

FBD Holdings plc

2020 Half Year Results

31 July 2020



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.



2020 HALF YEAR RESULTS

Overview

→ Paul D'Alton, Interim CEO

Key Highlights



Half year loss of €9m before tax

- Underwriting loss of €5m resulting from €30m case estimates and actuarial IBNR reserve for Covid-19 related business interruption costs
- Negative investment return of €3m through Income Statement and €7m through OCI
- Rebates to customers of €11m to date, offset by low claims frequency in Quarter 2



103% Combined Operating Ratio

- Current Year COR of 108% with little weather (2019: 82.5%)
- Business interruption costs impact of 19%
- Positive prior year reserve development of 5%



Capital

- Net Asset Value 1,035c
- Return on Equity (ROE) of -4% (annualised)
- Strong solvency position of 186% (unaudited)



GWP of €176m (2019: €190m)

- GWP down 1% excluding €11m customer rebates to date
- Customer numbers increased by 6,500
- Improved retention of existing customers
- New business levels up 15%



Business Developments

- New Commercial Motor product launched in April
- Plans to broaden partnership with Bank of Ireland to Personal Lines
- Partnership with An Post performing very well
- Taxi-fair partnership in place



Operational impact

- Majority of employees worked remotely in Q2 with limited impact on our customers
- Additional costs of remote working and safety measures in Head Office, Mullingar Support Centre and the Branches



Customer support measures

- Premium rebates to date of €11.1m - €6.0m Motor and €5.1m Commercial
- Farm Relief Services support in conjunction with IFA
- No admin/cancellation fees applied on Motor or Home, and continuation of cover where possible



Investments

- Return on portfolio of -0.9% (-1.9% annualised)
- Widening credit spreads and reductions in risk assets are key features
- Credit quality of Corporate Bond portfolio maintained at an average A-



Business Interruption

- Costs of €30m included with court case due for hearing on 6 October 2020
- FCA test case result expected soon and outcome will be carefully considered
- Maximising potential for reinsurance recoveries will be another key consideration

Business Interruption



Claims reported

- 899 Covid-19 related business interruption claims notified to June 30th
- All have been declined with the majority of claims coming from Pubs



Basis of costs provided

- Costs of €30m to cover claims and legal costs that may be incurred
- Based on a probability assessment of a number of scenarios



Test Case

- Four cases before the Commercial Court in October
- Liability/causation issues to be determined and if necessary application of trends clause
- Strongly of the view that our policies do not provide cover for a pandemic



Other

- FCA decision pending in the UK and will be carefully considered
- Engagement on-going with reinsurers

Growing our business in a challenging environment



Digital

- **Accelerated online performance**
Online new business sales up 22% and quotes up 17% from H1 2019
- **Web sales** increased 5% for Motor and Home, supported by competitive pricing
- **Ongoing online investment optimising** customer journeys and online presence



Customers

- Strong **growth** in active policies **+6,500**
- **15%** increase in **new policies**
- **1.3%** increase in **retention rate**
- **3.4%** reduction in the **average premium**
- **Partnership channel growth** increasing Motor customers
- **Covid-19** measures including premium rebates and increased flexibility well received
- Top 3 for insurance **brand awareness**



Products and Markets

- Broadening **partnership opportunities** - Bank of Ireland 2021 launch planned as panel member for Motor and Home
- Extending sponsorship of **'Team Ireland'** supporting Irish athletes for Tokyo 2021
- **New business Farm offer** now in the market
- **New Van product** launched in April
- Extension of **limited mileage proposition** to support customers driving less during Covid-19



2020 HALF YEAR RESULTS

Financial Performance

→ John O'Grady, CFO

2020 Half Year Results



	2020	2019
GWP	€176m	€190m
(Loss)/Profit before tax	(€9m)	€39m
EPS	(24c)	97c
NAV	1,035	896c
ROE (annualised)	(4%)	23%
	2020	2019
Loss ratio	74.6%	56.4%
Expense ratio	28.4%	26.1%
Combined Operating Ratio	103.0%	82.5%
Total investment return (annualised)	(1.9%)	4.3%
▪ Income statement	(0.6%)	1.6%
▪ OCI	(1.3%)	2.7%



2020 Half Year Results



	2020 €'000s	2019 €'000s
Gross written premium	176,216	189,716
Net earned premium	156,793	167,207
Net claims incurred (incl. MIBI)	(117,018)	(94,294)
Other underwriting expenses	(44,451)	(43,699)
Underwriting Result	(4,676)	29,214
Investment income	(3,274)	8,627
Finance costs	(1,272)	(1,285)
Other	(127)	2,105
Sub total	(9,349)	38,661



€187m

GWP excluding
€11m Covid-19
rebates



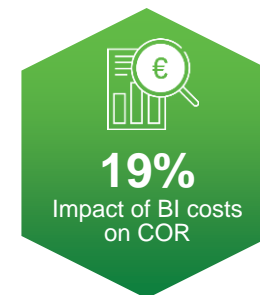
€9m

Loss Before
Tax

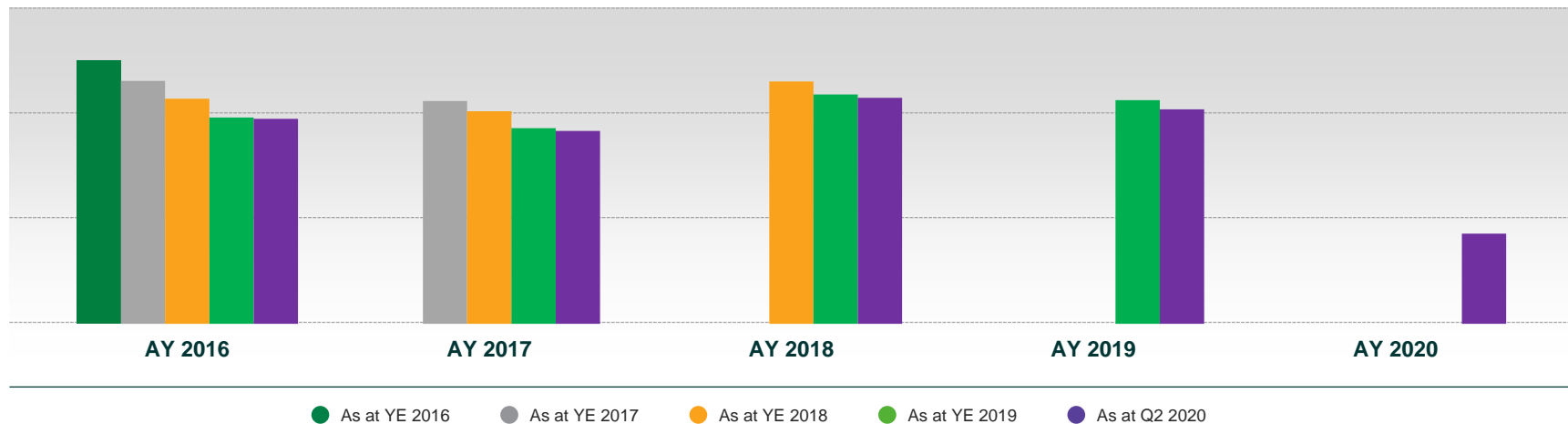
Analysis of Combined Operating Ratio



	2020	2019
	%	%
Current year Combined Operating Ratio (excl. BI)	89.1%	87.8%
Impact of business interruption costs	19.1%	0.0%
Current year Combined Operating Ratio	108.2%	87.8%
Prior year reserve development	(5.2%)	(5.3%)
Reported Combined Operating Ratio	103.0%	82.5%



Claims Reserve Development (Net Loss Ratios)



- **2020 Net prior year reserve development** was approximately **€8m**
- A majority of the reserve development arose as a result of **more favourable frequency observations** than expected in recent years. In addition, we observed some **favourable settlements of large claims**
- 2020 is low compared to other years due to **reduced frequency** caused by the restrictions that were in place for **Covid-19** pandemic

Low risk investment portfolio mitigates losses



Income Statement return: -0.6% (annualised)

Risk Assets:

- Equities rallied since worst days of pandemic – MSCI World Index down 6.1% at 30 June vs 30% on 23 March
- Other risk asset classes had negative H1 returns
- Diversified nature of risk asset portfolio mitigated losses
- Tactical switch out of Emerging Market Debt into Global High Yield bonds in H1, expecting better risk adjusted return

OCI return: -1.3% (annualised)

Corporate Bonds:

- Average credit quality of portfolio maintained at A-
- 1.5% of portfolio downgraded into high-yield during H1. Downgraded bonds were traded out when liquidity returned
- Low duration of portfolio (circa 2.5 years) mitigated impacts of spread widening
- Corporate spreads more than halved from the low point

Sovereign Bonds:

- Yields on Eurozone sovereign bonds fell during H1 due to monetary stimulus from ECB, leading to positive return of €0.9m

Investment Allocation



- Little change to investment allocation over the half year:

	30-Jun-20		31-Dec-19	
Group Investment assets	€m	%	€m	%
Corporate bonds	495	45%	509	46%
Government bonds	304	27%	302	27%
Deposits and cash	185	17%	168	15%
Other risk assets	64	6%	65	6%
Equities	42	3%	46	4%
Investment property	19	2%	19	2%
Total	1,109	100%	1,109	100%

- Total return on portfolio of -0.96% for the half year (-1.9% on an annualised basis) represents a significant improvement vs the low point in March 2020 when the total return fell below - 4%.



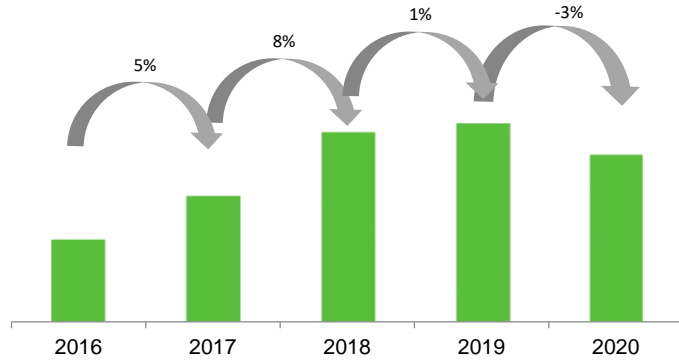


2020 HALF YEAR RESULTS

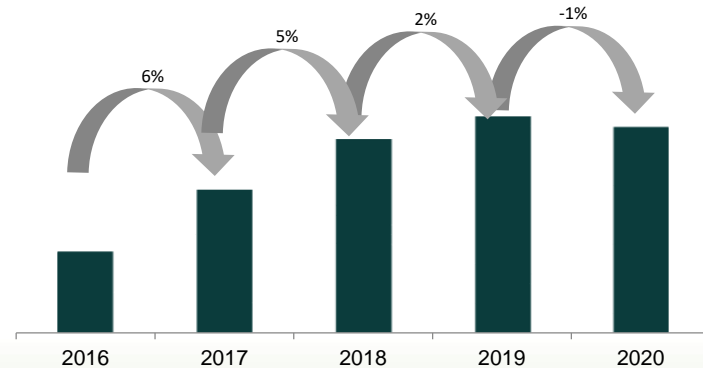
Environment & summary

→ Paul D'Alton, Interim CEO

Injury claims inflation appears to have stabilised



Average Cost of **all** Capped Injury Claims and Settlements



Average Cost of Capped Litigated Injury Claims



Stabilisation in claims costs after several years of inflation. Inflation still seen in litigated claims earlier in the year. High Court and Circuit Court **legal costs up 13% and 6% respectively**



Injury claims costs are lower on average in H1 2020 however, settlement activity was impacted by court closures and a slowdown in pre-trial interaction, as a result of Covid-19



Special damages remain high. Upward trend seen in **Motor Damage** in H1 2020. **Covid-19** social distancing guidelines are likely to impact on domestic **building costs** going forward

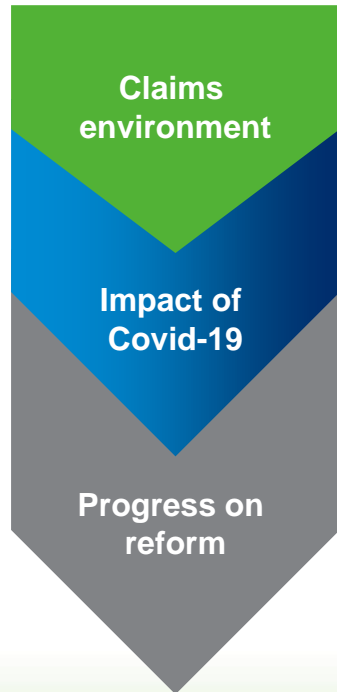


We continue to **advocate for reform**. Some good outcomes in the **Court of Appeal** that influence behaviour in the lower courts. Some sensible outcomes on negligence versus personal responsibility



We continue to **contest suspected fraudulent cases** and control the areas we can – continue to work on strengthening our technological, data analytics and fraud detection capabilities

Some progress made in the claims environment, to deliver cheaper insurance for all consumers



- Courts more willing to recognise that plaintiffs have some responsibility for their own personal safety
 - Early indications are positive in respect of the PIAB (Amendment) Act enactment, addressing the non-co-operation of claimants and their legal representatives
 - Personal Injuries Guidelines Committee, established in April, are due to agree guidelines by October
-
- Backlogs in the courts as a result of closures
 - Material slowdown in pre-trial face to face settlements
 - Challenges around obtaining medical reports and other expert reports in Q2 due to Covid-19 restrictions
-
- Discount rate consultation process commenced in June, submissions due in August
 - The Court of Appeal has expanded to 16 sitting judges, with 3 new appointments to the High Court
 - Law Reform Commission looking into capping damages in personal injuries actions

Capital

- Strong capital position maintained
- Solvency Capital ratio 186%
- €30m business interruption costs amount to 18% on the SCR



Summary



Loss of €9m before tax reflects business interruption costs and investment return -
Return on Equity of -4% (annualised)



103% Combined Operating Ratio with 5% benefit coming from positive prior year reserve development



Business interruption test cases due for hearing in October – result will give much needed clarity to FBD, customers and reinsurers



Strong **underlying profitability** in the business with **current year COR of 89%** (excl. BI)



We aim to be the Irish **insurer of choice**. Our customers and communities are at the heart of who we are and what we do





2020 HALF YEAR RESULTS

Appendix



Irish Environment – Updated



Domestic demand 2021 forecasts



Source: AMECO, Goodbody Estimates

In the Euro area, GDP is **forecast to shrink by 8.7%** this year and to increase by 6.1% in 2021. The road to recovery is still **paved in uncertainty**

(Commissioner Gentiloni press conference – Summer 2020 Economic Forecast)

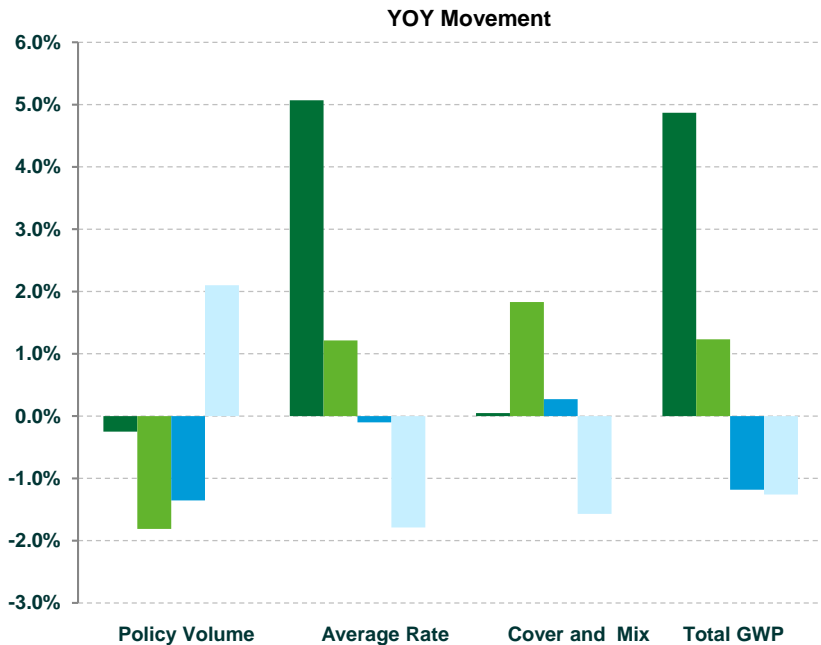
Irish unemployment is expected to average **7.4% this year**, up from 5% last year, and stay at the relatively elevated level of 7% throughout next year

(European Union Economic Forecast – Spring 2020 06/05/2020)

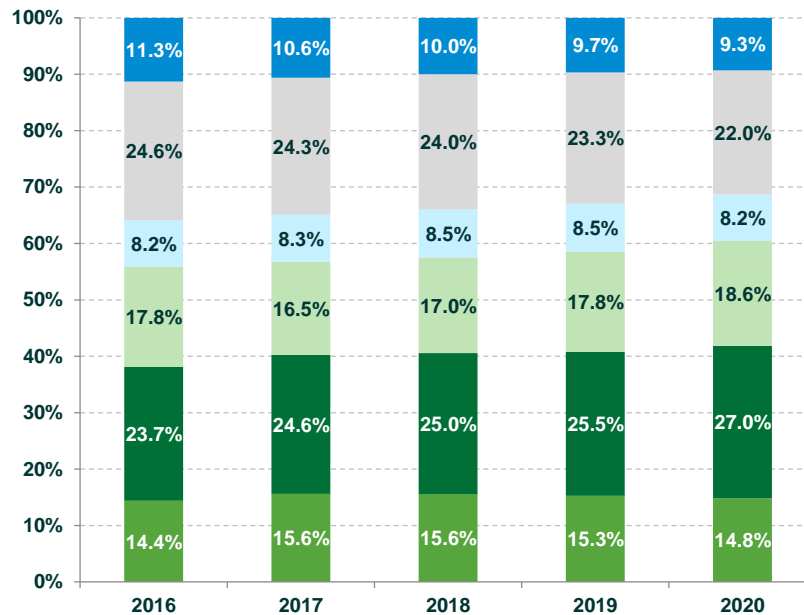
Business Update



Change in GWP (Direct & Indirect)



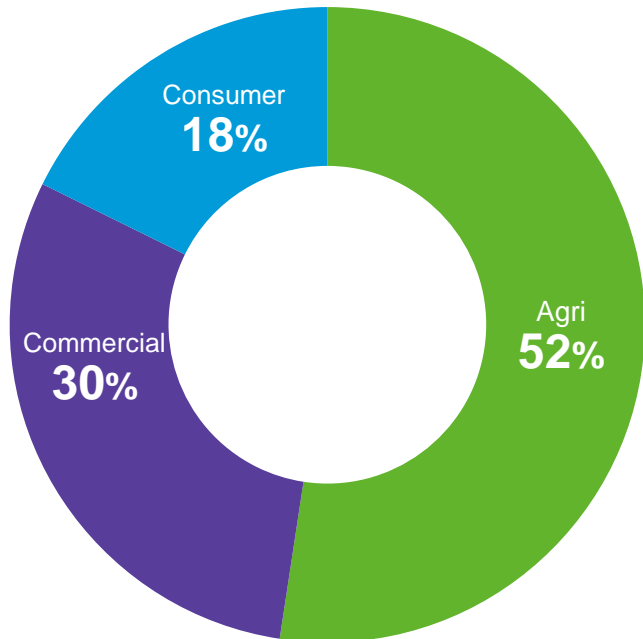
Premium by Product



● H1 17 v H1 16
 ● H1 18 v H1 17
 ● H1 19 v H1 18
 ● H1 20 v H1 19

● Commercial Motor
 ● Consumer Motor
 ● Small Business
 ● Motor Agri
 ● Farm
 ● Home

Customer Segments



AGRI

- Best in class product positioning
- Strong retention rates
- New business result supported by cover proposition



COMMERCIAL

- Strong underlying premium performance
- Customer support measures and cover changes being supported during Covid-19
- Strong retention rates
- Taxi-fair performing strongly

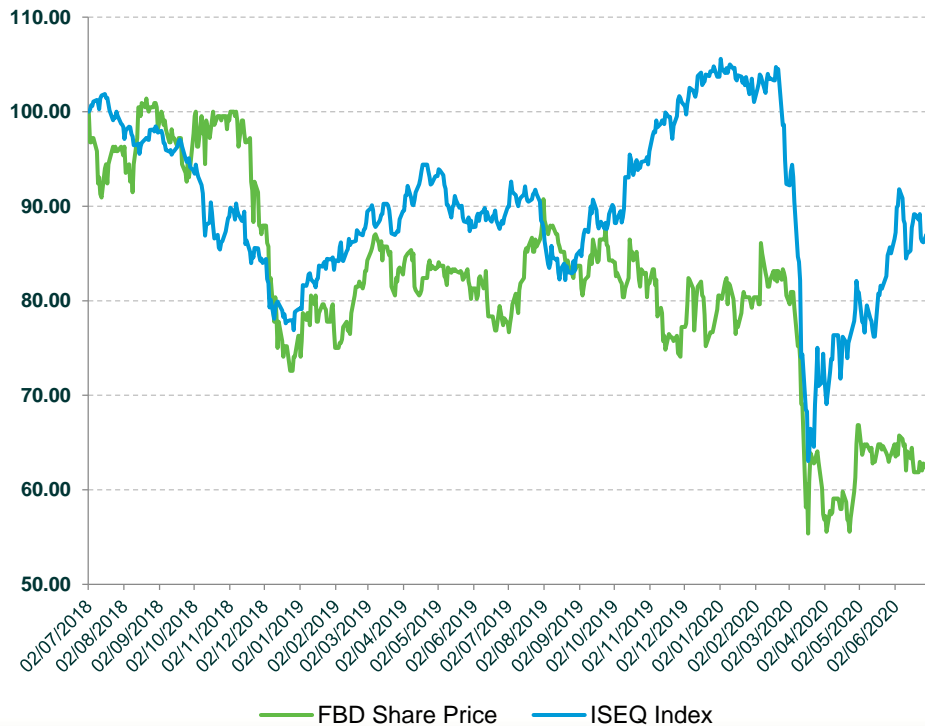


CONSUMER

- Very good policy count growth
- Strong conversion and retention rates
- Strengthening of Post Insurance partnership
- Web redesign for Home – end to end digital fulfilment



FBD Share Price Performance



Glossary



Acquisition	The total of net commission and operating expenses incurred in the generation of net earned premium and often expressed as a percentage of net earned premium. The operating expenses are after the transfer of direct costs for claims settlement expenses which are included in net incurred claims expense.
Best Estimate	The actuary's expectation of future cost to settle all outstanding claims net of any margin for uncertainty, representing a 50% probability that the reserves are adequate to settle all future claims.
Casualty Insurance	Insurance that is primarily concerned with the losses resulting from injuries to third persons or their property (i.e. not the policyholder) and the resulting legal liability imposed on the insured. It includes, but is not limited to, general liability, employers' liability, workers' compensation, professional liability, public liability and motor liability insurance.
Catastrophe Reinsurance	A reinsurance contract (often in the form of excess of loss reinsurance) that, subject to specified limits and retention, compensates the ceding insurer for losses in related to an accumulation of claims resulting from a catastrophe event or series of events.
Claim	The amount payable under a contract of insurance or reinsurance arising from a loss relating to an insured event.
Claims Incurred	The aggregate of all claims paid during an accounting period adjusted by the change in the claims provision for that accounting period.
Claims Provision	The estimate of the most likely cost of settling present and future claims and associated claims adjustment expenses plus a risk margin to cover possible fluctuation of the liability.
Combined Operating Ratio	The sum of the loss ratio and expense ratio. A combined operating ratio below 100% indicates profitable underwriting results. A combined operating ratio over 100% indicates unprofitable underwriting results.
Deferred Acquisition Costs	Acquisition costs relating to the unexpired period of risk of contracts in force at the balance sheet date which are carried forward from one accounting period to subsequent accounting periods.
Excess of Loss Reinsurance	A form of reinsurance in which, in return for a premium, the reinsurer accepts liability for claims settled by the original insurer in excess of an agreed amount, generally subject to an upper limit.
Expense Ratio	Underwriting and administrative expenses as a percentage of net earned premium.
General Insurance	Generally used to describe non-life insurance business including property and casualty insurance.
Gross Claims Incurred	The amount of claims incurred during an accounting period before deducting reinsurance recoveries.
Gross Earned Premium (GEP)	The total premium on insurance earned by an insurer or reinsurer during a specified period on premiums underwritten in the current and previous underwriting years.
Gross Written Premium (GWP)	The total premium on insurance underwritten by an insurer or reinsurer during a specified period, before deduction of reinsurance premium.
Incurred but not Reported (IBNR)	Claims arising out of events that have occurred before the end of an accounting period but have not been reported to the insurer by that date.
Long-tail	Classes of insurance business involving coverage for risks where notice of a claim may not be received for many years and claims may be outstanding for more than one year before they are finally quantifiable and settled by the insurer.
Loss Ratio	Net claims incurred as a percentage of net earned premium.
Margin for Uncertainty	The margin held over and above the actuarial best estimate in order to provide greater certainty that claims reserves will be sufficient to settle all outstanding claims as they fall due.
Net Claims Incurred	The amount of claims incurred during an accounting period after deducting reinsurance recoveries.
Net Claims Ratio	Net claims incurred as a percentage of net earned premium.

Glossary



Net Earned Premium (NEP)	Net written premium adjusted by the change in net unearned premium for a year.	Reinsurance	An agreement to indemnify a primary insurer by a reinsurer in consideration of a premium with respect to agreed risks insured by the primary insurer. The enterprise accepting the risk is the reinsurer and is said to accept inward reinsurance. The enterprise ceding the risks is the cedant or ceding company and is said to place outward reinsurance.
Net Investment Income	Gross investment income net of foreign exchange gains and losses and investment expenses.	Reinsurer	The insurer that assumes all or part of the insurance or reinsurance liability written by another insurer.
Net Written Premium (NWP)	The total premium on insurance underwritten by an insurer during a specified period after the deduction of premium applicable to reinsurance.	Retention	That amount of liability for which an insurance company will remain responsible after it has completed its reinsurance arrangements.
Outstanding Claims Provision	The amount of provision established for claims and related claims expenses that have occurred but have not been paid.	Underwriting	The process of reviewing applications submitted for insurance or reinsurance coverage, deciding whether to provide all or part of the coverage requested and determining the applicable premium.
Personal Lines	Insurance for individuals and families, such as private motor vehicle and homeowners insurance.	Underwriting Expenses	The aggregate of policy acquisition costs, and administrative, general and other expenses attributable to underwriting operations.
Policyholders' Funds	Those financial assets held to fund the insurance provisions of the Group.	Underwriting Result	The amount of profit or loss from insurance activities exclusive of net investment income and capital gains or losses.
Premium	Amount payable by the insured or reinsured in order to obtain insurance or reinsurance protection.	Underwriting Year	The year in which the contract of insurance commenced or was underwritten.
Short-tail	Classes of insurance business involving coverage for risks where claims are usually known and settled within 12 months.	Unearned Premium	The portion of a premium representing the unexpired portion of the contract term as of a certain date.
Recoveries	The amount of claims recovered from reinsurance, third parties or salvage.	Written Premium	Premiums written, whether or not earned, during a given period.