

Our Policy is You

# FBD Holdings plc

## 2015 Interim Results

### 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.

August 2015



# Strategic Changes

## Losses incurred and market environment require a change in direction

- Simplify FBD – we will be back to basics and servicing our core customers, with an ambition of returning the group to profits by the end of 2016
- De-risk our underwriting strategy
- Focus our time and resources in the consumer market on one brand only
- Require cost-savings of €7m; 2% of COR
- Strengthen prior year reserves by €88m
- Steps already taken to strengthen capital position:
  - Pension scheme reform – DB scheme closed
  - Agreement to sell JV stake and proceeds invested as equity into FBD Insurance
- We will explore options for regulatory capital in the debt capital market

## Path to profitability

- Focus on direct business; Agri/ SME and Consumer
- De-risked balance sheet and strategy
- Further strong rating action
- Reduce operating expenses

**FBD will focus on  
what it does best**

# Half year Results

## Performance

€185m

GWP

512c

- NAV

(221)c

Operating EPS  
(fully diluted EPS of (244)c)

€88m

Reserve  
Strengthening

1.2%

Investment Return  
Solid results in a volatile and  
low return environment

	2015	2014 (Restated)
<b>GWP</b>	€185m	€185m
<b>Operating Result</b>	€(87.6)m	€6.1m
<b>Result before tax</b>	€(96.4)m	€4m
<b>Operating EPS</b>	(221)c	16c (Restated)
<b>Diluted EPS</b>	(244)c	10c (Restated)
<b>NAV</b>	512c	868c (Restated)

Significant reserve  
strengthening in  
inflationary environment

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Key Issues

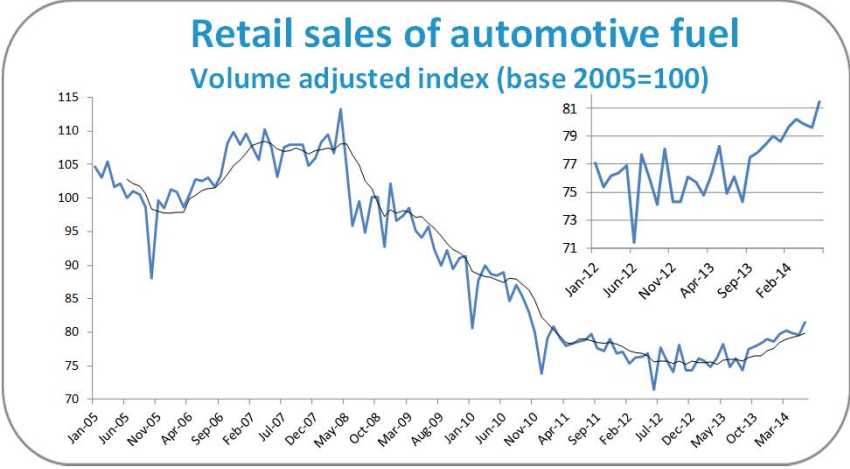
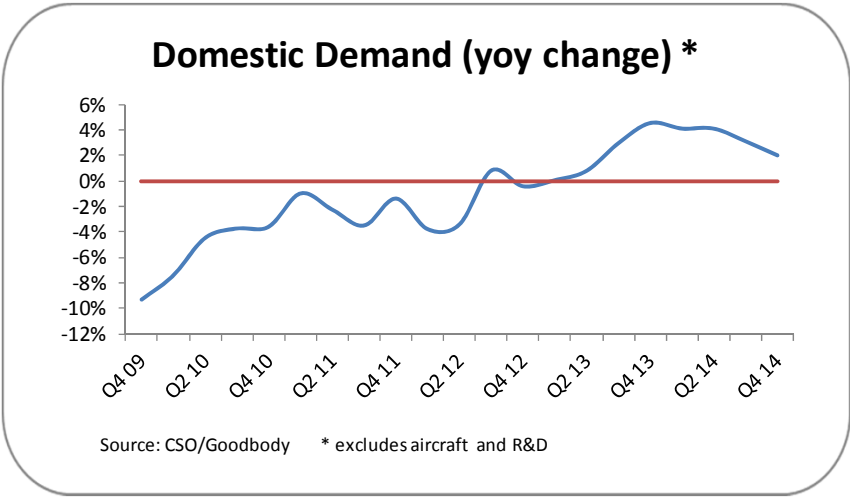
# SECTION 2

# Irish Economy

## Economy

Domestic demand forecast to grow 4.4% in 2015

- Economic growth stronger than expected, second year as fastest growing economy in eurozone
- Domestic demand is accelerating
- Unemployment rate 9% in 2015, down from 12.2% in 2013
- Increase in 2015 new vehicle registrations:
  - Cars up 30% (on 2014 level)
  - HGVs up 9%
  - LCVs up 54%



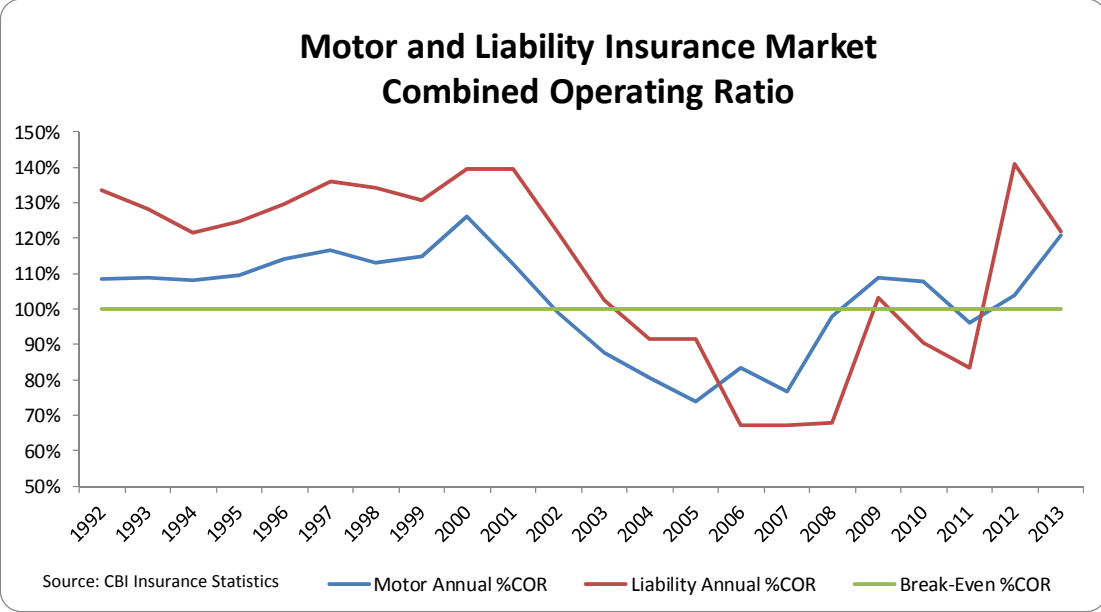
**Economic recovery continues to be stronger than anticipated**

# Insurance Industry

## Industry COR

111%

- The Group is operating in a loss-making market, with a market combined operating ratio (“COR”) of 109% in 2012 and 2013, worsening to 111% in 2014
- The continued deterioration in the claims environment will most likely lead to another poor market COR in 2015



**Irish market is loss-making**

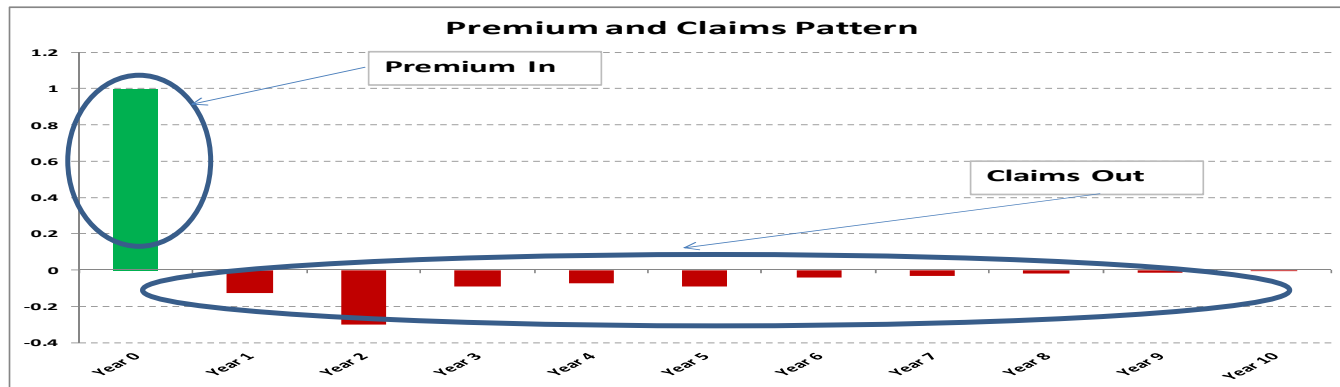
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Claims environment

# SECTION 2

# Reserves

Reserves are set aside for future claims payments. Reserves have two major components: claims estimates and a margin for uncertainty



Claims handlers' individual case estimates have increased with difficult claims environment

Provision in excess of claims handlers' estimates has increased to reflect potential future claims inflation

- Insurance policies can take different lengths of time to settle. Property and motor damage claims settle reasonably quickly. Injury claims can take many years
- Our adverse development arises mainly in employers and public liability and motor bodily injury claims from accident years 2011 onwards. It arises across all of the Group's distribution channels.

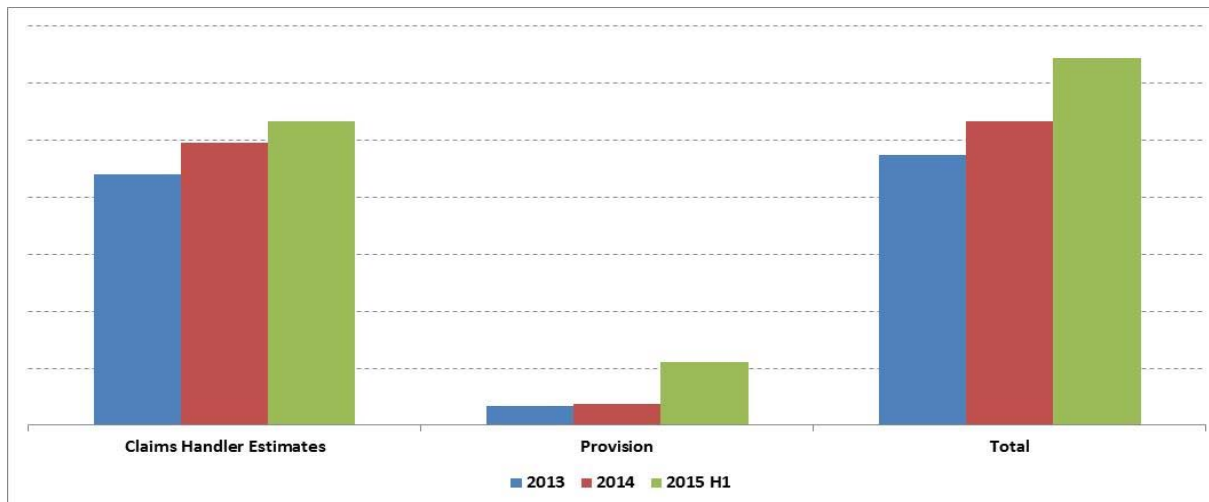
**Significant claims inflation pressures**



# Reserve Components

Comprised of :

1. Claims handlers' individual case file estimation
2. Provisions over and above claims handlers' case file estimation
  - Claims not yet reported (IBNR)
  - Margin for uncertainty/prudence



Claims handlers' individual case estimates have increased with difficult claims environment

Provision in excess of claims handlers' estimates has increased to reflect potential future claims inflation

**Change to assumptions and methodologies to account for new environment**

# Reserve Strengthening

## FBD has strengthened prior year reserves by €88m

Caused by the following:

- Structural Changes in the Claims Environment
  - Shift in Settlement Approach
- 
- We believe significant claims inflation is underway
  - While the Group has yet to experience this level of claims inflation in its payments, the average cost of outstanding claims has now been increased significantly
- 
- Structural Changes in the Claims Environment
  - Change in Court Jurisdiction Limits (Feb 2014)
  - Introduction of Court of Appeal (Oct 2014)
  - Recovery Benefit Assistance Scheme (Aug 2014)
  - Discount Rate Ruling - Russell Case (Dec 2014)
  - Periodic Payment Orders (Heads of Bill – May 2015)
  - Significant Court Award Inflation
- 
- **Shift in Settlement Approach**
    - Shift in the settlement approach of claimants' solicitors
    - driven by the uncertainty created by structural changes
    - shift in settlement approach has led to a slowdown in settlement of claims which makes the estimation of technical claims provisions more difficult but will certainly lead to higher claims costs

**First half of 2015 has been worse than any previous period in Company's history**

# Claims

## A new approach to reserving in an inflationary environment

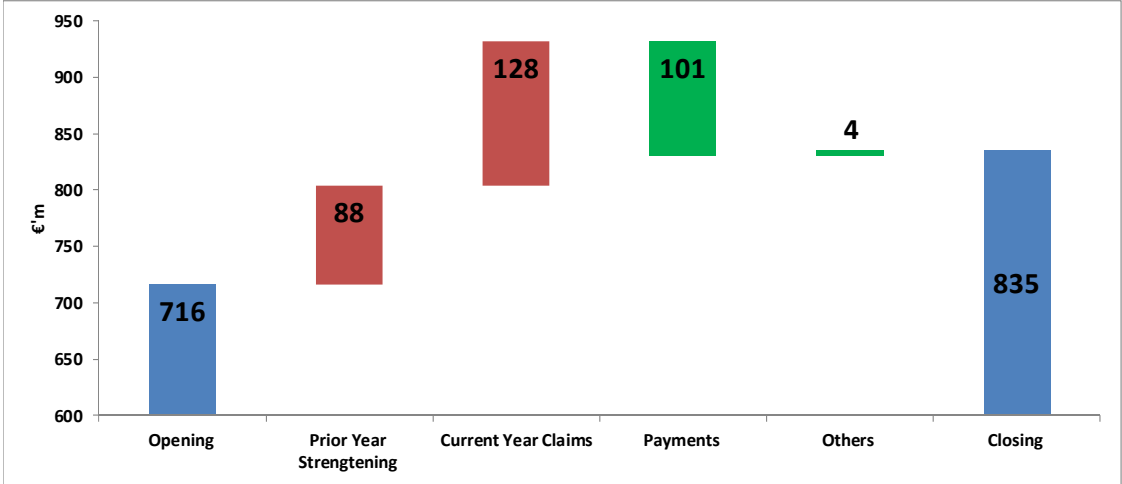
This case reserve development has led FBD to fundamentally re-examine its approach to technical claims provisioning in order to take account of these inflationary claims pressures.

- The methodologies and assumptions used in estimating the expected value of reserves have been changed to allow for the additional extra inflation that we expect to see in our claims costs as the claims incurred to date settle in the future.
- The methodologies and assumptions we have selected implicitly allow for claims inflation.
- This change will have the most impact on recent accident years with lower impact on claims from older years. In addition to increasing the actuarial best estimate reserves, FBD has decided to strengthen the margin for uncertainty set aside in excess of the best estimate reserves
- This allows for additional prudence in case the claims environment deteriorates more than assumed in our current best estimate assessment
- This change leads to €88m to prior year and adds 5.6% to current year loss ratio

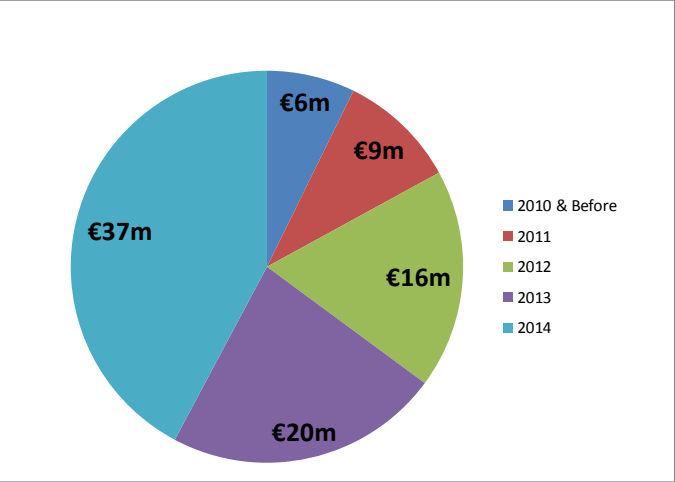
Prior year strengthening  
reflect the emerging  
claims environment

# Claims

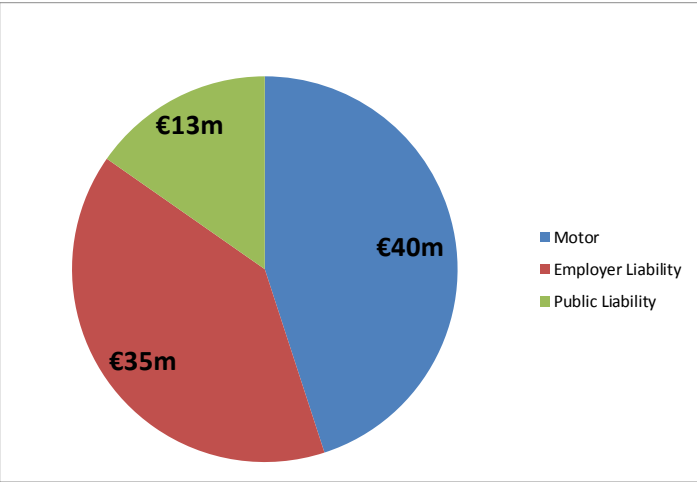
## Movement in reserves



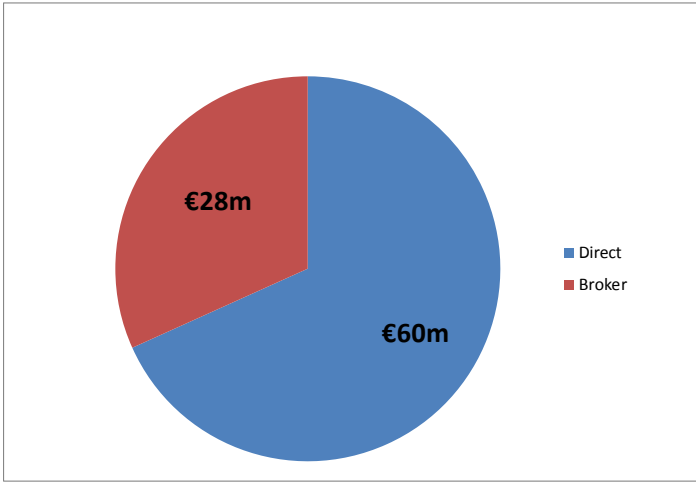
Reserve Strengthening by loss year



Reserve Strengthening by claim type

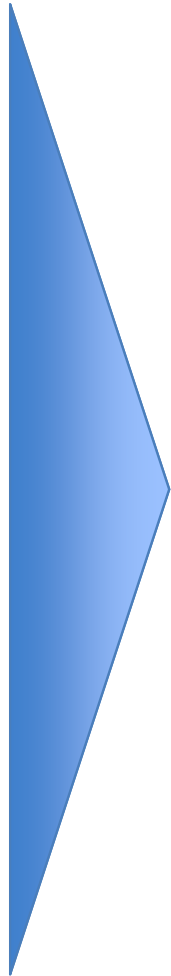


Reserve Strengthening by channel



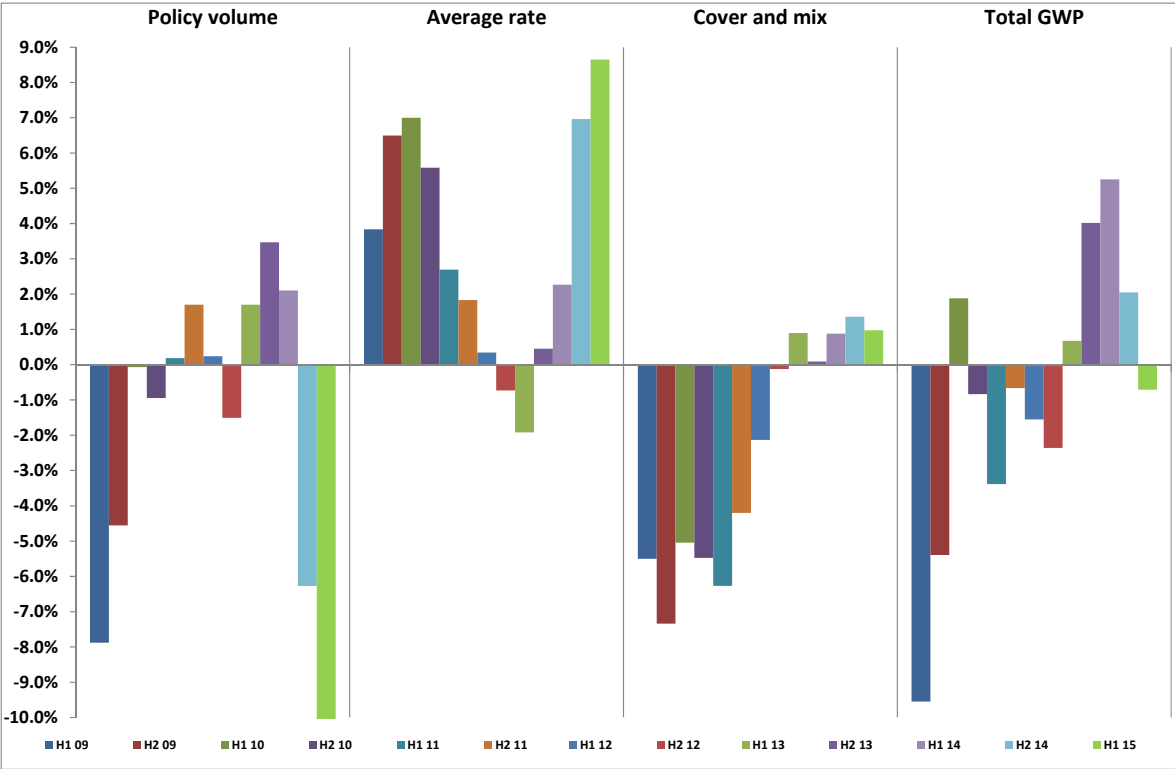
## Claims Development 2014-15

<i>Development</i>	<i>First emerged</i>	<i>Status 2015</i>
Claims Frequency	Q1 2014	<ul style="list-style-type: none"> <li>Claims frequency has stabilised</li> </ul>
Severe Weather	Q1 2014	<ul style="list-style-type: none"> <li>To date no severe weather</li> </ul>
Large Claims	2H 2014	<ul style="list-style-type: none"> <li>Claims Greater than €1m in 2015 are in line with historic norms</li> </ul>
Adverse development	2H 2014	<ul style="list-style-type: none"> <li>€88m reserve strengthening now</li> </ul>



Decisive action will bring about return to underwriting profitability 2017

# Decisive underwriting & pricing action



## Underwriting and rating actions

- FBD has taken strong rating action
- Selective risk appetite on certain classes, lines
- Focus on profitable lines and classes of risk
- Retention of performing risk segments
- Further rating action will be necessary

FBD has led rate action in markets

## Investment asset performance

	30-Jun-15		31-Dec-14	
	€m	%	€m	%
Investment assets				
Deposits and cash	474	53%	511	58%
Corporate bonds	239	27%	224	25%
Government bonds	102	11%	46	5%
Equities	19	2%	41	5%
UCITs	25	3%	25	3%
Own land & buildings	16	2%	16	2%
Investment property	21	2%	20	2%
	<hr/>			
Investment assets	895	100%	883	100
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Trade, other debtors and DAC	128		118	
Reinsurers' share of technical provisions	64		57	
Investment in Joint Venture	48		47	
Plant and equipment	51		47	
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Total underwriting assets	1,186		1,152	

- Investment return of 1.2% annualised on total investment portfolio, representing a solid performance in a low yield environment
- The sell-off in fixed income in the second quarter reduced returns in the first half
- This tactical position creates flexibility as conditions change and as investment opportunities present
- The interest rate environment and the introduction of Solvency II in 2016 provides an opportunity to optimize our strategic asset allocation and reposition the portfolio to deliver sustainable returns over the medium term

**Prudent management of investment assets - protecting customers and shareholders**

# Non-underwriting

## Financial Services

€1.2m

Operating Profit (2014: €1.78m)

- Includes:
  - premium instalment services
  - life, pension and investment broking (FBD Financial Solutions, largest retail broker in Ireland)
  - costs of Holding Company
  - generated a solid performance in a tough environment

Solid performance



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Capital Action and path to recovery

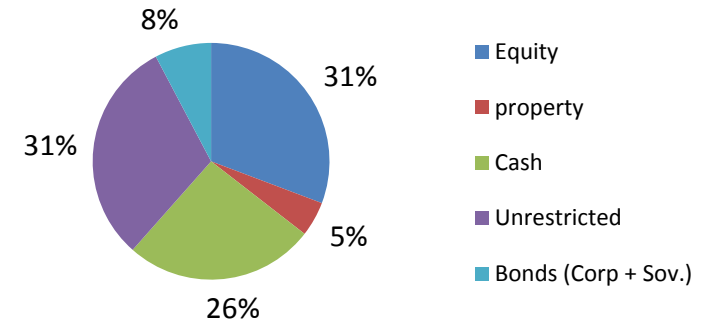
# SECTION 4

# Capital

## The pension fund is a major driver of Solvency II capital requirements

- Pension fund risks are a major driver of risk and SII capital requirements for FBD:
  - Sustained low rates environment, and hence higher liabilities
  - 'Young demographic' with large number of contributing members
  - Large duration mismatch (penalised under SII)

	30-Jun-15
Scheme Assets (EUR m)	146.6
IAS 19 Liabilities (EUR m)	197.5
Funding Ratio	74.2%



- FBD Solvency II Capital charge for pension at June 2015 is €33m
- FBD has taken major steps to mitigate capital requirements

## JV Sale

In 2011 FBD established a JV to sell 50% of its hotels and development land, the JV's aim was to begin FBD's exit from that business

- Property and leisure JV has 5 hotels in Spain (2) and Ireland (3)
  - Market for hotels and leisure in Ireland and Spain has recovered
    - Temple Bar hotel sold in March for book value
    - JV entered with Taylor Wimpey to develop 60 apartments in La Cala Spain, since expanded to add additional 103 units
- Hotel group has been trading profitably since JV inception
- FBD has agreed to sell its stake in JV to Farmers Business Development for book value of €48m
- This completes FBD's exit from a non-core business
- Benefit will be material in Solvency II terms



# Capital

## Management Plans and Solvency II

- FBD is preparing for Solvency II implementation in 2016
- FBD Holdings plc has sold its stake in FBD Property and Leisure (pending shareholder approval) and will invest the proceeds as equity in the Issuer to replenish capital in its core insurance business (+€48m)
- FBD has taken a number of additional steps to strengthen its capital position, in particular with respect to the pension scheme
- JV sales and pension scheme actions take FBD solvency capital levels to the regulatory minimum (~100%)
- Debt raise will bolster the firm's capital buffer, taking Solvency II capital to within the firms target range of 110-130% by December 2015

# Strategy

## Our new strategic direction will:

- Simplify FBD – we will be back to basics and servicing our core customers, with an ambition of returning the group to profits by the end of 2016
- De-risk our underwriting strategy
- Focus our time and resources in the consumer market on one brand only
- Require cost-savings of €7m; 2% of COR
- Strengthen prior year reserves by €88m
- We have already taken steps to strengthen capital position
- Pension scheme reform – DB scheme now closed
- JV stake sold and proceeds invested as equity into FBD Insurance
- Further planned actions for the pension scheme and when market conditions are right: exploration of debt capital markets

# Outlook

- Economic indicators point to an improved outlook for Ireland. This will be positive for FBD in the medium term
- Despite this, industry profitability continues to be challenging and FBD believes that the industry will be loss making for 2015 and 2016
- The first six months of 2015 have been very difficult for FBD. Despite taking the necessary steps to maintain reserving strength, uncertainty surrounding the claims environment remains
- FBD's focus is on returning the business to profitability
- FBD has unrivalled relationships with its core customer groups in rural Ireland. FBD will focus its resources primarily on this book of business, ensuring we meet the insurance needs of farmers and direct business customers
- FBD will implement a consumer strategy for motorists and home owners that focuses solely on a single brand. This will deliver sustainable efficiencies and better returns
- In line with the above refocus, FBD intends to reduce costs over the coming months
- FBD has a 40 year track record of delivering returns to shareholders. The nature of insurance is inherently cyclical. Although 2015 has been a very challenging year to date and market conditions remain difficult, FBD is confident that it is taking the necessary steps to refocus so that in future it will again deliver strong returns for investors

# Summary

## The insurance market

- Is inherently cyclical and is experiencing heightened uncertainty in claims environment
- Continues to face profitability challenges
- Rates have begun to harden but more is required
- Competitive dynamics will continue and decide the speed and extent of recovery

## FBD has

- A long track record of superior shareholder returns
- A robust underwriting business and an excellent franchise
- Industry leading net promoter score
- A resilient balance sheet and a prudent reserving strategy
- A low-risk investment portfolio

## FBD will

- Achieve profitable margins through underwriting discipline
- Protect its core businesses and seek limited opportunities for profitable growth
- Continue to invest in people and technology
- Deliver superior returns to shareholders

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# FBD Holdings plc

2015 Interim Results

August 2015

