

# FBD Holdings plc

## 2010 Interim Results

August 2010

## Forward Looking Statements

**This presentation contains certain forward-looking statements. Actual results may differ materially from those projected or implied in such forward-looking statements. Such forward-looking information involves risks and uncertainties that could affect expected results.**

## H1 2010 Highlights

### Financial

- Solid operational performance
- Operating profit of €11.3m
- Unprecedented level of weather related claims mitigated by prudent reinsurance policy
- Operating EPS of 29.56 cent
- Loss net of valuation impairments
- Strong balance sheet
- Solvency strengthened to 55% of NEP
- Interim dividend increased 5% to 10.5 cent

### Operational

- GWP rose 1.4%, first rise since 2007
- 2<sup>nd</sup> largest P&C insurer in Ireland
- Industry premium rates continuing to harden
- Dublin penetration over 5%
- Successful claims initiatives
- Cost improvements
- Operating profit from both underwriting and non-underwriting

*Rate actions, claims initiatives and cost management masked by weather events*

## Performance in a market context

### Economy

- Three challenging years

	<u>2008</u>	<u>2009</u>	<u>2010</u>
GNP	(2.8%)	(10.7%)	(1.0%)
Domestic demand	(4.6%)	(13.0%)	(2.9%)
Investment	(15.5%)	(31.0%)	(17.4%)

- Unemployment 13.7%
- Insurable volumes and values reduce in line with economic activity
- Economy continuing to contract but at a slower pace

### Insurance Industry

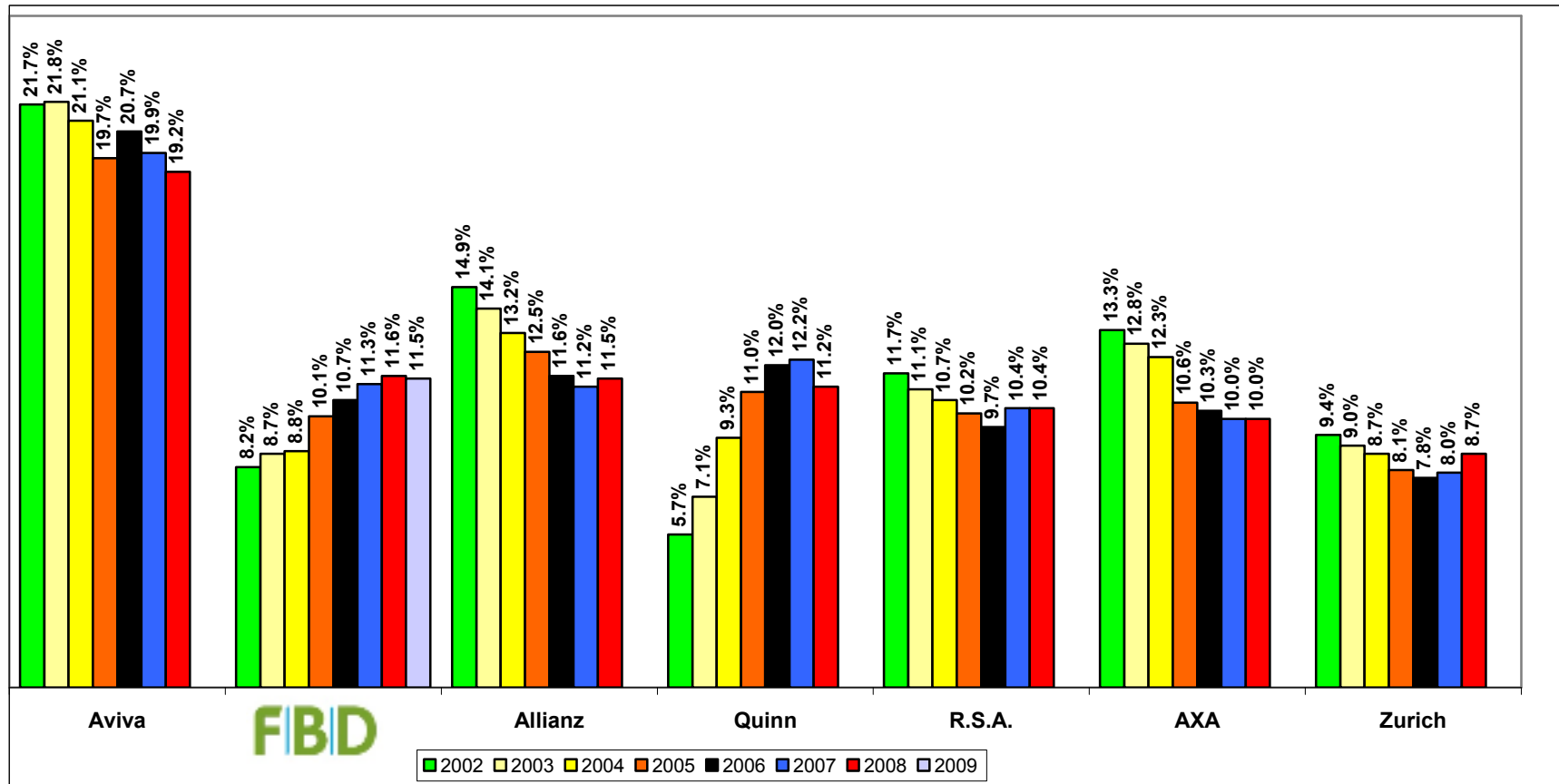
- Volumes and values continue to decline but at a reduced pace
- Industry hardening of rates continues, particularly in property
- 2010 industry premium will be stable or grow marginally
- Industry COR in 2009 unlikely to improve on 2008 levels:
  - 137% for home
  - 105% for cars
- Severe weather in November, December 2009 and January 2010 will cost the industry in the region of €540m
- Fall in long-term investment returns “new norm” for premium pricing is required

*Environment stabilising – end of market contraction likely*

# 2010 Interim Results - Underwriting



## Market Share – Gross Written Premium (IIF estimate)



Total Market 2009-€3,098m: 2008-€3,333m: 2007-€3,604m: 2006-€3,822m: 2005-€3,841m: 2004-€3,933m: 2003-€4,239m: 2002-€3,955m  
 FBD Prem 2009-€357m: 2008-€386m: 2007-€408m: 2006-€407m: 2005-€389m: 2004-€351m: 2003-€369m: 2002-€326m

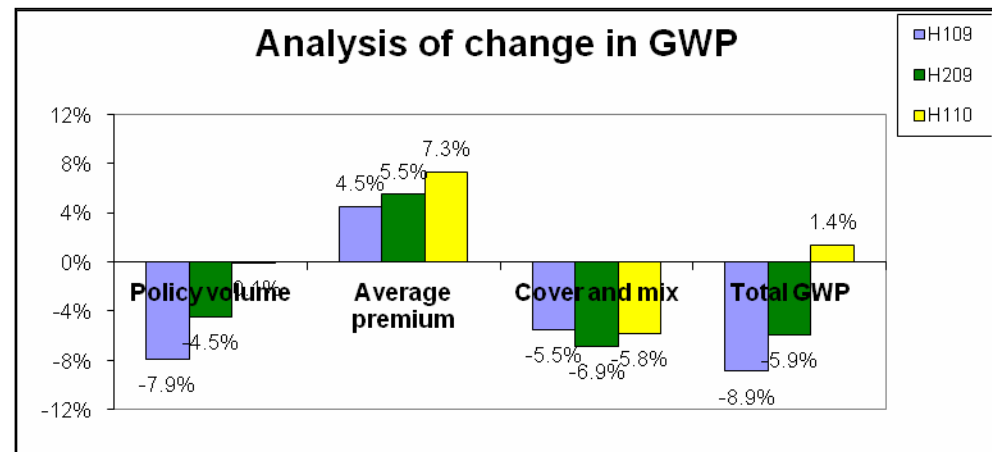
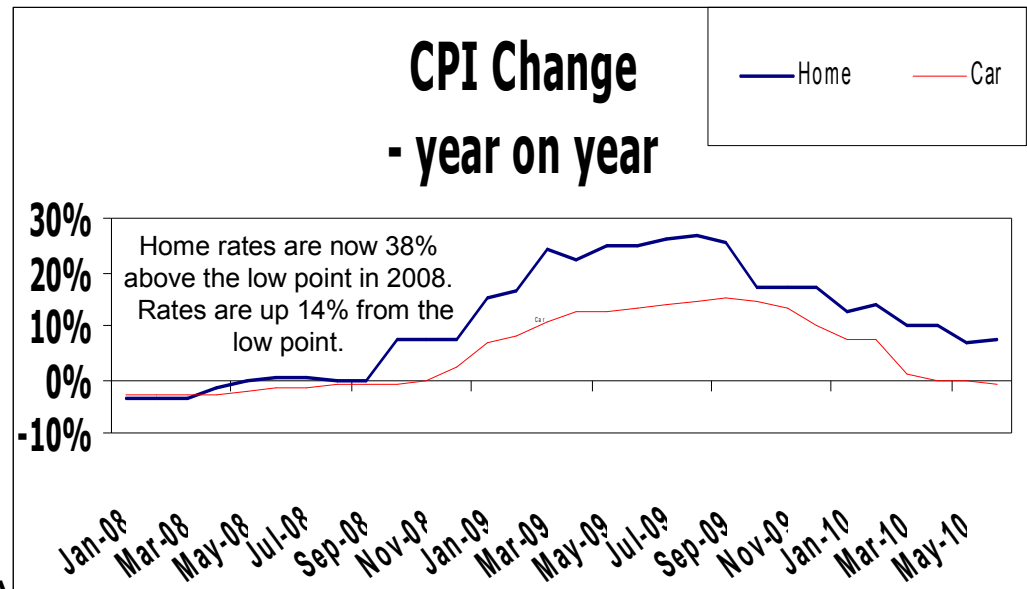
**Market position maintained**

# 2010 Interim Results – Underwriting

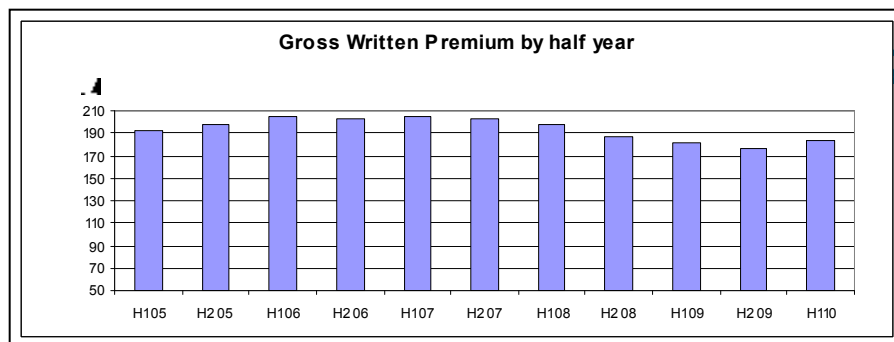


## Premium

- First rise in GWP since 2007
- Insurable risk declined in line with economic activity
- FBD rate actions started in 2008 and continued in 2009/2010
- Industry rates continue to harden, particularly in property
- Prepared to forego volume in less profitable segments in short-term
- Weather events have provided a further impetus to rate hardening
- Change in FBD mix – more property and less motor

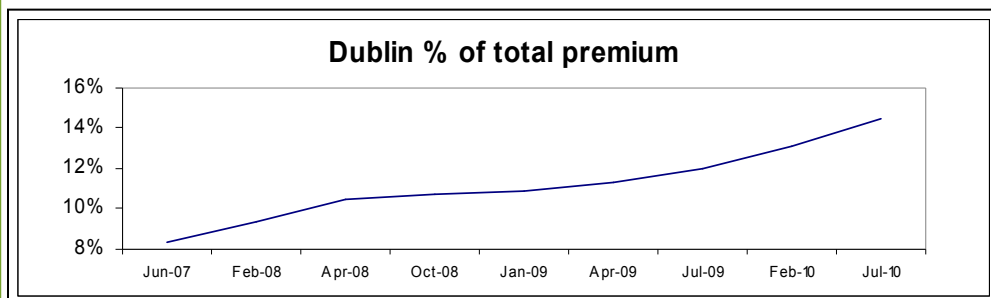


**Rates continue to harden**



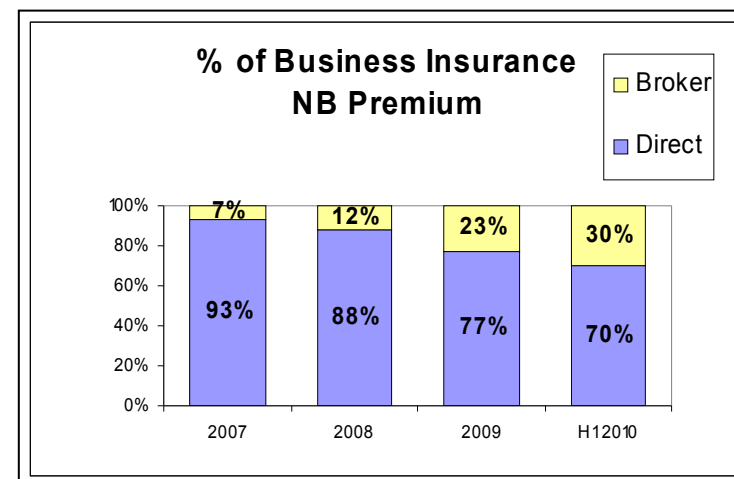
## 1. Dublin market penetration

- Progress in Dublin and other urban areas
- 14% of GWP now coming from Dublin
- Dublin market share over 5%, well up on previous periods



## 2. Business insurance and broker initiatives

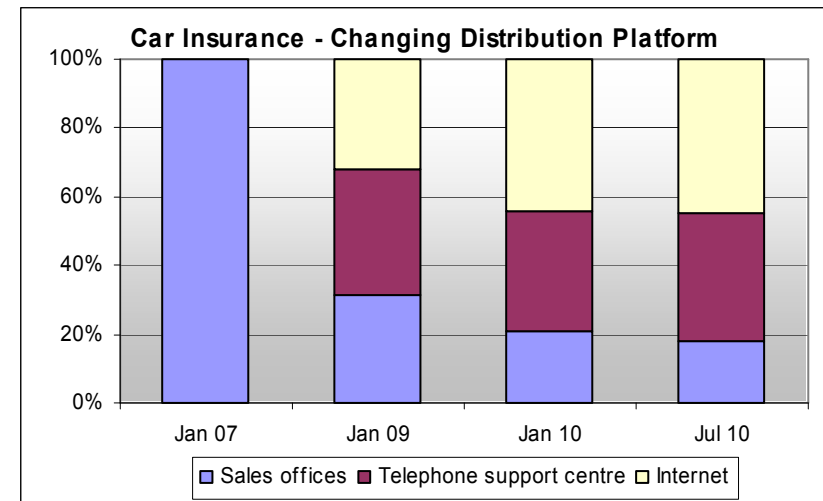
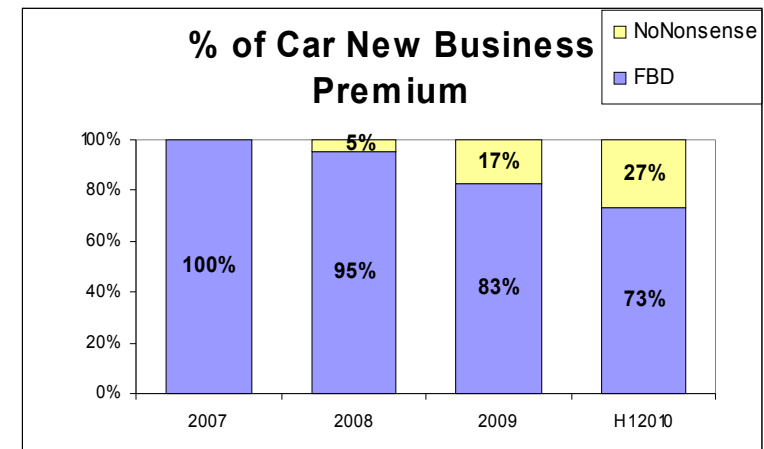
- Business insurance GWP increases with contributions from all channels
- Successful broker initiatives
- Broker offering enhanced
- Local office network focused on farming and business insurance



**Further progress – significant opportunities**

## 3. Personal lines development

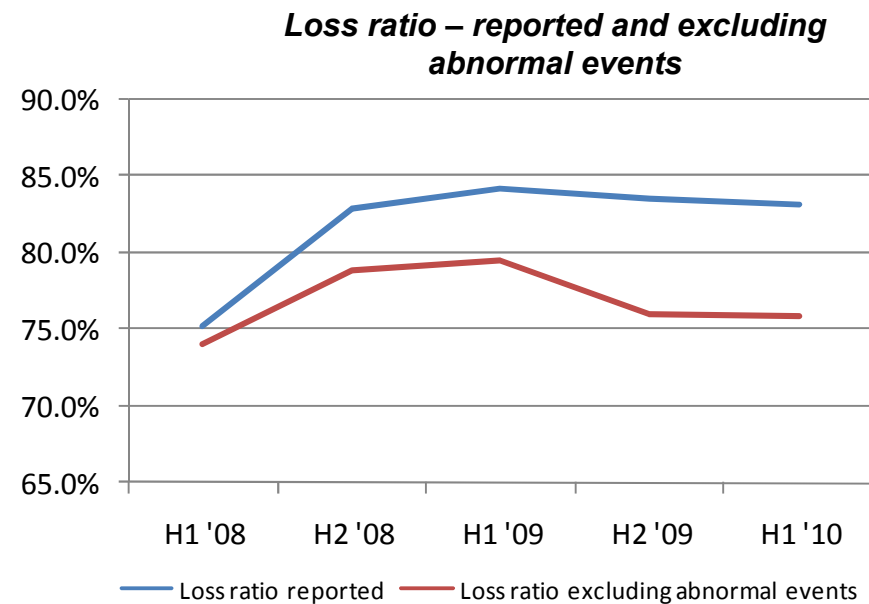
- FBD.ie
- NoNonsense.ie (now 10,000+ customers)
- Customer oriented front-end system in telephone centre
- Dublin represents 45% of all web based car insurance business
- Renewal facility online exceeding expectations
- Growth in home insurance
- Motor market rates still mean the opportunity for profitable growth is limited



*Adapting platform to meet changing customer needs*

## Claims Trends

- Reported loss ratio reduced from 84.3% to 83.2%
- Severe weather in January cost €12m, net of reinsurance
- Reduction in property and motor claims frequency – impact of underwriting and claims management initiatives
- Continued improvement in loss ratio excluding abnormal events \*
- Strong reserving – consistent level of prudence maintained



\* Abnormal events refer to deviations from average large and average weather claims experience

**Improving loss ratio, excluding abnormal events**

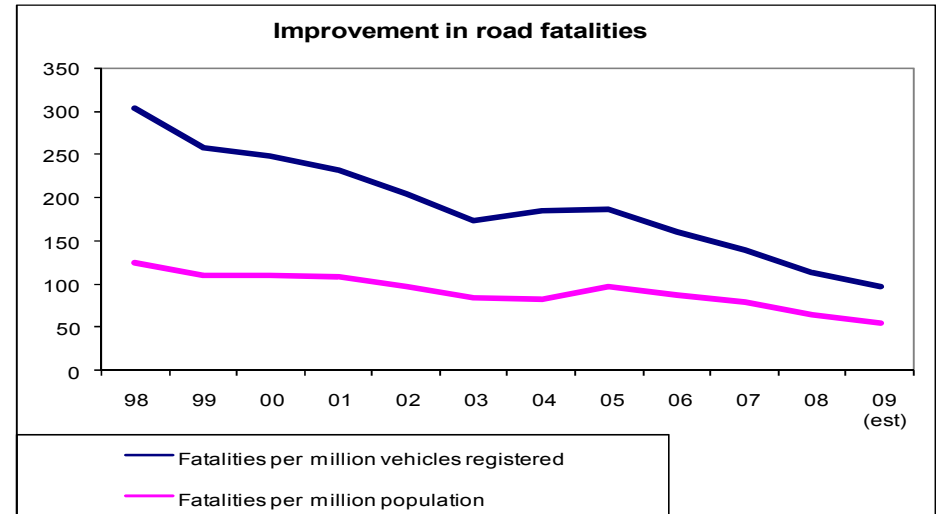
## Claims Trends

The improvement in the loss ratio arises because:

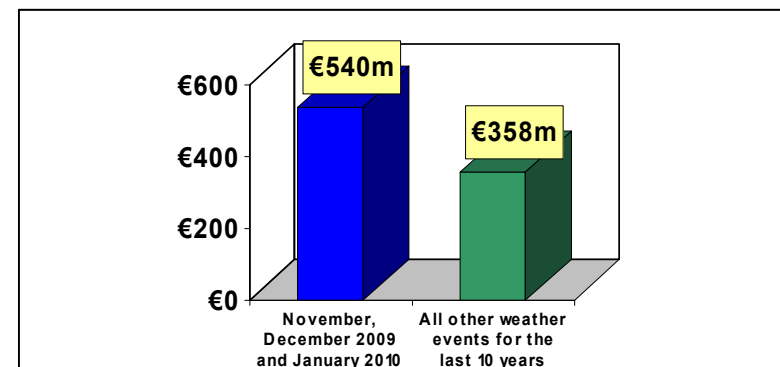
- Impact of rate increases
- Decrease in frequency due to underwriting and claims initiatives, road safety and economic factors

Continued initiatives to improve claims costs:

- Increased resources and training to counter fraud
- Focus on direct settlement initiative
- Continued innovation in technology, organisation and process to improve settlement costs



Industry wide cost of sever weather claims (gross)

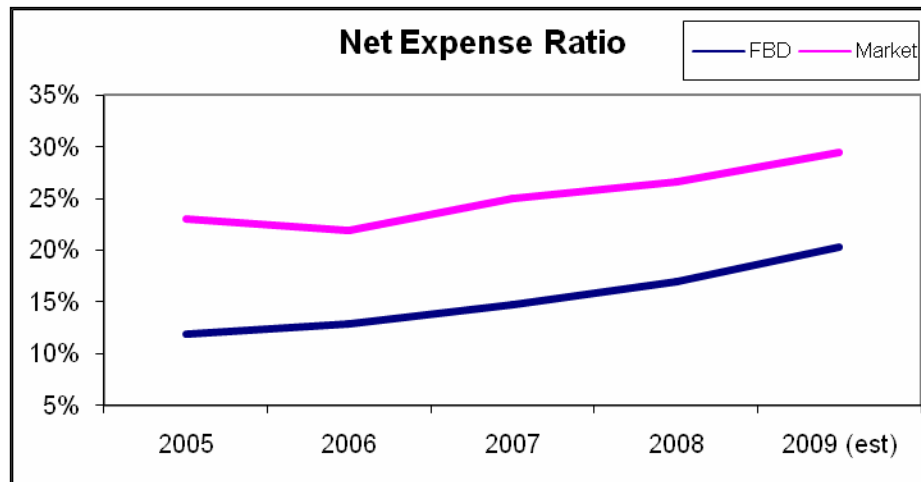


*Continued success in reducing claims costs – “Fair to FBD, fair to the customer”*

# 2010 Interim Results – Underwriting



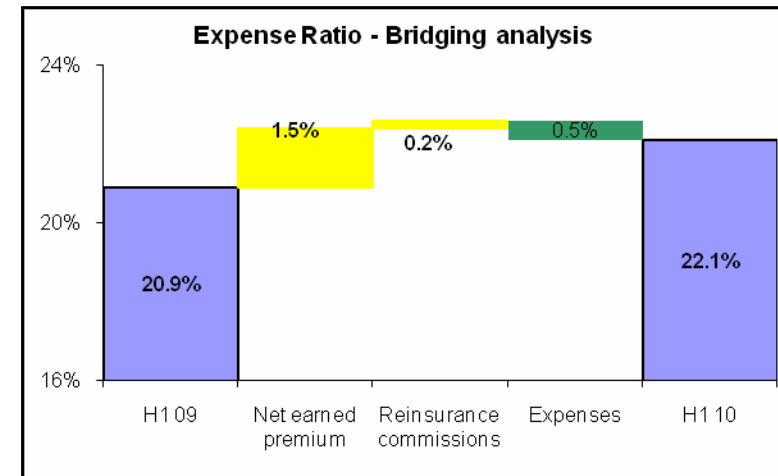
## Cost structure



Underwriting expenses	H1 10	H1 09
	€m	€m
Management expenses	38.6	39.8
Reinsurance commissions receivable	-7.0	-7.2
Broker commissions payable	1.4	1.0
	<b>33.0</b>	<b>33.6</b>

### Initiatives completed

- Most competitive cost structure in the industry
- Engaged with employees
  - pension benefits restructured
  - pension contributions introduced
  - pay freeze/salary reductions agreed
- Reinsurance costs up on 2009



***Adjusting expense base to meet customer needs and ensure competitive advantage is maintained***

## ■ **La Cala**

- Improvement in property sales despite challenging environment – 24 units sold
- Inventory reduced by €6.9m to €22.4m
- Focus on costs
- Golf and hotel in line with H1 2009 due to proactive marketing

## ■ **Sunset**

- Excellent performance
- Well ahead of the competition

## ■ **FBD Hotels**

- Oversupply in market
- Focus on costs

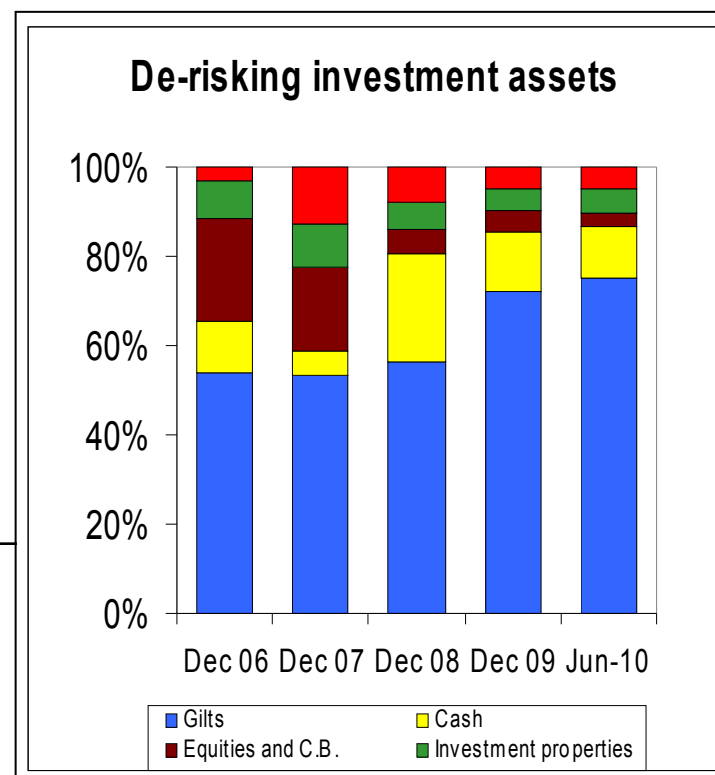
## ■ **Financial Services / Other**

- Solid contribution from FBD Brokers and FBD Financial Services in challenging environment
- FBD Financial Solutions – improvement in market since last year
- Focus on costs

<b>Non-underwriting expenses</b>	
	<b>€m</b>
H1 2010	23.5
H1 2008	27.8

## Underwriting Assets Allocation

	30 June 2010		31 Dec 2009	
	€m	%	€m	%
Government gilts	596	74%	581	70%
Deposits and cash	91	11%	110	13%
Investment properties	46	6%	43	6%
Secured loans	37	4%	37	4%
Equities & corporate bonds	22	3%	36	4%
Own land & buildings	19	2%	22	3%
<b>Total investment assets</b>	<b>811</b>	<b>100%</b>	<b>829</b>	<b>100%</b>
Trade & other debtors and DAC	112		101	
Reinsurers' share	102		93	
Fixtures and fittings	18		17	
<b>Total assets</b>	<b>1,043</b>		<b>1,040</b>	



*Underwriting asset allocation remains prudent*

# 2010 Interim Results – Group



## Group Assets

	30 June 2010	31 Dec 2009	Valuation Adjust
	€m	€m	€m
Government gilts	596	581	-
Hotel & golf resort assets	120	136	(15.8)
Trade, other debtors and DAC	120	107	-
Deposits and cash	106	120	-
Reinsurers' share	102	93	-
Inventory	52	59	-
Investment properties	46	43	2.5
Secured loans	37	37	(1.6)
Equities and corporate bonds	25	40	(0.7)
Own land & buildings	19	22	(2.4)
Fixtures and fittings	19	18	-
	<b>1,242</b>	<b>1,256</b>	<b>(18.0)</b>

Cumulative impairment as a % of Dec 2007 values:	
Sunset Beach Resort	0%
La Cala Hotel & Golf Resort	42%
Own land and buildings	43%
Investment properties	44%
FBD Hotels	45%
Secured loans	55%

Prudent valuations taking into consideration the performance, quality and locations of the underlying assets

Secured loans written down to the approximate value of the underlying security

*The potential for further downside greatly reduced*

# 2010 Interim Results – Balance sheet summary

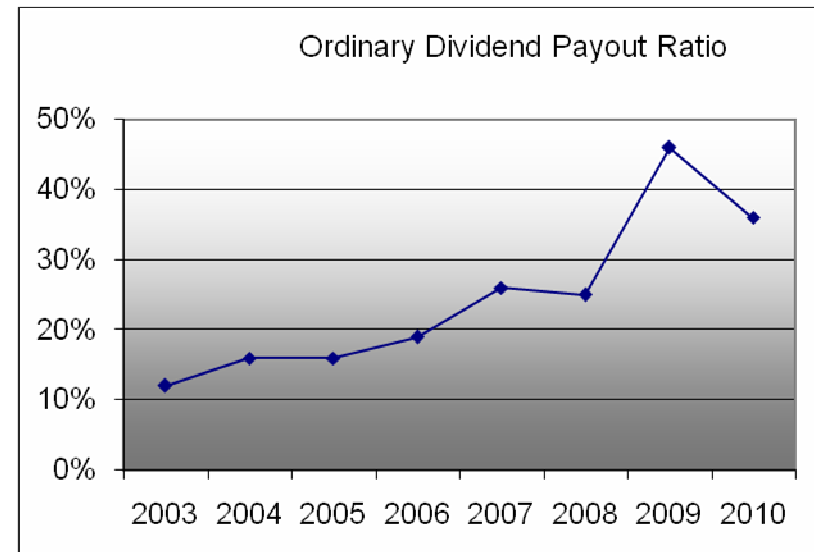


- **Solvency**
  - Insurance solvency up from 52% to 55%
- **Reserving ratio**
  - Reserving ratio up from 240% to 246%
- **Government gilts**
  - Gilts are held to maturity and accounted for on an amortised cost basis.
  - Excess of €30.9m not recognised
- **Development land in inventory**
  - Development land at La Cala included in inventory at cost.
  - External professional valuations report an excess of €24.9m
- **Net asset value**
  - Net asset value per share of €5.36

*Strong balance sheet, robust solvency, prudent investment and reserving policies*

## Dividend policy

- 10.5 cent final dividend
- Up 5% on 2009
- Payout ratio\* of 36%
- Logic:
  - Remain committed to maintaining a robust capital position and a strong balance sheet
  - Committed to a progressive dividend policy
  - Expectation that volatility will continue to reduce



\*Payout ratio is dividend as a percentage of operating profit after tax and finance costs

***Committed to a progressive dividend policy***

## Outlook - Underwriting

- While uncertainty remains, the rate of Irish economic contraction has slowed considerably
- Further hardening of market rates is still necessary on certain lines to provide industry with an adequate return on capital
- Recent weather events have provided a further impetus to rate hardening
- FBD's volume decline now only marginal – will focus on profitable growth opportunities
- Focus on claims and cost management will continue

*FBD well positioned to benefit from a hardening market*

## Outlook – Non Underwriting

### Property and leisure

- Markets will remain difficult
- Recovery, particularly in Ireland, is dependent on a reduction in market capacity
- Will focus on the development of new market initiatives and segments to maintain profitability and cash generation
- Unit sales in La Cala will continue
- Continue to focus on costs

### Financial Services / Other

- FBD Brokers will continue to pursue new business opportunities
- FBD Financial Solutions will focus on pension and protection products and take advantage of any improvement in the market for retail investment products
- Continue to focus on costs
- Consolidate customer relationships

*Confident that we can outperform competitors*

## Proposition

### **FBD has:**

- Robust underwriting business
- Appropriate plans, people and infrastructure
- A track record of profitable growth
- A quality portfolio of property and leisure businesses
- Strong capital base and balance sheet
- Prudent reserving policy
- A de-risked balance sheet

### **FBD is well positioned to:**

- Benefit from hardening market
- Capitalise on growth opportunities using existing capacity
- Enjoy positive operating leverage as prices rise
- Deliver long-term profitable growth
- Produce superior returns for shareholders

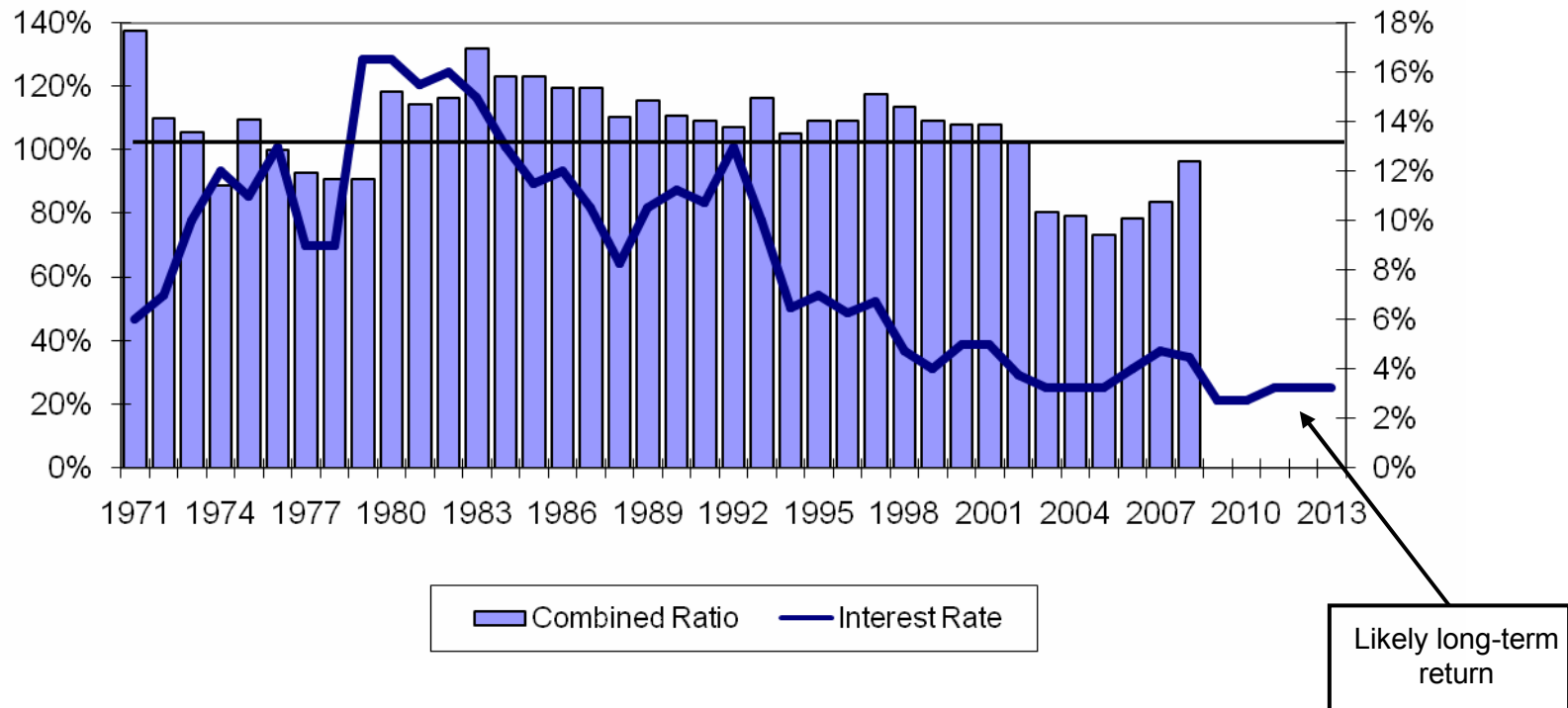
*Operating earnings in line with expectations – 95 to 100 cent per share*



# Appendices

## Premium Pricing – the new norm

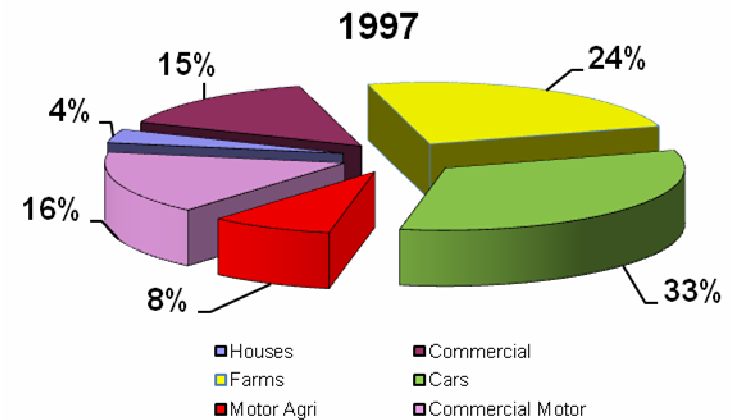
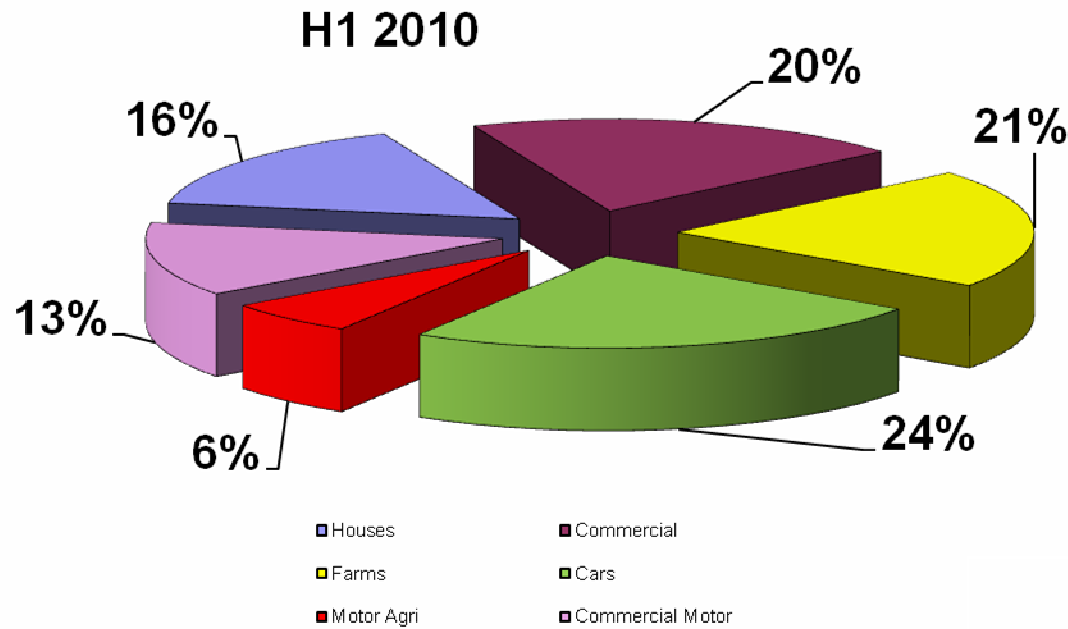
### FBD COR% and Interest Rates - 1971 to 2013



*Lower investment returns leading to new norm in combined ratio*

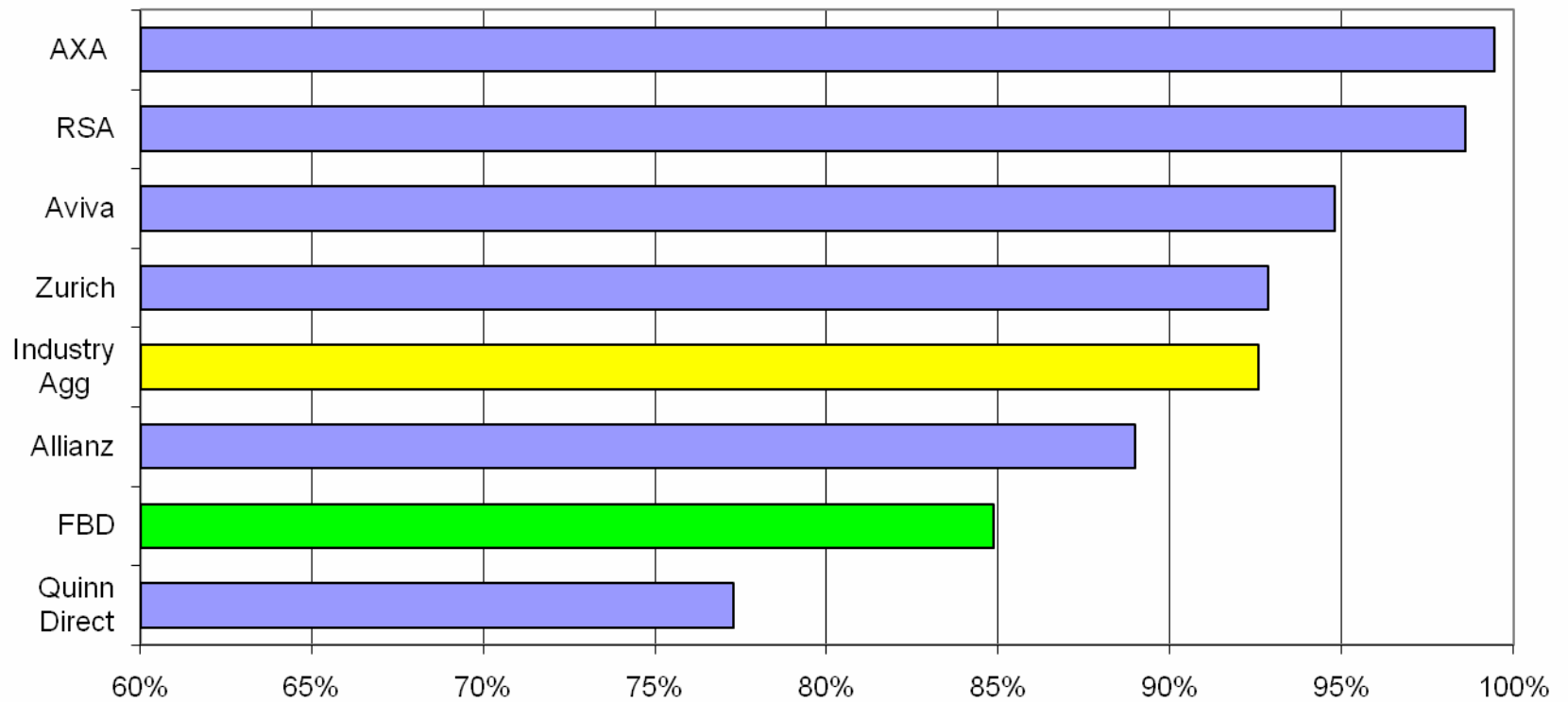
# 2010 Interim Results – Underwriting

## Premium by category



## 10 year average combined ratio

10 Year COR %



# 2010 Interim Results



## Income Statement

Underwriting

H1 2010

H1 2009

€000s

€000s

**Gross written premiums**

**183,191**

**180,721**

Net earned premiums

149,568

160,314

Net claims incurred

(124,399)

(135,088)

Net operating expenses

(32,987)

(33,575)

**Underwriting Result**

**(7,818)**

**(8,349)**

**Loss Ratio**

**83.2%**

**84.3%**

**Net Expense Ratio**

**22.1%**

**20.9%**

**Combined Ratio**

**105.2%**

**105.2%**

# 2010 Interim Results



## Income Statement (cont'd)

	H1 2010	H1 2009
	€000s	€000s
<b>Underwriting Result</b>	<b>(7,818)</b>	<b>(8,349)</b>
Longer term investment return	17,193	18,428
Non underwriting operating income	1,915	2,881
<b>Operating profit</b>	<b>11,290</b>	<b>12,960</b>
<b>Operating profit by activity:</b>		
Insurance underwriting	9,375	10,079
Non-underwriting		
- Property/leisure	(820)	73
- Financial services/other	2,735	2,808
	<b>11,290</b>	<b>12,960</b>

## Income Statement (cont'd)

	H1 2010	H1 2009
	€000s	€000s
<b>Operating profit</b>	11,290	12,960
Investment return fluctuations	243	(19,852)
Finance costs	(1,474)	(1,766)
Revaluation of property, plant and equipment	(17,919)	(11,077)
Restructuring costs	-	(2,033)
<b>Loss before tax</b>	<b>(7,860)</b>	<b>(21,768)</b>
Income tax credit	510	977
<b>Loss for the period</b>	<b>(7,350)</b>	<b>(20,791)</b>

# 2010 Interim Results



## Balance Sheet - Assets

		<u>30/06/10</u>		<u>31/12/09</u>
		<u>€000s</u>		<u>€000s</u>
<b>Property &amp; Equipment</b>				
Hotels/golf	120,393		136,347	
Property – own use	19,040		21,840	
Fixtures & Fittings	18,601	158,034	18,292	176,479
<b>Investments</b>				
Property		45,766		43,267
Financial		719,897		739,897
<b>Reinsurers' share of technical provisions</b>		101,560		93,189
<b>Other receivables/DAC's</b>		102,033		92,644
<b>Current and deferred tax</b>		12,780		7,082
<b>Other Assets</b>				
Development land	29,922		30,470	
Work-in-Progress	22,387		28,756	
Cash	49,599	101,908	44,036	103,262
<b>Total Assets</b>		<b><u>1,241,978</u></b>		<b><u>1,255,820</u></b>

# 2010 Interim Results



## Balance Sheet - Liabilities

		<u>30/06/10</u>		<u>31/12/09</u>
		<u>€000s</u>		<u>€000s</u>
<b>Equity</b>				
Share Capital		21,409		21,409
Reserves		156,883		170,099
		<hr/>		<hr/>
<b>Shareholders' funds – equity interests</b>		<b>178,292</b>		<b>191,508</b>
Preference Shareholders		2,923		2,923
Minority Interests		2,068		3,030
		<hr/>		<hr/>
<b>Total equity</b>		<b>183,283</b>		<b>197,461</b>
<b>Liabilities</b>				
Technical provisions				
- Unearned premiums	182,562		176,603	
- Claims	666,112	848,674	671,429	848,032
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Deferred tax				
Creditors				
- Loans	119,275		120,051	
- Other	90,746	210,021	90,276	210,327
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<b>Total Liabilities</b>		<b>1,241,978</b>		<b>1,255,820</b>

## Cash Flow Statement

	H1 2010 €000s	H1 2009 €000s
Net Cash from operating activities – pre tax	576	(4,026)
Income tax paid	(1,049)	(271)
From investing activities	13,764	5,258
(Used)/ generated by financing activities	(7,430)	6,411
Net increase in cash and cash equivalents	<u>5,861</u>	<u>7,372</u>
Cash and cash equivalents at the beginning of the period	44,036	35,713
Effect of foreign exchange rate changes	(298)	682
Cash and cash equivalents at the end of the period	<u><b>49,599</b></u>	<u><b>43,767</b></u> <sub>29</sub>



# FBD Holdings plc

2010 Interim Results  
**QUESTIONS?**