure it is consistent with the overall business strategy and the risk appetite of the Company.

Risk capacity is the amount and type of risk that the Company could bear over a defined period of time without breaching capital requirements. Ultimately, the Company's risk capacity is defined by its surplus assets. The Company has the capacity to take a series of risks that combined (and net of diversification impact) would reduce or eliminate its surplus assets. It does not have the capacity to undertake a series of risks that combined (and net of diversification impact) could exceed its surplus assets.

Risk appetite is a measure of the amount and type of risks the Company is willing to accept or not accept over a defined period of time in pursuit of its objectives. The Company's risk appetite seeks to encourage measured and appropriate risk taking to ensure that risks are aligned to business strategy and objectives.

The risk appetite of the Company is driven by an overarching desire to protect the solvency of the Company at all times. Through the proactive management of risk, the Company ensures that it does not currently have or will not take on an individual risk or combination of risks that could threaten the solvency of the Company. This ensures that the Company has and will have in the future sufficient capital to

pay its policyholders and all other creditors in full as these liabilities fall due.

## RISKS & UNCERTAINTIES

The Directors consider that the following are the principal risk factors that could materially and adversely affect the Company's future profits or financial position.

### General Insurance Risk

The risk attached to any general insurance policy outstanding is the possibility that an insured event occurs and the uncertainty of the amount of the resulting claim. The frequency and severity of claims can be affected by several factors, most notably weather events, the level of awards and inflation on settling claims.

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

Profitability of general insurance is, by its nature, cyclical and can vary because of the actions or omissions of competitors, particularly inappropriate pricing decisions by competitors.

The extent of the Company's exposure to general insurance risk is controlled within defined parameters by means of strict underwriting criteria, analysis of historical underwriting experience, formalised pricing structures and appropriate reinsurance treaties.

### Capital Management Risk

The Company is committed to managing its capital so as to maximise return to shareholders. The risk is that inappropriate management of the Company's capital could result in losses, erosion of capital or inadequate solvency. The Board reviews the capital structure frequently to determine the appropriate level of capital required to pursue the Company's growth plans.

### Operational Risk

Operational risk could arise as a result of inadequately controlled internal processes or systems, human error or from external events. Operational risks are regularly assessed against financial, operational and reputational criteria.

### Market Risk

The Company has invested in quoted and unquoted debt securities, quoted and unquoted shares, and investment properties. 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 policies, as approved by the Board of Directors and the employment of appropriately qualified and experienced personnel to manage the Company's investment portfolio.

### Liquidity Risk

The Company 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.

The Company uses independent actuaries to review its liabilities to ensure that the carrying amount of the liability is adequate. Where the liabilities, net of any related deferred acquisition costs, are deemed to be inadequate, the deficiency is recognised immediately in the profit & loss account.

### Interest Rate Risk

At any time, the Company has fixed interest quoted debt securities and financial instruments that are exposed to fair value interest rate risk whereby fluctuations in interest rates could have an adverse effect on the market value of the financial investments.

### Credit Risk

All of the Company's current reinsurers have credit ratings of A- or better, or have provided appropriate security. The Company has assessed these credit ratings as being satisfactory in diminishing the Company's exposure to the credit risk of its reinsurance receivables.

### Other Risks

- The risk that the strategy adopted by the Board is incorrect or not implemented appropriately resulting in sub optimal performance.
- The risk that deterioration in economic conditions globally and particularly in Ireland may lead to a reduction in revenue and profits.
- The risk that the loss of one or more key executive officers or other employees, the adoption of inappropriate HR policies or regulatory changes affecting the work force or the limited availability of qualified personnel may disrupt operations or increase the cost structure.
- The risk that an interruption or failure of information systems may result in a significant loss of business, assets, or competitive position.

The above risks are further detailed in note 14.

The Company has controls embedded within its systems and policies including its investment policy, underwriting policy and its reserving policy, to limit each of these potential exposures. Management and the Board regularly review, reassess and proactively limit the associated risks.

	2013 €000s	2012 €000s
<b>RESULTS</b>		
Operating profit	<b>48,131</b>	60,764
Short term fluctuations in investment return	<b>(756)</b>	(602)
Profit on ordinary activities before tax	<b>47,375</b>	60,162
Tax charge on profit on ordinary activities	<b>(6,185)</b>	(7,393)
Profit on ordinary activities after tax	<b>41,190</b>	52,769
Distributions paid:		
Dividend of <b>144.58c</b> (2012: 115.66c) per share on ordinary shares of €1.27 each	<b>(30,000)</b>	(24,000)
Dividend of <b>17.8c</b> (2012: 17.8c) per share on 14% non-cumulative preference shares of €1.27 each	<b>(89)</b>	(89)
Transfer to revenue reserves	<b>11,101</b>	28,680

### HOLDING COMPANY

At 31 December 2013 and throughout the year, FBD Holdings plc owned 100% of FBD Insurance plc.

### DIRECTORS

In accordance with the Company's articles of association, Michael Berkery, Vincent Sheridan and Walter Bogaerts will retire at the Annual General Meeting, and being eligible, offer themselves for re-election.

On 25th June 2013, Mr. Enda O'Brien was appointed to the Board.

### BIOGRAPHIES OF DIRECTORS

#### Vincent Sheridan, Chairman and Independent Non-Executive Director

Vincent Sheridan was elected Chairman of the Company on 3 March 2011. He retired as Chief Executive of Vhi Healthcare during 2008 after seven years in that role. Prior to that he was Group Chief Executive of the Norwich Union Insurance Group in Ireland for ten years. He is a past president of the Institute of Chartered Accountants in Ireland, 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 also a former council member of the International Federation of Health Plans and the Financial Reporting Council in the UK. He serves as a director of a number of companies. Mr. Sheridan joined the Board of FBD Holdings plc in August 2004 and joined the Board of FBD Insurance plc in August 2009.

Mr. Sheridan brings to the Board his extensive experience at a leadership level in the insurance industry, his experience as a non-executive Director on other boards together with his knowledge of corporate governance, compliance and technical accounting issues.

**Andrew Langford, Chief Executive Officer**

Andrew Langford joined FBD Holdings plc as Group Financial Accountant in 1996. In July 2003, he was appointed Executive Director – Finance of FBD Insurance plc. In May 2008, he was appointed Group Chief Executive. Prior to working in FBD, he worked in Deloitte & Touche where he qualified as a Chartered Accountant.

**Michael Berkery, Non-Executive Director**

Michael Berkery was elected Chairman of the Company in 1996, a role he held until 3 March 2011. He was Chief Executive Officer of the Irish Farmers’ Association for 25 years until his retirement in March 2009. He also served on the National Economic and Social Council and the Central Review Committee of the Government National Partnership Programme. He is Chairman of FBD Trust Company Limited and is a director of a number of other companies. Mr. Berkery joined the Board in October 1982.

Mr. Berkery’s extensive career at leadership level in the Irish Agriculture and Food Industry brings to the Board deep insights into the Irish farming and agri-related community, which together comprise a substantial customer base of the Company. He brings to the Board and to its Committees his communication and facilitation skills, business and economic knowledge, independence of mind and experience of management and motivation of people.

**Walter Bogaerts, Independent Non-executive Director**

Walter Bogaerts was General Manager of the Corporate Insurances Division of KBC Insurance based in Belgium prior to his retirement in 2013. He joined KBC Group (previously ABB Insurances) in 1979 and has gained extensive experience throughout his career with KBC in underwriting, reinsurance and sales. He was general manager in charge of KBC Group’s Central-European insurance businesses until appointed to his current role in 2012. He holds a Commercial Engineering degree from the Economic University of Brussels. Mr. Bogaerts joined the Board in January 2013.

**David Martin, Independent Non-executive Director**

David Martin, a Chartered Management Accountant, was Finance Director of Aryzta plc (formerly IAWS Group plc) up until his retirement in 2004 after which he remained on the board of that company in a non-executive capacity until 2007. Previously he was a management consultant with KPMG working on a range of assignments in Ireland and abroad. An experienced finance professional, he is a non executive Director of One51 plc, the Sicon Group and a former Director of Dormant Accounts Board. Mr. Martin

now serves on the Board of the Irish Auditing and Accounting Supervisory Authority. He joined the Board in March 2011.

**Cathal O’Caoimh, Executive Director – Finance**

Cathal O’Caoimh joined the Company in October 2008 and was appointed to the Board as Executive Director – Finance. A Chartered Accountant, he joined FBD from Horizon Technology Group plc where he was Chief Financial Officer since 2001. Prior to that Mr. O’Caoimh was Group Finance Director of Hibernian Insurance Group, having previously been Group Finance Director of Norwich Union Insurance Group in Ireland. Mr. O’Caoimh is a member of the Council of Chartered Accountants Ireland.

**Enda O’Brien, Executive Director and Chief Risk Officer**

Enda O’Brien joined FBD in 1999 and was first appointed to the Board in 2004 and retired from the Board in 2011. Enda was reappointed to the Board in 2013. A Chartered Accountant, he joined FBD from New Ireland Holdings plc where he was an Executive Director and was also Deputy Managing Director of New Ireland Assurance plc. Prior to that, Mr. O’Brien was an Audit Manager with Deloitte and Touche. Mr. O’Brien is also a member of the Chartered Association of Certified Accountants.

**DIRECTORS’ AND SECRETARY’S INTERESTS**

The directors and secretary had no interest in the share capital of the company. They had the following beneficial interests in the 60c ordinary share capital of FBD Holdings plc, the holding company:

	Number of 60c Ordinary Shares	
	31/12/13	1/1/13 (or at date of appointment if later)
Directors:		
Michael Berkery	30,000	30,000
Andrew Langford	75,000	40,000
Vincent Sheridan	4,150	4,150
Cathal O’Caoimh	20,179	1,179
Conor Gouldson	9,120	420
Enda O’Brien	518	518

	Number of share options			
	ESOS		LTIP	
	31/12/13	1/01/13	31/12/13	1/01/13
Andrew Langford	-	120,000	58,417	35,267
Cathal O’Caoimh	-	75,000	42,117	27,786
Conor Gouldson	-	35,000	14,162	9,343
Enda O’Brien	42,500	86,500	-	-

## DIRECTORS’ RESPONSIBILITY FOR 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 at the end of the financial year and of the profit or loss of the Company for the year. The Directors consider that, in preparing the financial statements, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. Applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements. The Directors are required to prepare the financial statements on a going concern basis unless it is inappropriate to assume the Company will continue in business. 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 accounting standards generally accepted in Ireland and comply with Irish statute comprising the Companies Acts, 1963 to 2013 and the European Communities (Insurance Undertakings: Accounts) Regulations, 1996.

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

## SUBSIDIARIES

The Company’s subsidiaries are listed in note 20.

## INDEPENDENT AUDITORS

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

## 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.

## CORPORATE GOVERNANCE

The Corporate Governance report on pages 10 to 15 forms part of this report and in this the Board has set out how it has applied the provisions of the Central Bank of Ireland’s Corporate Governance Code for Credit Institutions and Insurance Undertakings (the “Code”).

## SOLVENCY II

In line with all European insurers, the Company is preparing for the introduction of the new Solvency II regulations which are likely to come into effect on 1 January 2016. FBD Insurance has calculated its solvency capital requirement on the basis that Solvency II, as currently proposed, was fully implemented at 31 December 2013. The results showed that FBD Insurance had excess capital over the proposed requirement. FBD Insurance is confident that it will meet all of the Solvency II requirements in advance of their introduction.

## GOING CONCERN

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. As a result they continue to adopt the going concern basis of accounting in preparing the financial statements. In forming this view, the Directors have reviewed the Company’s budget for 2014 and forecasts for 2015 which take account of reasonably foreseeable changes in trading performance, the key risks facing the business and the medium term plans approved by the Board in its review of the Company’s corporate strategy.

## SUBSEQUENT EVENTS

There were no events subsequent to year end requiring disclosure.

## APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board on 26 February 2014.

Signed on behalf of the board:

**Vincent Sheridan**  
Chairman

**Andrew Langford**  
Chief Executive

# Corporate Governance Report

The Board acknowledges the importance of good corporate governance. The Company has a requirement to comply with the provisions of the Central Bank of Ireland's Corporate Governance Code for Credit Institutions and Insurance Undertakings (the "Code"). The Code imposes the minimum core standards upon all undertakings licensed or authorised by the Central Bank, which includes FBD Insurance plc. It also sets out additional requirements on entities which are designated as "major" institutions to reflect the risk and nature of those institutions. The Company has been designated as a major institution. The Directors are satisfied that the company complies with the code.

## THE BOARD OF DIRECTORS

The primary role of the Board is to provide leadership and strategic direction while maintaining effective control over the activities of the Company. The Board meets on a regular basis at least eleven times per year, and has a formal schedule of matters reserved to it for consideration and decision. This schedule is reviewed and validated at least annually. This schedule includes the approval of the Company's objectives and strategy, approval of financial statements, dividends, the appointment of Directors and the Company Secretary, approval of the annual budget including capital expenditure and the review of the Company's systems of internal control. This schedule ensures that the skills, expertise and experience of the Directors are harnessed to best effect and ensures that any major opportunities or challenges for the Company come before the Board for consideration and decision.

The Board comprises three executive Directors, following the re-appointment of Mr. Enda O'Brien in June 2013, and four non-executive Directors, including the Chairman. The Board believes that this is appropriate, being of sufficient size and diversity to ensure that there is healthy debate and input on the main business to be dealt with by it. No changes to the Board size or structure are anticipated in the immediate future.

The Board has delegated responsibility for the management of the Company to the Group Chief Executive and, through him, to executive management. The Board has also delegated some additional responsibilities to committees of the Board established by it whose powers, obligations and responsibilities are set out in written terms of reference and whose activities during the year are described more fully in this report.

There is a clear division of responsibilities between the Chairman and the Chief Executive. The Chairman leads the Board and is responsible for ensuring that it is effective as a unitary Board and at individual director level. He is the link between the Board and the Company. He sets the Board agenda and ensures that Directors receive accurate and timely information to enable it to fulfil its role. He is responsible for facilitating effective contributions by all Directors, ensuring constructive communications between the executive and non-executive Directors and for ensuring that members of the Board develop and maintain a clear understanding of the views of shareholders. If a Director is unable to attend a Board meeting he or she will receive Board papers in advance of the meeting and is given an opportunity to communicate any views on or input into the business to come before the Board in advance.

The Chief Executive is responsible for running the Company's business within the authority limits set out by the Board. He is responsible for proposing and developing the Company's strategy and overall commercial objectives, which he does in close consultation with the Chairman and the Board, and for implementing the decisions of the Board and its Committees.

During 2011, the Board completed a detailed review of its composition and that of its Committees to ensure that in this respect it fully met the expectations and requirements of the Code. This was undertaken with the support of the Nomination Committee. This review was designed to ensure that the composition of the Board included an appropriate mix of independence together with the specific skills and experience required to do its work.

## BOARD AND BOARD COMMITTEE COMPOSITION AS AT 31 DECEMBER 2013

Name	Role	Audit Committee	Risk Committee	Remuneration Committee	Nomination Committee
V. Sheridan	Chairman			Member	Chairman
M. Berkery	Non-executive		Member		Member
W. Bogaerts	Non-executive	Member	Chairman		
A. Langford	Chief Executive				
D. Martin	Non-executive	Chairman		Chairman	Member
C. O'Caomh	Executive		Member		
E. O'Brien	Executive				

Biographies of the Directors in office as at 31 December 2013 are set out in the Directors report as is a brief commentary on the specific skills and experience which each non-executive Director brings to the Board. The Board confirms that during 2013 it had available to it the skills, expertise and experience necessary for the proper functioning of the Board and its Committees. The skills and experience identified by the Board as critical to its composition and that of its Committees at this time include expertise in insurance, general and farming/agri industry experience, corporate finance, corporate governance, regulatory and other compliance, and financial accounting.

Directors receive a formal induction on appointment. All Directors are briefed regularly thereafter in writing and orally by the Chairman and by executive management. Papers are sent to each member of the Board in sufficient time before Board meetings. Members of the Board may take independent professional advice at the Company's expense if deemed necessary in the furtherance of their duties. They have access to the advice and the services of the Company Secretary who has responsibility to ensure that Board procedures are followed and that applicable rules, regulations and other obligations are complied with.

## BOARD COMMITTEES

The Board has established four Committees to assist it in the execution of its responsibilities. These are:

- the Audit Committee;
- the Risk Committee;
- the Remuneration Committee; and
- the Nomination Committee.

Each of the Committees has written terms of reference which were approved by the Board and set out the Committees' powers, responsibilities and obligations. The terms of reference are reviewed at least annually by the relevant Committee and updated by the Board where necessary.

## THE AUDIT COMMITTEE

Membership of the Audit Committee is set out on page 10.

The Group Finance Director and the Head of Internal Audit attend meetings regularly at the request of the Committee Chairman while the external auditors attend as required and have unrestricted access to the Committee Chairman at all times. The Committee meets on a regular basis with the external auditors and with the Head of Internal Audit respectively without management being present. The Company Secretary is secretary to the Committee and is responsible for recording the activities of the Committee, circulating papers in advance of its meetings and ensuring that appropriate procedures are followed.

The main roles and responsibilities for the Audit Committee are detailed in its terms of reference and are summarised as follows:

In relation to Internal Control the Committee will:

1. Review the Company's internal financial controls and its internal control systems.
2. Consider any significant fraud, illegal acts, deficiencies in internal control or similar issues.

In relation to Financial Reporting the Committee will:

1. Monitor and report directly to the Board of the Company on the integrity and clarity of the financial statements of the Company, reviewing any significant financial reporting judgements contained in them.
2. Pay particular attention to complex and/or unusual transactions.
3. Focus on significant judgmental areas and major audit adjustments.
4. Review compliance with all legal requirements.
5. Review the Company's statement on internal control systems prior to endorsement by the Board.
6. Consider any new accounting policies and significant changes to existing accounting policies.

In relation to Internal Audit the Committee will:

1. Review the activities, overall effectiveness and organisational structure of the Internal Audit function.
2. Review the resources of the Internal Audit Department.
3. Review the independence, standing and scope of the Internal Audit Department and its relationship with the Statutory Auditor.
4. Approve the appointment and removal of the Head of Internal Audit.
5. Ensure that Management responds to the findings and recommendations made by the Internal Audit Department.
6. Review and approve the Internal Audit Department's strategic and annual work plan and receive and consider the reports on work performed.
7. Meet separately with the Head of Internal Audit at least annually to discuss any matters that the Committee or the Head of Internal Audit consider should be dealt with privately.
8. Review the Internal Audit Charter periodically.

In relation to Statutory Audit the Committee will:

1. Review the Statutory Auditor's terms of engagement, proposed audit scope and approach.
2. Review the remuneration to be paid to the Statutory Auditor in respect of audit services provided.
3. Review and monitor the independence and objectivity of the Statutory Auditor and the effectiveness of the audit process taking into consideration relevant professional and regulatory requirements.
4. Develop and implement policy on the engagement of the Statutory Auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the Statutory Auditor and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
5. Make recommendations to the Board regarding the appointment, continuation in office and removal of the Statutory Auditor.
6. Meet with the Statutory Auditor in the absence of management at least annually to discuss any matters that the Committee or the Statutory Auditor consider should be dealt with privately.
7. Ensure that significant findings and recommendations made by the Statutory Auditor (normally contained in the Management Letter) are received and discussed by the Committee on a timely basis and that Management responds to the findings and recommendations.

The Audit Committee will also:

1. Regularly update the Board of the Company on the Committee's activities ensuring that the Board is promptly made aware of any matters that may significantly impact the financial condition or affairs of the company. An annual written report is also provided by the committee to the Board outlining the committee's activities and major recommendations.
2. Instigate special investigations as necessary, employing independent legal and other advice as appropriate.
3. Annually review and update the Committee's Terms of Reference and receive approval from the Board for any changes.
4. Evaluate the Committee's own performance annually.
5. Review annually arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

During the year the Committee undertook all of its principal scheduled activities through a formal programme of work. Its Chairman reported to the Board in detail at each subsequent Board meeting and minutes of its meetings are routinely circulated to the Board for information and noting. In addition, the Committee commissioned an independent external quality assessment of the Internal Audit Function during 2012 and was pleased to note the conclusion that the Function was effective in undertaking its activities to appropriate recognised standards.

The external audit engagement partner rotates every five years and the current partner assumed the engagement commencing with the audit of the 2009 financial statements. The current partner will rotate off the engagement after signing the audit opinion for the 2013 financial statements. The Committee pays particular attention to ensuring the independence of the external auditors is safeguarded. While the engagement of the external auditors in the provision of non-audit services is not prohibited outright, such services are not permitted to be provided where the auditors may be required to audit their own work. The level of fees paid to the external auditors for the provision of non-audit services is closely monitored so as to ensure that both their independence and the perception of their independence are not diminished.

## THE RISK COMMITTEE

Membership of the Risk Committee is set out on page 10.

The role, responsibilities and powers of the Committee are set out in written terms of reference which are approved by the Board. The key duties of the Risk Committee are to:

1. Provide oversight and advice to the Board in relation to current and potential future risk exposures of the Company and future risk strategy, including the determination by the Board of its risk appetite and risk tolerance.
2. Promote a risk awareness culture within the Company.
3. Recommend a risk management framework including strategies and policies, risk appetite and risk tolerances to the Board for approval.
4. Ensure that the material risks facing the Company have been identified and that appropriate arrangements are in place to manage and mitigate those risks effectively.
5. Advise the Board on the effectiveness of strategies and policies with respect to maintaining, on an ongoing basis, the amounts, types and distribution of capital adequate to cover the risks of the Company.
6. Develop a reporting structure which reports any breaches of limits to the Committee in a timely fashion.

7. Review and challenge risk information received by the Chief Risk Officer from the business departments to ensure that the Company is not exceeding the risk limits set by the Board.
8. Ensure that the risk management function has an appropriate and achievable mandate to roll-out the risk management policy, risk limits and reporting structure to all business functions.
9. Present a profile of the Company's key risks, risk management framework, risk appetite and tolerance and risk policies at least annually together with a summary of the Committee's business to the Board.

During the year the Committee undertook all of its principal scheduled activities through a formal programme of work. Its Chairman reported to the Board in detail at each subsequent Board meeting and minutes of its meetings are routinely circulated to the Board for information and noting.

## THE REMUNERATION COMMITTEE

Membership of the Remuneration Committee is set out on page 10.

The role, responsibilities and powers of the Committee are set out in written terms of reference which are approved by the Board. The key duties of the remuneration committee are to:

1. Determine with the Board the broad policy for the remuneration of the Company's executive directors, the company secretary and other senior executives (together "executive management"), including those persons in Pre-Approval Controlled Functions (as defined in the Central Bank of Ireland's Fitness and Probity Requirements), and such other members of Company's management as it is designated to consider.
2. In determining such policy, take into account all factors which it deems necessary. The objective of such policy shall be to ensure that members of the executive management of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company while also ensuring that the principles of sound, prudent risk management are fully reflected and that excessive risk taking is neither encouraged nor rewarded.
3. Review the ongoing appropriateness and relevance of the remuneration policy.
4. Approve the design of, and determine targets for, any performance related pay schemes operated by the Company and approve the total annual payments made under such schemes.

5. Recommend to the Board the remuneration levels for the non-executive Directors.
6. Determine the policy for, and scope of, pension arrangements for each executive director and other senior executives.
7. Review any proposals from the Remuneration committee of FBD Holdings plc for the remuneration package of each member of executive management to ensure that they do not conflict with or undermine the Company's remuneration policy and, in particular, that they do not incentivise the taking of excessive risk.
8. Ensure that contractual terms on termination, and any payments made, are fair both to the individual and to the Company, that failure is not rewarded and that the duty to mitigate loss by the individual is fully recognised.
9. Oversee any major changes in employee benefits structures throughout the Company.
10. Be responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the committee and for obtaining reliable, up-to-date information about remuneration in other companies. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations.

The Remuneration committee consults with the Chief Executive on the remuneration proposals for the other executive Directors and for senior management and has access, where it deems it necessary, to obtain external professional advice from compensation and benefit consultants. The Company participates in industry-specific and wider remuneration and reward surveys and the Committee benchmarks the remuneration arrangements for the executive Directors and senior management against the results of these surveys. The Committee did not deem it necessary, following this review process, to consult any external benefit consultants during the year.

During the year the Committee undertook all of its principal scheduled activities through a formal programme of work. Its Chairman reported to the Board in detail at each subsequent Board meeting and minutes of its meetings are made available to the Board.

## THE NOMINATION COMMITTEE

Membership of the Nomination Committee is set out on page 10.

The role, responsibilities and powers of the Committee are set out in written terms of reference which are approved by the Board. Amongst its responsibilities it must review Board and Board Committee composition, size, structure and succession planning and make recommendations to the

Board on these matters for its approval. In formulating its recommendations on Board and Board Committee composition, the Committee takes account of the skills and experience available to the Board and any identified gaps having regard to the Company's approved strategy and its business environment. The duties of the nomination committee are as follows:

1. Regularly review the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position and make recommendations to the Board with regard to any changes.
2. Give full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the company, and what skills and expertise are therefore needed on the Board and the executive management team, in the future.
3. Formulate succession plans for both executive and non-executive directors and in particular for the key roles of Chairman and Chief Executive.
4. Make recommendations to the Board concerning the requirement of the Central Bank of Ireland that the renewal of the Chief Executive's contract be reviewed at least every five years.
5. Make recommendations to the Board concerning the requirement of the Central Bank of Ireland that the membership of the Board of directors with long service, and in particular service beyond nine years, is formally reviewed, documented and communicated to the Central Bank.
6. Be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.
7. Before any appointment is made by the Board, evaluate the balance of skills, knowledge and experience on the Board, and, in the light of this evaluation prepare a description of the role and capabilities required for a particular appointment. In identifying suitable candidates the Committee shall:
  - a. consider candidates from a wide range of backgrounds; and
  - b. consider candidates on merit and against objective criteria, taking particular care that potential appointees have enough time available to devote to the position.
8. Review annually the time required from non-executive directors. Performance evaluation should be used to assess whether the non-executive directors are spending enough time to fulfil their duties.
9. Ensure that on appointment to the Board, non-executive directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings.

During the year the Committee undertook all of its principal scheduled activities through a formal programme of work. Its Chairman reported to the Board in detail at each subsequent Board meeting and minutes of its meetings are made available to the Board.

## INTERNAL CONTROL

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss. The Board confirms that there is an ongoing process for identifying, evaluating and managing any significant risks faced by the Company, that it has been in place for the year under review and up to the date of approval of the financial statements and that this process is regularly reviewed by the Board. The key risk management and internal control procedures include:

- skilled and experienced management and staff;
- an organisational structure with clearly defined lines of responsibility and authority;
- a comprehensive system of financial control incorporating budgeting, periodic financial reporting and variance analysis;
- a Risk committee and a risk management framework comprising a risk function headed by a Chief Risk Officer, a clearly stated risk appetite and risk strategy supported by approved risk management policies and processes in the areas of underwriting, reinsurance, claims reserving, investment and treasury;
- a Solvency II and Risk Steering committee comprising senior management whose main roles are to oversee the implementation of the three pillars of the Solvency II framework throughout the Company and to assist the Risk committee, described earlier, in the discharge of its duties between meetings;
- an Internal Audit function whose broad function is to help the Company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes;
- an Audit committee whose formal terms of reference include responsibility for assessing the significant risks facing the Company in the achievement of its objectives and the controls in place to mitigate those risks;

- a compliance committee whose role is to assist the compliance officer in carrying out his or her duties and to assist with development, implementation, and oversight of the compliance program.

The Company has a comprehensive system of financial reporting involving budgeting, monthly reporting and variance analysis. The Annual Budget and Annual Report are reviewed and approved by the Board. Financial results with comparisons against budget are reported to executive Directors on a monthly basis and are reported to the Board at each Board meeting. Forecasts are updated regularly to reflect changes in circumstances.

The Board has reviewed the effectiveness of the Company's system of internal control. This review took account of the principal risks facing the Company, the controls in place to manage those risks and the procedures in place to monitor them.

# Independent Auditor's Report

To the members of FBD Insurance plc

We have audited the financial statements of FBD Insurance plc for the year ended 31 December 2013 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement, the Statement of Reconciliation of Movement in Ordinary Shareholders Funds and the related notes and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland).

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

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements giving a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Reports and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view, in accordance with Generally Accepted Accounting Practice in Ireland of the state of the affairs of the company as at 31 December 2013 and of the profit for the year then ended; and
- have been properly prepared in accordance with the Companies Acts, 1963 to 2013, and the European Communities (Insurance Undertakings: Accounts) Regulations 1996.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY THE COMPANIES ACTS 1963 TO 2013

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion proper books of account have been kept by the company.
- The financial statements are in agreement with the books of account.
- In our opinion the information given in the directors' report is consistent with the financial statements.
- The net assets of the company, as stated in the balance sheet are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2013 a financial situation which under Section 40(1) of the Companies (Amendment) Act, 1983 would require the convening on an extraordinary general meeting of the company.

## MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the provisions in the Companies Acts 1963 to 2013 which require us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by law are not made.

### Mary Fulton

*For and on behalf of Deloitte & Touche  
Chartered Accountants and Statutory Audit Firm  
Dublin*

26 February 2014

# Statement Of Accounting Policies

For the year ended 31 December 2013

## BASIS OF PREPARATION

The financial statements are prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts 1963 to 2013 and the European Communities (Insurance Undertakings: Accounts) Regulations, 1996.

The principal accounting policies adopted by the Directors are:

### A) ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention as modified by the revaluation of land and buildings and certain financial investments.

### B) TECHNICAL RESULT

The technical result is determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

#### (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. Premiums written exclude taxes and duties levied on premiums.

#### (ii) Unearned Premiums

Unearned premiums are those portions of premium income written in the year that relate to insurance cover after the year end. Unearned premiums are computed on a daily pro-rata basis of premium written. At each balance sheet date, an assessment is made of whether the provision for unearned premiums is adequate.

#### (iii) Deferred Acquisition Costs

Deferred acquisition costs represent the proportion of net acquisition costs which are attributable to the unearned premiums. Acquisition costs comprise the direct and indirect costs of obtaining and processing new insurance business. These costs are recognised as a deferred acquisition cost asset and amortised on the same basis as the related premiums are earned, and are tested for impairment at each period end.

#### (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. Post balance sheet events are considered when determining whether a provision for unexpired risks is required.

#### (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 Company 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 Company 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.

Recoveries and salvage are recognised on a receipts basis.

Provision is also made in respect of the Company's share of the estimated liability for outstanding claims of the Motor Insurers' Bureau of Ireland ('MIBI'), based on an estimate of the Company's current market share and the current outstanding claims of the MIBI.

#### (vi) Transfer of Investment Return to Technical Account – General Business

A transfer of longer term investment return is made from the non-technical account to the technical account – general business to reflect the return made on those assets directly attributable to the insurance business.

#### (vii) Reinsurance

Premiums payable in respect of reinsurance ceded are recognised in the period in which the reinsurance contract is entered into and include estimates where the amounts are not determined at the reporting date. Premiums are expensed over the period of the reinsurance contract, calculated principally on a daily pro rata basis.

A reinsurance asset (reinsurers' share of claims outstanding and provision for unearned premium) is recognised to reflect the amount estimated to be recoverable under the reinsurance contracts in respect of the outstanding claims reported under insurance liabilities. The amount recoverable from reinsurers is initially valued on the same basis as the underlying claims provision. The amount recoverable is reduced when there is an event arising after the initial recognition that provides objective evidence that the Company may not receive all amounts due under the contract and the event has a reliably measurable impact on the expected amount that will be recoverable from the reinsurer.

The reinsurers' share of each unexpired risk provision is recognised on the same basis.

*(viii) Funds withheld from Reinsurers*

Some of the Company's reinsurance contracts are on a funds withheld basis. Under the agreements, the Company retains an agreed percentage of the premiums that would have been otherwise paid to the reinsurer. These amounts are disclosed separately from other reinsurance creditor balances on the Balance Sheet.

### C) INVESTMENT RETURN

Operating profits are reported on the basis of a longer term investment return. The short term fluctuation between the longer term investment return and the actual investment return, which includes realised and unrealised gains and losses, is incorporated as an adjustment figure in arriving at profit before taxation. As a result, the operating profit is not subject to distortion from short term fluctuations in investment returns.

### D) INVESTMENTS

*(i) Shares and Debt Securities*

Quoted shares and debt securities are stated at market value. Unquoted shares are stated at the lower of cost and net realisable value.

*(ii) Investment Properties*

Investment property held to earn rentals and/or for capital appreciation is stated at market value at the balance sheet date. Gains and losses arising from changes in the market value are included in the profit and loss account in the period in which they arise. The gain or loss arising on disposal of an investment property is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

### E) TANGIBLE FIXED ASSETS

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided in respect of all tangible fixed assets, which have been brought into use as at the balance sheet date and is calculated in order to write off the cost or valuation of the assets over their expected useful lives on a straight line basis as follows:

Fixtures and fittings:	5 to 10 years
Motor vehicles:	5 years
Computer equipment:	5 years

### F) TAXATION

The yearly charge for taxation is based on the profit for the year and is calculated with reference to the tax rates applying at the balance sheet date. Deferred taxation is calculated on the differences between the company's taxable profits and the results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. Full provision for deferred tax assets and liabilities is provided at current tax rates on differences that arise between the recognition of gains and losses in the financial statements and their recognition in the tax computation.

Deferred tax assets are only recognised when it is deemed more than likely that the Company will be able to recover them.

### G) PENSIONS

*Defined Benefit Scheme*

The expected cost of providing pensions to employees is charged to the profit and loss account, at a substantially level percentage of payroll, over the employees' expected service lives. Any difference between the amount so charged and the amount contributed to pension funds is included as a provision in the financial statements. The Company is part of a multi-employer scheme and is unable to identify the assets and liabilities of the scheme specific to the Company. Accordingly, the Company has availed of disclosure exemptions permitted under FRS 17 'Retirement Benefits'.

*Defined Contribution Scheme*

Costs arising in respect of the Company's defined contribution pension scheme are charged to the profit and loss account in the period in which they are incurred. Under this scheme, the company has no obligation to pay further contributions in the event that the fund does not hold sufficient assets to meet its benefits commitments.

## H) CURRENCY

All amounts are stated in Euro. Balances in foreign currencies have been translated into Euro at contract rates where the amounts are covered by forward contracts. No forward contracts were used during 2013. All other balances are translated at the rate ruling at the year end. Non-monetary items are translated at the exchange rate at the date of transaction.

## I) SHARE BASED PAYMENTS

The Company's parent, FBD Holdings plc, operates a share option scheme based on non-market vesting conditions. Options under the scheme have been issued to certain employees of the Company. The fair value of options is determined at the date of grant and expensed in the profit and loss account and credited to a capital contribution reserve over the period during which the employees become unconditionally entitled to the options. Payments made by the Company to FBD Holdings in respect of the exercise of the options are debited to the capital contribution reserve.

## J) LEASES

All of the Company's leases are classified as operating leases.

### *(i) The Company as Lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

### *(ii) The Company as Lessee*

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

## K) RESTRUCTURING COSTS

The costs of the fundamental restructuring of the Company's operations, such as redundancy costs, lease termination costs or other rationalisation costs are charged to profit or loss when the decision to restructure is irrevocable and has been communicated to the parties involved.

## L) LAND & BUILDINGS

Land and buildings held for own uses are stated at market value. It is the Company's policy and practice to maintain all Company 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 insignificant and therefore not provided. Land and buildings are subject to a full revaluation by appropriately qualified personnel on a periodic basis.

## M) DEBTORS FROM INSURANCE OPERATIONS

Amounts due from policyholders and intermediaries are accounted for on an accruals basis.

## N) OTHER INCOME

Other income comprises the service charge earned on policyholder receivables, where outstanding premiums are settled by a series of instalment payments. The service charge is earned over the period of instalments.

# Profit and Loss Account/Technical Account – General Business *For the year ended 31 December 2013*

		2013		2012	
	Notes	€000s	€000s	€000s	€000s
<b>Earned premiums, net of reinsurance</b>					
Gross premiums written		351,195		344,255	
Outward reinsurance premiums		(49,109)		(47,646)	
Net premiums written	1(a)		302,086		296,609
Change in the provision for unearned premiums					
Gross amount		(5,137)		4,119	
Reinsurers' share		(562)		(103)	
Change in net provision for unearned premiums			(5,699)		4,016
<b>Earned premiums, net of reinsurance</b>	1(b)		296,387		300,625
<b>Allocated investment return transferred from the non-technical account</b>	1(c)		24,193		24,092
<b>Claims incurred, net of reinsurance</b>					
Claims paid:					
Gross amount		(229,740)		(231,006)	
Reinsurers' share		23,541		32,127	
Net claims paid		(206,199)		(198,879)	
Change in the provision for claims					
Gross amount		15,520		19,223	
Reinsurers' share		(10,544)		(12,217)	
Change in the net provision for claims		4,976		7,006	
<b>Claims incurred, net of reinsurance</b>	1(d)		(201,223)		(191,873)
<b>Net operating expenses</b>	1(e)		(78,027)		(77,489)
<b>Balance on the technical account</b>					
– general business	1(f)		41,330		55,355

The accompanying notes form an integral part of the financial statements.

# Profit and Loss Account/Non-Technical Account

For the year ended 31 December 2013

	<i>Notes</i>	<b>2013</b> €000s	2012 €000s
<b>Balance on the technical account – general business</b>		<b>41,330</b>	55,355
<b>Longer term investment return</b>	<i>2(b)</i>	<b>28,677</b>	27,752
Allocated investment return transferred to the technical account – general business		<b>(24,193)</b>	(24,092)
Other income		<b>5,488</b>	4,841
Restructuring costs		<b>(2,050)</b>	(2,096)
Impairment of owner occupied property		<b>(1,121)</b>	(996)
<b>Operating profit</b>		<b>48,131</b>	60,764
Short term fluctuations in investment return	<i>2(b)</i>	<b>(756)</b>	(602)
Profit on ordinary activities before tax	<i>3</i>	<b>47,375</b>	60,162
Tax charge on profit on ordinary activities	<i>5</i>	<b>(6,185)</b>	(7,393)
<b>Profit on ordinary activities after tax</b>		<b>41,190</b>	52,769

All recognised gains and losses have been included in the above Profit and Loss Account and arise from continuing activities.

The financial statements were approved by the board on 26 February 2014 and signed on its behalf by:

**Vincent Sheridan**  
Chairman

**Andrew Langford**  
Chief Executive

The accompanying notes form an integral part of the financial statements.

# Balance Sheet – Assets

At 31 December 2013

	Notes	2013 €000s	2012 €000s
<b>Investments</b>			
Land and buildings	7(a)	26,476	26,716
Financial investments	7(b)	830,279	823,106
		<b>856,755</b>	849,822
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	13(e)	19,720	20,283
Claims outstanding	13(e)	24,550	35,094
		<b>44,270</b>	55,377
<b>Debtors</b>			
Debtors arising out of direct insurance operations	8(a)	50,719	44,949
Other debtors	8(b)	4,305	6,110
		<b>55,024</b>	51,059
<b>Other assets</b>			
Tangible assets	9	29,900	18,934
<b>Current tax</b>			
		<b>3,840</b>	4,640
<b>Deferred tax asset</b>			
	15	-	62
<b>Prepayments and accrued income</b>			
Accrued interest and rent		3,051	4,658
Deferred acquisition costs		26,429	24,652
Other prepayments and accrued income		13,987	12,737
		<b>43,467</b>	42,047
<b>Total assets</b>		<b>1,033,256</b>	1,021,941

The accompanying notes form an integral part of the financial statements.

# Balance Sheet – Equity and Liabilities (continued)

At 31 December 2013

	<i>Notes</i>	<b>2013 €000s</b>	<b>2012 €000s</b>
<b>Capital and reserves</b>			
Ordinary share capital	<i>10</i>	<b>26,353</b>	26,353
Reserves	<i>11</i>	<b>216,589</b>	204,511
Preference share capital	<i>12</i>	<b>635</b>	635
<b>Total shareholders' funds</b>		<b>243,577</b>	231,499
<b>Technical provisions</b>			
Provision for unearned premiums	<i>13(d)</i>	<b>175,381</b>	170,244
Claims outstanding	<i>13(c)</i>	<b>565,612</b>	581,132
		<b>740,993</b>	751,376
Deferred tax liability	<i>15</i>	<b>905</b>	-
<b>Creditors</b>			
Funds withheld from reinsurers		<b>14,267</b>	9,466
Other creditors including tax and social security	<i>16</i>	<b>18,866</b>	19,352
Bank overdraft		<b>14,648</b>	10,248
		<b>47,781</b>	39,066
<b>Total equity and liabilities</b>		<b>1,033,256</b>	1,021,941

The financial statements were approved by the board on 26 February 2014 and signed on its behalf by:

<b>Vincent Sheridan</b>	<b>Andrew Langford</b>
Chairman	Chief Executive

The accompanying notes form an integral part of the financial statements.

# Cash Flow Statement

For the year ended 31 December 2013

	Notes	2013 €000s	2012 €000s
<b>Net cash inflow from operating activities</b>	17(a)	<b>46,943</b>	55,059
Corporation tax paid		(4,418)	(5,086)
Capital expenditure	9	(18,545)	(10,118)
Disposal of fixed assets		28	48
Dividends paid	6	(30,089)	(24,089)
		<b>(6,081)</b>	15,814
<b>Cash flows were invested as follows</b>			
<b>Net portfolio investment</b>			
Subsidiary undertakings		-	(16,239)
Quoted shares		18,637	25,452
Quoted debt securities		23,946	(147,517)
Unquoted shares		(66)	-
Deposits with banks		(44,135)	187,637
Bank overdraft		(4,400)	(10,248)
Loans and advances		(63)	(26,421)
Land and property		-	3,146
<b>Net source of cash flows</b>	17(c)	<b>(6,081)</b>	15,814

# Statement of Reconciliation of Movement in Ordinary Shareholders' Funds

For the year ended 31 December 2013

		2013 €000s	2012 €000s
Profit after tax		41,190	52,769
Less: Preference dividend	6	(89)	(89)
Profit attributable to ordinary shareholders		41,101	52,680
Dividends	6	(30,000)	(24,000)
Capital contribution – share based payments		977	835
Ordinary shareholders' funds at beginning of year		230,864	201,349
Ordinary shareholders' funds at end of year		<b>242,942</b>	230,864

# Notes to the Financial Statements

For the year ended 31 December 2013

## 1. Segmental Information

	2013			2012		
	Gross €000s	Ceded €000s	Net €000s	Gross €000s	Ceded €000s	Net €000s
<b>(a) Written premiums</b>						
Motor	157,422	(6,455)	150,967	146,835	(4,706)	142,129
Liability	65,661	(2,335)	63,326	63,974	(2,014)	61,960
Fire and other damage to property	122,303	(40,212)	82,091	127,892	(40,423)	87,469
Miscellaneous	5,809	(107)	5,702	5,554	(503)	5,051
	<b>351,195</b>	<b>(49,109)</b>	<b>302,086</b>	<b>344,255</b>	<b>(47,646)</b>	<b>296,609</b>

All gross premiums are written in the Republic of Ireland.

	2013			2012		
	Gross €000s	Ceded €000s	Net €000s	Gross €000s	Ceded €000s	Net €000s
<b>(b) Earned premiums</b>						
Motor	151,166	(6,455)	144,711	147,705	(4,706)	142,999
Liability	64,245	(2,335)	61,910	63,449	(2,014)	61,435
Fire and other damage to property	124,835	(40,804)	84,031	131,393	(40,466)	90,927
Miscellaneous	5,812	(77)	5,735	5,827	(563)	5,264
	<b>346,058</b>	<b>(49,671)</b>	<b>296,387</b>	<b>348,374</b>	<b>(47,749)</b>	<b>300,625</b>

	2013			2012		
	Gross Inv. Income €000s	Inv. Expenses €000s	Net Inv. Income €000s	Gross Inv. Income €000s	Inv. Expenses €000s	Net Inv. Income €000s
<b>(c) Allocated investment return</b>						
Motor	12,330	(255)	12,075	12,203	(331)	11,872
Liability	9,090	(187)	8,903	9,085	(246)	8,839
Fire and other damage to property	3,055	(63)	2,992	3,244	(88)	3,156
Miscellaneous	228	(5)	223	232	(7)	225
	<b>24,703</b>	<b>(510)</b>	<b>24,193</b>	<b>24,764</b>	<b>(672)</b>	<b>24,092</b>

# Notes to the Financial Statements (continued)

## 1. Segmental Information (continued)

	2013			2012		
	Gross €000s	Ceded €000s	Net €000s	Gross €000s	Ceded €000s	Net €000s
<b>(d) Incurred claims</b>						
Motor	118,768	(3,770)	114,998	113,478	(9,646)	103,832
Liability	38,815	539	39,354	46,095	(1,578)	44,517
Fire and other damage to property	52,649	(8,843)	43,806	47,880	(8,011)	39,869
Miscellaneous	3,988	(923)	3,065	4,330	(675)	3,655
	<b>214,220</b>	<b>(12,997)</b>	<b>201,223</b>	<b>211,783</b>	<b>(19,910)</b>	<b>191,873</b>

	2013			2012		
	Gross €000s	Ceded €000s	Net €000s	Gross €000s	Ceded €000s	Net €000s
<b>(e) Operating expenses</b>						
Motor	40,052	-	40,052	36,759	-	36,759
Liability	16,706	-	16,706	16,015	-	16,015
Fire and other damage to property	31,117	(11,190)	19,927	32,017	(8,662)	23,355
Miscellaneous	1,478	(136)	1,342	1,390	(30)	1,360
	<b>89,353</b>	<b>(11,326)</b>	<b>78,027</b>	<b>86,181</b>	<b>(8,692)</b>	<b>77,489</b>

Net operating expenses are comprised as follows:

	2013 Net €000s	2012 Net €000s
Administration costs	22,504	29,221
Acquisition costs	52,930	47,629
Commission	4,370	3,092
Change in deferred acquisition costs	(1,777)	(2,453)
	<b>78,027</b>	<b>77,489</b>

	2013 €000s	2012 €000s
<b>(f) Technical result</b>		
Motor	1,736	14,280
Liability	14,753	9,741
Fire and other damage to property	23,290	30,860
Miscellaneous	1,551	474
	<b>41,330</b>	<b>55,355</b>

## 2. Investment Income

### (a) Longer term investment return

The principal assumptions 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 return.

	2013 %	2012 %
Government bonds	3.00	3.00
Other quoted debt securities	4.00	4.00
Quoted shares	6.75	6.75
Deposits with banks	2.75	2.75
UCITs	6.75	-
Investment properties held for rental	6.25	6.25

### (b) Comparison of longer term investment return with actual return

	2013 €000s	2012 €000s
<b>Actual return</b>		
Revaluation/ (impairment) of investment property	881	(1,318)
Other unrealised movements in investments	7,173	5,204
Profit on realisation of investments	2,005	1,167
	10,059	5,053
Income from interest, dividends and rental properties	18,420	22,871
Investment expenses	(558)	(774)
<b>Actual investment return</b>	27,921	27,150
<b>Less longer term investment return</b>	(28,677)	(27,752)
<b>Short term fluctuations</b>	(756)	(602)

## Notes to the Financial Statements (continued)

### 3. Profit on Ordinary Activities Before Tax

	2013 €000s	2012 €000s
Profit on ordinary activities before tax		
has been stated after charging:		
Directors' remuneration:		
For services as Directors	1,020	1,381
Other Emoluments	151	151
<b>Auditor's Remuneration:</b>		
Audit services	125	125
Other assurance services	-	-
Tax advisory	50	115
Other non-audit services	-	-
	175	240
Depreciation	7,547	6,878

### 4. Staff Costs and Numbers

The average number of persons employed in the Company in the financial year was 732 (2012: 721). All staff are employed in insurance and investment operations.

	2013 €000s	2012 €000s
The aggregate payroll of these persons was as follows:		
Wages and salaries	38,455	39,147
Social welfare costs	4,223	4,191
Pension costs	6,041	6,002
Share based payments	977	835
	49,696	50,175

## 5. Tax on Profit on Ordinary Activities

	2013 €000s	2012 €000s
Irish corporation tax charge	(5,218)	(2,836)
Current tax charge	(5,218)	(2,836)
Deferred tax charge	(967)	(4,557)
	<b>(6,185)</b>	<b>(7,393)</b>
The tax assessed for the year is lower than the standard rate of corporation tax in Ireland.		
The differences are explained below:		
Profit on ordinary activities before tax	47,375	60,214
Corporation tax at standard rate of 12.5% (2012: 12.5%)	(5,922)	(7,527)
Depreciation for year in excess of capital allowances	(103)	(49)
Non-taxable income/unrealised gains or expenses not deductible for tax purposes	938	4,863
Pension paid	(124)	(116)
Income taxable at a higher rate	(7)	(7)
Tax charge for current year	(5,218)	(2,836)
Deferred tax charge	(967)	(4,557)
	<b>(6,185)</b>	<b>(7,393)</b>

## 6. Dividends

Paid:	2013 €000s	2012 €000s
Interim dividend of <b>144.58c</b> per ordinary share (2012: 115.66c) of €1.27 each	<b>30,000</b>	24,000
Dividend of <b>17.8c</b> per share (2012: 17.8c) on 14% non-cumulative preference shares of €1.27 each	<b>89</b>	89
	<b>30,089</b>	24,089

# Notes to the Financial Statements (continued)

## 7. Investments

### (a) Land and buildings

	Inv. Properties held for rental €000s	Land & buildings held for own use €000s	Total €000s
Balance at 1 January 2012	8,818	17,140	25,958
Impairment	(1,318)	(890)	(2,208)
Acquisition	3,186	-	3,186
Disposal	-	(220)	(220)
Balance at 31 December 2012	10,686	16,030	26,716
Revaluation/(impairment)	881	(1,121)	(240)
Balance at 31 December 2013	11,567	14,909	26,476

Land and buildings held for own use and investment properties held for rental were valued by external valuers on an open market basis at 31 December 2013 by C.B. Richard Ellis, Valuation Surveyors. The historical cost of land and buildings is €44,811,000.

### (b) Financial Investments

	2013 €000s	2012 €000s
Quoted debt securities at market value	274,657	257,247
Unquoted debt securities at market value	3,809	3,809
Quoted shares at market value	71,787	60,282
UCITs	23,523	-
Unquoted investments	1,313	2,379
Deposits with banks	454,441	498,576
Other loans	749	813
	<b>830,279</b>	823,106
Quoted debt securities at cost	280,240	259,514
Quoted shares at cost	61,736	61,196

In the opinion of the directors the stated value of the unquoted investments is not less than their realisable value.

## 8. Debtors

### (a) Debtors arising out of direct insurance operations

	2013 €000s	2012 €000s
Policyholders	45,244	40,356
Intermediaries	5,475	4,593
	<b>50,719</b>	<b>44,949</b>

### (b) Other debtors

	2013 €000s	2012 €000s
Trading balance with parent company	-	1,035
Other debtors	4,305	5,075
	<b>4,305</b>	<b>6,110</b>

## 9. Tangible Assets

	Computer Equipment €000s	Fixtures & Fittings €000s	Other €000s	Total €000s
<b>Cost:</b>				
Cost as at 1 January 2012	55,297	17,347	544	73,188
Additions	9,743	336	39	10,118
Disposals	-	-	(137)	(137)
Cost as at 31 December 2012	65,040	17,683	446	83,169
Additions	18,051	494	-	18,545
Disposals	-	-	(117)	(117)
<b>Cost as at 31 December 2013</b>	<b>83,091</b>	<b>18,177</b>	<b>329</b>	<b>101,597</b>
<b>Depreciation:</b>				
Depreciation as at 1 January 2012	44,218	12,860	369	57,447
Charge for year	5,736	1,072	70	6,878
Disposals	-	-	(90)	(90)
Depreciation as at 31 December 2012	49,954	13,932	349	64,235
Charge for year	6,413	1,092	42	7,547
Disposals	-	-	(85)	(85)
<b>Depreciation as at 31 December 2013</b>	<b>56,367</b>	<b>15,024</b>	<b>306</b>	<b>71,697</b>
Net book value at beginning of year	15,086	3,751	97	18,934
<b>Net book value at end of year</b>	<b>26,724</b>	<b>3,153</b>	<b>23</b>	<b>29,900</b>

Assets amounting to €13,765,000 included within the carrying value of computer equipment above have not been depreciated as they are in the course of construction.

# Notes to the Financial Statements (continued)

## 10. Ordinary Share Capital

	2013 Number	2012 Number	2013 €000s	2012 €000s
<b>Authorised:</b>				
Ordinary shares of €1.27 each	20,750,000	20,750,000	26,353	26,353
“A” ordinary shares of €1.27 each	1,000,000	1,000,000	1,270	1,270
“B” ordinary shares of €1.27 each	5,000,000	5,000,000	635	635
			28,258	28,258
<b>Issued and fully paid:</b>				
At beginning and end of year				
Ordinary shares of €1.27 each		20,750,000	26,353	26,353

## 11. Reserves

	2013 €000s	2012 €000s
<b>Revenue reserves</b>		
At beginning of year	201,285	172,605
Transfer from profit and loss account	41,190	52,769
Dividends	(30,089)	(24,089)
At end of year	212,386	201,285
<b>Capital contribution</b>		
At beginning of year	3,226	2,391
Received during year	977	835
At end of year	4,203	3,226
	216,589	204,511

The capital contributions received from FBD Holdings plc, the Company's parent, are in the form of share options granted to the Company by its parent.

## 12. Preference Share Capital

	Number	2013 €000s	2012 €000s
<b>Authorised:</b>			
14% non-cumulative preference shares of €1.27 each	500,000	635	635
10% non-cumulative preference shares of €1.27 each	500,000	635	635
		1,270	1,270
<b>Issued and fully paid:</b>			
At beginning and end of year:			
14% non-cumulative preference shares of €1.27 each	500,000	635	635

### 13. Technical Provisions

#### (a) Gross Claims outstanding

	Prior years €000s	2004 €000s	2005 €000s	2006 €000s	2007 €000s	2008 €000s	2009 €000s	2010 €000s	2011 €000s	2012 €000s	2013 €000s	Total €000s
<b>Estimate of cumulative claims:</b>												
At end of underwriting year		308,182	323,734	391,532	339,311	382,742	376,788	351,673	261,597	252,558	263,945	
One year later		268,081	276,710	305,494	314,909	372,808	341,492	333,792	231,835	233,037	-	
Two years later		250,299	242,367	298,615	308,015	372,985	340,400	331,479	239,627	-	-	
Three years later		218,336	228,175	295,254	302,621	371,617	340,620	325,032	-	-	-	
Four years later		210,244	223,433	289,862	299,594	367,095	328,232	-	-	-	-	
Five years later		202,408	217,325	286,115	294,460	359,085	-	-	-	-	-	
Six years later		202,771	216,196	283,287	289,154	-	-	-	-	-	-	
Seven years later		201,352	215,988	279,330	-	-	-	-	-	-	-	
Eight years later		207,284	214,588	-	-	-	-	-	-	-	-	
Nine years later		204,867	-	-	-	-	-	-	-	-	-	
Estimate of cumulative claims		204,867	214,588	279,330	289,154	359,085	328,232	325,032	239,627	233,037	263,945	
Cumulative payments		(201,350)	(206,865)	(270,320)	(272,390)	(331,769)	(288,145)	(253,383)	(151,802)	(125,540)	(77,596)	
Claims outstanding at 31 December 2013	7,875	3,517	7,723	9,010	16,764	27,316	40,087	71,649	87,825	107,497	186,349	<b>565,612</b>
Claims outstanding at 31 December 2012	11,225	13,235	10,459	17,887	31,934	49,378	74,774	101,746	101,448	169,047	-	<b>581,132</b>
Movement during the year	(3,350)	(9,718)	(2,736)	(8,877)	(15,170)	(22,062)	(34,687)	(30,097)	(13,623)	(61,550)	186,349	<b>(15,520)</b>

# Notes to the Financial Statements (continued)

## 13. Technical Provisions (continued) (b) Net Claims outstanding

	Prior years €000s	2004 €000s	2005 €000s	2006 €000s	2007 €000s	2008 €000s	2009 €000s	2010 €000s	2011 €000s	2012 €000s	2013 €000s	Total €000s
<b>Estimate of cumulative claims:</b>												
At end of underwriting year		252,386	289,982	296,995	305,826	335,047	301,648	274,844	233,362	235,041	247,872	
One year later		223,179	286,471	256,154	278,608	315,022	275,864	259,867	208,430	218,763	-	
Two years later		209,657	221,391	251,968	275,336	313,620	278,612	260,351	215,507	-	-	
Three years later		179,728	210,223	249,476	270,174	313,296	276,679	254,533	-	-	-	
Four years later		171,729	205,559	244,075	267,528	308,310	266,038	-	-	-	-	
Five years later		167,339	203,399	240,946	261,371	300,648	-	-	-	-	-	
Six years later		166,740	198,694	237,985	256,643	-	-	-	-	-	-	
Seven years later		163,273	198,005	234,325	-	-	-	-	-	-	-	
Eight years later		164,225	196,771	-	-	-	-	-	-	-	-	
Nine years later		162,029	-	-	-	-	-	-	-	-	-	
Estimate of cumulative claims		162,029	196,771	234,325	256,643	300,648	266,038	254,533	215,507	218,763	247,872	
Cumulative payments		(158,993)	(189,211)	(225,423)	(240,875)	(273,747)	(228,056)	(184,113)	(131,359)	(112,411)	(73,449)	
Claims outstanding at 31 December 2013	5,569	3,036	7,560	8,902	15,768	26,901	37,982	70,420	84,148	106,352	174,423	<b>541,061</b>
Claims outstanding at 31 December 2012	8,874	8,210	10,228	17,602	30,744	48,782	66,863	98,023	96,787	159,925	-	<b>546,038</b>
Movement during the year	(3,305)	(5,174)	(2,668)	(8,700)	(14,976)	(21,881)	(28,881)	(27,603)	(12,639)	(53,573)	174,423	<b>(4,977)</b>

### 13. Technical Provisions (continued)

#### Claims Outstanding

Full provision, net of reinsurance recoveries, is made at the reporting 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 reporting date in settling those claims. The Company 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 Company 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 reporting 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 profit & loss account.

Provision is also made in respect of the Company's share of the estimated liability for outstanding claims of the Motor Insurers' Bureau of Ireland ("MIBI"). This provision is based on the Company's estimated current market share and the current outstanding claims of the MIBI.

#### (c) Reconciliation of claims outstanding

	Gross €000s	Net €000s
Balance at 1 January 2012	600,355	553,044
Change in provision for claims	(19,223)	(7,006)
Balance at 31 December 2012	581,132	546,038
Change in provision for claims	(15,520)	(4,976)
<b>Balance at 31 December 2013</b>	<b>565,612</b>	<b>541,062</b>

#### (d) Reconciliation of provision for unearned premium

The following changes have occurred in the provision for unearned premiums during the year:

	2013 €000s	2012 €000s
Balance at 1 January	170,244	174,363
Net premium written	302,086	296,609
Less: net premium earned	(296,387)	(300,625)
Changes in provision for unearned premium – reinsurers share	(562)	(103)
<b>Provision for unearned premium at 31 December</b>	<b>175,381</b>	<b>170,244</b>

# Notes to the Financial Statements (continued)

## 13. Technical Provisions (continued)

### (e) Reconciliation of reinsurers' share of technical provisions

	Claims Outstanding €000s	UPR €000s
Balance at 1 January 2012	47,311	20,386
Change	(12,217)	(103)
Balance at 31 December 2012	35,094	20,283
Change	(10,544)	(563)
<b>Balance at 31 December 2013</b>	<b>24,550</b>	<b>19,720</b>

## 14. Risk Management

The Company recognises the critical importance of efficient and effective risk management. Board committees and executive management committees have been established to provide the appropriate governance and risk management structure for the Company. The Board committees include the audit committee and the risk committee. The executive management committees include the pricing committee, the reserving committee, the investment committee and the solvency II steering committee, all of which assist the Board in the identification and management of exposures and capital.

### Risk Appetite

The objective of the risk management process is to provide a systematic, effective and efficient way for managing risk in the organisation and to ensure it is consistent with the overall business strategy and the risk appetite of the Company.

Risk capacity is the amount and type of risk that the Company could bear over a defined period of time without breaching capital requirements. Ultimately, the Company's risk capacity is defined by its surplus assets. The Company has the capacity to take a series of risks that combined (and net of diversification impact) would reduce or eliminate its surplus assets. It does not have the capacity to undertake a series of risks that combined (and net of diversification impact) could exceed its surplus assets.

Risk appetite is a measure of the amount and type of risks the Company is willing to accept or not accept over a defined period of time in pursuit of its objectives. The Company's risk appetite seeks to encourage measured and appropriate risk taking to ensure that risks are aligned to business strategy and objectives.

The risk appetite of the Company is driven by an overarching desire to protect the solvency of the Company at all times. Through the proactive management of risk the Company ensures that it does not currently have or will not take on an individual risk or combination of risks that could threaten the solvency of the Company. This ensures that the Company has and will have in the future sufficient capital to pay its policyholders and all other creditors in full as these liabilities fall due.

Risk is categorised as follows:

- General Insurance Risk
- Operational Risk
- Capital Risk
- Investment Risk
- Liquidity Risk
- Market Risk
- Credit Risk
- Concentration Risk

## 14. Risk Management (continued)

### General Insurance Risk

#### *Underwriting Risk & Competition*

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

The Company's underwriting strategy is incorporated in the overall corporate strategy that 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 Company'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 Company's reinsurance treaties.

The Company competes against major international groups with similar offerings. At times, a minority of these groups may choose to underwrite for cash flow or market share purposes at prices that sometimes fall short of the break-even technical price. The Company is firm in its resolve to reject business that is unlikely to generate underwriting profits. To manage this risk, pricing levels are monitored on a continuous basis.

#### *Reserving*

The Company establishes provisions for unpaid claims, legal costs and related expenses to cover its ultimate liability in respect of both reported claims and incurred but not reported (IBNR) claims. These provisions take into account both the Company's and the industry's experience of similar business, historical trends in reserving patterns, loss payments and pending levels of unpaid claims and awards, as well as any potential changes in historic rates arising from market or economic conditions. The provision estimates are subject to rigorous review and challenge by senior management and the final provision is approved by the reserving committee and the board. The provision includes a risk margin to minimise the risk that actual claims exceed the amount provided.

The Company 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 Company Profit & Loss account.

#### *Reinsurance counterparties*

The Company purchases reinsurance protection to limit its exposure to single claims and the aggregation of claims from catastrophic events. The Company places reinsurance with companies that it believes are strong financially and operationally. Credit exposures to these companies are closely managed by senior management. All of the Company's current reinsurers have either a credit rating of A- or better or have appropriate security in place with the Company. The Company has assessed these credit ratings as being satisfactory in diminishing the Company's exposure to the credit risk of its reinsurance receivables.

### Operational Risk

Operational risk arises as a result of inadequately controlled internal processes or systems, human error, or from external events. This definition is intended to include all risks to which the Company is exposed and strategic and Company risks that are not considered elsewhere. Hence, operational risks include for example, information technology, information security, human resources, project management, outsourcing, tax, legal, fraud and compliance risks.

In accordance with Company's policies, business unit management has primary responsibility for the effective identification, management, monitoring and reporting of risks. There is an annual review by executive management of all major risks. The Risk committee reviews executive management's risk assessment to ensure that all risks are identified and evaluated. Each operational risk is assessed by considering the potential impact and the probability of the event occurring. Impact assessments are made against financial, operational and reputational criteria.

The Company has taken significant steps to minimise the impact of business interruption that could result from a major external event. A formal disaster recovery plan is in place for both workspace recovery and retrieval of communications, IT systems and data. In the event of a major event, these procedures will enable the Company to move the affected operations to alternative facilities within very short periods of time. The disaster recovery plan is tested regularly and includes disaster simulation tests. In the event of a loss of staff, for example as a result of a pandemic, a plan is in place to re-assign key responsibilities and transfer resources to ensure key business functions can continue to operate.

# Notes to the Financial Statements (continued)

## 14. Risk Management (continued)

### Capital Risk

The Company's primary objectives when managing its capital position are:

- 1) to safeguard its ability to continue as a going concern, so that it can continue to provide long-term growth;
- 2) to provide an adequate return to the Company's shareholders by pricing its insurance products and services commensurately with the level of risk;
- 3) the attainment of an efficient cost of capital; and
- 4) to comply with all regulatory requirements by a significant margin.

In order to obtain or maintain an optimal capital structure the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, assume debt, or sell assets to reduce debt.

The Company's activities are funded by a mixture of capital sources including issued equity share capital and retained earnings. The Board ensures that the use and allocation of capital are given a primary focus in all significant operational actions. During the year the Company was in compliance with capital requirements imposed by regulators.

The Company has a range of policies designed to mitigate and manage risks that could have an impact on the Company's capital base, including the Company's investment strategy, reinsurance policy and counterparty credit policy. The Company uses a number of sensitivity based risk analysis tools as part of its decision making and planning process to understand and manage the volatility of earnings and capital requirements more effectively. The Company measures key performance indicators, including compliance with minimum statutory solvency requirements, under a number of economic and operating scenarios so as to identify and quantify risks to which the business and its capital base are exposed.

There were no changes in the Company's approach to capital risk management during the current or prior year under review.

### Capital modelling and regulation

The capital requirement of the Company is determined by its exposure to risk and the solvency criteria established by management and statutory regulations. The table below sets out the statutory minimum capital requirement and FBD Insurance plc's available capital.

	2013 €000	2012 €000
Statutory minimum capital requirement	59,806	60,410
Actual capital available to cover the solvency requirement	231,560	221,159
Excess Solvency Cover	387%	366%
Net Earned Premium	296,387	300,625
Solvency margin	78.1%	73.6%

The Company has also calculated its Solvency II capital requirement, based upon the most up to date EIOPA guidance.

### Investment Risk

The investment policy is designed to maximise returns within the overall risk appetite of the Company. Technical funds, the investments held for the payment of future claims, are primarily invested in government bonds, corporate bonds and cash. The high quality and short duration of these funds allows the Company to meet its solvency requirements and fund claims as they fall due. These funds are maintained in the currency of the insurance policy to reduce foreign exchange risk.

A proportion of the Company's assets are allocated to riskier assets, principally equities. Here, it is the Company's philosophy to take a long-term view in search of acceptable risk adjusted returns. The proportion of the Company's funds invested in risk assets will depend on the outlook for investment and underwriting markets.

## 14. Risk Management (continued)

### Liquidity Risk

Liquidity risk is the risk of being unable to meet liabilities to customers or other creditors as they fall due, or the risk of incurring excessive costs in selling assets or having to raise finance in a very short period. The majority of the Company's cash inflows and outflows are routine and can be forecast well in advance. The primary source of inflows is insurance premiums and investment income whilst outflows are to policyholders for claims and expenses. Free cash is invested according to the Company's investment policy and cash requirements can normally be met through regular income streams (i.e. premiums or investment income), existing cash balances or realising investments that have reached maturity. The Company's liquidity risk arises from large, unplanned cash requirements and the principal source of liquidity risk is a major catastrophe resulting in a large cash requirement in advance of recovery from a reinsurance partner. To mitigate this risk, sufficient levels of investments are held in liquid assets. On this basis the Company believes the likelihood of being unable to fund its liabilities, or of incurring excessive costs in doing so, to be extremely remote.

The following table provides an analysis of assets into their relevant maturity based on the remaining period at the balance sheet date to their contractual maturities.

<b>Assets</b> <b>31 December 2013</b>	<b>Total</b> <b>€000s</b>	<b>Within</b> <b>1 year</b> <b>€000s</b>	<b>Within</b> <b>2-5 years</b> <b>€000s</b>	<b>After</b> <b>5 years</b> <b>€000s</b>
Quoted debt securities at market value	274,656	70,951	191,606	12,099
Unquoted debt securities at market value	3,809	3,809	-	-
Quoted Shares at market value	71,787	71,787	-	-
Unquoted shares	1,313	1,313	-	-
Deposits with banks	454,441	408,441	46,000	-
Other loans	749	-	749	-
Reinsurers share of technical provisions	44,271	28,367	13,519	2,385
Debtors arising out of direct insurance operations	50,719	50,719	-	-
Other debtors	3,746	3,746	-	-
UCITs	23,523	23,523	-	-
	929,014	662,656	251,874	14,484

### Analysis of expected maturity of liabilities

The following table shows the liabilities at 31 December analysed by duration. Total liabilities are split up by duration in proportion to the cash flows estimated to arise during that period.

<b>Liabilities</b> <b>31 December 2013</b>	<b>Total</b> <b>€000s</b>	<b>Within</b> <b>1 year</b> <b>€000s</b>	<b>Within</b> <b>2-5 years</b> <b>€000s</b>	<b>After</b> <b>5 years</b> <b>€000s</b>
Technical Provisions	740,993	271,553	369,204	100,236
Other Liabilities	46,835	46,835	-	-
	787,828	318,388	369,204	100,236

# Notes to the Financial Statements (continued)

## 14. Risk Management (continued)

<b>Assets</b> <b>31 December 2012</b>	<b>Total</b> <b>€000s</b>	<b>Within</b> <b>1 year</b> <b>€000s</b>	<b>Within</b> <b>2-5 years</b> <b>€000s</b>	<b>After</b> <b>5 years</b> <b>€000s</b>
Quoted debt securities at market value	257,247	169,812	82,188	5,247
Unquoted debt securities at market value	3,809	-	3,809	-
Quoted Shares at market value	60,282	60,282	-	-
Unquoted shares	2,379	2,379	-	-
Deposits with Banks	498,576	498,576	-	-
Other Loans	813	-	813	-
Reinsurers share of technical provisions	55,377	26,711	25,607	3,059
Debtors arising out of direct insurance operations	44,949	44,949	-	-
Other debtors	6,110	6,110	-	-
	929,542	808,819	112,417	8,306

<b>Liabilities</b> <b>31 December 2012</b>	<b>Total</b> <b>€000s</b>	<b>Within</b> <b>1 year</b> <b>€000s</b>	<b>Within</b> <b>2-5 years</b> <b>€000s</b>	<b>After</b> <b>5 years</b> <b>€000s</b>
Technical Provisions	751,375	235,519	424,157	91,699
Other Liabilities	39,067	39,067	-	-
	790,442	274,586	424,157	91,699

### Market risk

The Company has invested in quoted and unquoted debt securities, investment property and quoted and unquoted 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 managed by the formulation of, and adherence to, an investment policy incorporating clearly defined investment guidelines, as approved annually by the Board of Directors and employment of appropriately qualified and experienced personnel to manage the Company's investment portfolio. All unrealised movements in market value are as a result of market risk.

### Interest rate risk

Interest rate risk arises primarily from the Company's investments in quoted debt securities held for trading. The Investment Committee regularly reviews the appropriate level of exposure to interest rate risk from trading. Factors taken into consideration are yield volatility and historical returns.

### Equity price risk

The Company is subject to equity price risk due to daily changes in the market values of its holdings of quoted shares. Equity price risk is actively managed by the Company's Investment Committee using the framework set out in the Company's investment policy which is approved annually by the Board of Directors. The investment policy places limits on the type of shares held, liquidity of shares, size of share-holding and exposure to any one sector. In addition local asset admissibility solvency regulations require the Company to hold a diversified portfolio of assets thereby reducing exposure to individual sectors.

## 14. Risk Management (continued)

### Foreign currency risk

The Company holds investment assets in foreign currencies and is therefore exposed to exchange rate fluctuations. The Company is primarily exposed to Sterling. Derivative instruments are used for the purposes of protecting the Euro value of assets denominated in non-Euro currencies in circumstances where the cost of the hedge is deemed commercial having regard to the potential foreign currency risk. None were used in 2013.

The Company did not hold any derivative instruments at 31 December 2013 or 31 December 2012. The carrying amount of the Company's foreign currency denominated monetary assets and liabilities at the reporting date are as follows:

<b>Assets</b>	<b>2013 €000s</b>	<b>2012 €000s</b>
GBP – equities	<b>10,466</b>	11,195
US\$ – equities	<b>8,406</b>	7,197
Swiss Franc – equities	<b>2,890</b>	610
<b>Total assets</b>	<b>21,762</b>	19,002
<b>Liabilities</b>	-	-

### Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

Financial assets are graded according to credit ratings issued by credit rating agencies. Investment grade financial assets are classified within the range of AAA to BBB ratings. Financial assets that fall outside this range are classified as speculative grade. All of the Company's bank deposits are with either A rated or higher financial institutions or banks covered by a government guarantee.

The Company's quoted debt securities at market value have the following characteristics:

	<b>Market Value €'000</b>	<b>Rating</b>	<b>Duration (Years)</b>
German government bonds	30,600	AAA	0.59
Irish government bonds	103,527	BBB+	2.15
Approved securities	20,477	BBB+	1.08
Listed corporate bonds (average)	120,052	A	2.12

Given the ratings and durations of its quoted debt securities portfolio, the Company deems the credit risk to be acceptable.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk.

### Concentration risk

Concentration risk is the risk of loss due to overdependence on a singular entity or category of business. The only concentration risks to which the Company is exposed are as follows:

- The Irish government bonds carry a credit rating of BBB+ and have a duration of 2.15 years. Approved securities carry a rating of BBB+ and are covered by an Irish Government guarantee. The duration of approved securities held is 1.08 years. Given the short duration of these bonds and the improvement in the economic outlook for Ireland and the wider European and global economies, the Company deems any concentration risk to be acceptable.

# Notes to the Financial Statements (continued)

## 14. Risk Management (continued)

- The listed corporate bonds carry an average credit rating of A, with no more than 0.08% of the listed corporate bond fund being invested in bonds with a rating of BBB (the lowest rating allowed within the fund). The average duration of the fund is 2.12 years. Given the ratings, spread of investments and duration of the listed corporate bonds, the Company deems any concentration risk to be acceptable.
- All deposits are held in banks that have a credit rating of A- or better or are covered by a government guarantee. The total investment with any one institution made by way of deposit, corporate bonds or equity investments, cannot exceed €55m. Given the rating and the spread of deposits across a range of banks operating in different jurisdictions, the Company deems any concentration risk to be acceptable.
- All of the underwriting business is conducted in Ireland over a wide geographical spread with no concentration in any country or region.

The Company has set counterparty limits and the exposure to a single counterparty by way of deposits, corporate bonds or equities cannot exceed that limit.

Concentration risk resulting from adverse weather events, i.e., floods, storms or freezes in Ireland, is mitigated by an appropriate reinsurance strategy and other risk selection techniques.

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

## 15. Deferred Tax

	Revaluation of investments €'000	Other timing differences €'000	Total €'000
Balance as at 1 January 2012	4,940	(321)	4,619
Charged to the profit & loss account in 2012	(4,856)	299	(4,557)
Balance as at 31 December 2012	<b>84</b>	<b>(22)</b>	<b>62</b>
Charged to the profit & loss account in 2013	(1,138)	171	(967)
<b>Balance as at 31 December 2013</b>	<b>(1,054)</b>	<b>149</b>	<b>(905)</b>

## 16. Other Creditors Including Tax And Social Security

	2013 €000s	2012 €000s
Amounts falling due within one year:		
Creditors and accruals	16,583	17,567
PAYE/PRSI	1,895	1,785
Trading balance with parent company	388	-
	<b>18,866</b>	<b>19,352</b>

## 17. Cashflow Analysis

### (a) Reconciliation of profit on ordinary activities before tax to net cash inflow from operating activities

	2013 €000s	2012 €000s
Profit on ordinary activities before tax	47,375	60,162
Unrealised (gains)/losses	(8,614)	(4,576)
Technical provisions	723	(11,023)
Other debtors and creditors	(1,069)	2,711
Depreciation	7,549	6,878
Loss on sale of land and property	-	74
Profit on disposal of fixed assets	2	(2)
Share based payments	977	835
	<b>46,943</b>	<b>55,059</b>

### (b) Movement in opening and closing portfolio investments net of finance

	2013 €000s	2012 €000s
Movement arising from cash flows	6,081	15,814
Increase/(decrease) in market value	8,615	4,503
Total movement in portfolio investments net of financing	14,696	20,317
Portfolio investments net of financing at 1 January	819,257	819,257
Portfolio investments net of financing at 31 December	<b>833,953</b>	<b>839,574</b>

### (c) Analysis of cash flows for headings netted in the cash flow statement

	2013 €000s	2012 €000s
Portfolio investments		
Investment in subsidiary undertakings	-	16,239
Purchase of quoted shares	(63,048)	(49,079)
Sale of quoted shares	44,411	23,627
Sale of quoted debt securities held at amortised cost	78,900	374,000
Purchase of quoted debt securities at market value	(103,493)	(327,190)
Sale of quoted debt securities at market value	647	100,703
(Increase)/decrease in deposits with banks	44,135	(178,877)
Increase/(decrease) in bank overdraft	4,400	1,488
Increase/(decrease) in loans and advances	63	26,421
Purchases of unquoted shares	(319)	-
Sales of unquoted shares	385	-
Increase in land and property	-	(3,146)
	<b>6,081</b>	<b>(15,814)</b>

# Notes to the Financial Statements (continued)

## 17. Cashflow Analysis (continued)

### (d) Movement in Cash, Portfolio Investments and Financing

	1 January 2013 €000s	Less cashflow €000s	Changes to market values €000s	31 December 2013 €000s
Quoted shares	60,282	(4,363)	15,868	71,787
Quoted debt securities at market value	257,247	23,947	(6,536)	274,658
Unquoted debt securities at market value	3,809	-	-	3,809
Unquoted shares	2,379	(66)	(1,000)	1,313
Deposits with banks	498,576	(44,135)	-	454,441
Bank overdraft	(10,248)	(4,400)	-	(14,648)
Other loans	813	(64)	-	749
UCITs	-	23,000	523	23,523
Land and buildings	26,716	-	(240)	26,476
	839,574	(6,081)	8,615	842,108

## 18. Pensions

Certain employees of the Company are members of a defined benefit pension scheme and a defined contribution pension scheme operated by the Company's parent, FBD Holdings plc. In addition the Company operates a defined contribution scheme. The assets of both schemes are held in separate trustee administered funds.

The total defined benefit pension cost for the company was **€4,490,711** (2012: €4,718,000). In 2004, the company made a special pension contribution of €15,274,800. This is charged to the profit & loss account over the average expected service lives of the employees in the scheme, being 15 years. The pension charge above includes a charge of **€1,018,000** (2012: €1,018,000) relating to the special pension contribution. The pension cost is assessed in accordance with the advice of a qualified actuary using the attained age method of funding. The latest actuarial assessments of the schemes were carried out as at 30 June 2013. The principal assumption used in the actuarial valuations was that the difference between the investment return and pensionable remuneration increases would average 2%.

Contributions made by the Company to the defined contribution pension scheme amounted to **€1,120,000** (2012: €845,000).

Contributions made by the Company to the 'Increased Pension Scheme' amounted to **€430,192** (2012: €439,000).

Certain employees are members of a defined benefit pension scheme operated by the Company's parent, FBD Holdings plc. The assets and liabilities of the scheme attributable to the members from this Company are not separately identifiable and therefore the scheme meets the definition of a multi-employer scheme under FRS 17 – Retirement Benefits. The Company has availed of disclosure exemptions applicable to multi-employer schemes under FRS 17. Based on the latest actuarial valuation advised by the scheme's trustees the pension scheme is in deficit. However, it does meet the minimum funding standard of the Pension Board. The total net deficit on the FBD Holdings plc defined benefit pension scheme amounted to **€28,500,000** (2012: €30,766,000) at the reporting date.

## 19. Share Based Payments

### FBD Holdings plc Executive Share Option Scheme

The Company's parent, FBD Holdings plc operates an equity settled executive share option scheme, the FBD Holdings plc Executive Share Option Scheme ("ESOS"), under which options to purchase Ordinary Shares of €0.60 each ("ordinary shares") in FBD Holdings plc are granted to certain executive directors and senior management. Under the terms of the ESOS, the options are exercisable at the market price prevailing at the date of the grant of the option (the "option price"). Under the terms of an amendment to the ESOS approved by FBD Holdings plc's shareholders in April 2006, the option price may be reduced by the amount of any special dividends paid to shareholders. Options were granted under the ESOS in September 1989, September 1995, May 2000, October 2003 and August 2009. The exercise of options granted since 18 April 2000 is conditional on growth in earnings per share of at least 2% per annum, compound, over the increase in the consumer price index over not less than three years from the date of grant. The fair value of the most recent grant of options under the ESOS in August 2009 was €1.62.

The following options were outstanding under the ESOS at 31 December 2013:

#### October 2003 Grant:

There were no options outstanding from the ESOS grant in October 2003 at 31 December 2013 (2012: 113,825). All of the remaining options were exercised during the year at an option price of €2.50.

The fair value of the options granted under the ESOS in October 2003 was €12.03 calculated using the assumptions listed on page 46.

#### August 2009 Grant:

184,500 (2012: 613,000) options granted on 26 August 2009 were outstanding under the ESOS at 31 December 2013. The vesting period is three years from date of grant and can be exercised at anytime between 26 August 2012 and 5 September 2014, and have an option price of €7.45.

The fair value of the options granted under the ESOS in August 2009 was €1.62 calculated using the assumptions listed on page 46.

### FBD Group Performance Share Plan

The FBD Group Performance Share Plan (the "LTIP") was approved by shareholders of FBD Holdings plc (Group), the Company's parent, in May 2007. Conditional awards of ordinary shares under the LTIP are dependent on the Group meeting onerous performance targets in terms of EPS growth, total shareholder returns and maintenance of the combined operating ratio ahead of peer companies in the European general insurance sector. The extent to which these conditions have been met and any award (or part of an award) has therefore vested will be determined in due course by the Remuneration committee of the Board of FBD Holdings plc.

A conditional award was made in November 2011 over 252,077 ordinary shares to employees of the Company. The fair value of this award has been independently calculated at €6.18 per share using the assumptions detailed below in a Monte Carlo simulation model.

A conditional award was made in March 2013 over 140,940 ordinary shares to employees of the company. The fair value of this award has been independently calculated at €11.54 per share using the assumptions detailed below in the Monte Carlo simulation model.

# Notes to the Financial Statements (continued)

## 19. Share Based Payments (Continued)

### Fair value calculations

The fair values of the options and conditional share awards noted above have been calculated using the assumptions listed below.

	ESOS Grant October 2003	ESOS Grant August 2009	LTIP Award August 2008	LTIP Award November 2011
Share price at grant	€10.59	€7.45	€12.90	€6.55
Initial option/award price	€10.59	€7.45	€12.90	€6.55
Expected volatility	20%	35%	35%	30%
Expected life in years	3	3	2.58	2.37
Risk free interest rate	2.98%	2.5%	4.0%	1.2%
Dividend yield %	2%	4.5%	n/a	n/a
Fair Value	€12.03	€1.62	€6.04	6.18

### Accounting charge for share based payments

Grant Date	Vesting Period (years)	Number of Options Granted	Number outstanding at 31 December 2013	Grant Price €	Market Value at Grant Date €	Fair Value at Grant Date €	2013 €'000	2012 €'000
26.08.09 ESOS	3.00	695,500	613,000	7.45	7.40	1.62	-	245
18.11.11 LTIP	2.37	252,077	252,077	-	6.55	6.18	588	590
04.03.2013	3.00	140,940	140,940	-	12.70	11.54	389	-
<b>Total</b>							<b>977</b>	<b>835</b>

## 20. Subsidiaries

Subsidiaries	Nature of operations	% owned
Property One (U.K.) Limited	Property investment	100%
Property Two (U.K.) Limited	Property investment	100%
Property Three (U.K.) Limited	Property investment	100%
Property Four (U.K.) Limited	Property investment	100%

The registered office of all four companies is FBD House, Bluebell, Dublin 12.

## 21. Subsequent Events

There were no events subsequent to year end requiring disclosure.

## 22. Group Membership

The Company has availed of an exemption as set out in the European Communities (Companies: Group Accounts) Regulations, 1992, not to prepare consolidated financial statements. The smallest and largest group into which these financial statements are consolidated is that of FBD Holdings plc.

The Company has availed of an exemption as set out in FRS 8, not to disclose related party transactions as these are disclosed in full in the consolidated accounts of FBD Holdings plc.

The Company is a subsidiary of FBD Holdings plc, a company incorporated in Ireland. Copies of the group financial statements, in which these financial statements are consolidated, are available from the registered office of FBD Holdings plc at FBD House, Bluebell, Dublin 12.

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the thirty-seventh annual general meeting of the Company will be held in FBD House, Bluebell, Dublin 12, on 13 May 2014, at 4 pm. for the following purposes:

(a) To receive and consider the Directors' Report and financial statements for the year ended 31 December 2013.

(b) To re-elect Directors under Article 14(a);

The following persons are recommended by the board for re-election:

Mr. Michael Berkery

Mr. Vincent Sheridan

Mr. David Martin

Mr. Walter Bogaerts

(c) To authorise the Directors to fix the remuneration of the Auditors.

(d) To transact any other Ordinary Business of the Company.

## **BY ORDER OF THE BOARD**

**Conor Gouldson**

*Secretary*

Dated: 29 March 2014



