ipb insurance

2017

Annual Report

OUR MISSION

AS A MUTUAL, OUR PURPOSE IS TO SAFEGUARD AND PROTECT THE INSURABLE INTERESTS OF OUR MEMBERS. WE COMMIT TO BE OUR MEMBERS TRUSTED INSURANCE PARTNER PROVIDING PEACE OF MIND THROUGH TAILORED INSURANCE PRODUCTS, EFFECTIVE RISK MANAGEMENT SUPPORTS, MEMBER-FOCUSED SOLUTIONS AND EQUITABLE CLAIMS SETTLEMENTS. OUR LONG-TERM SUSTAINABILITY WILL BE ASSURED THROUGH CONTINUED FINANCIAL STRENGTH WHILE FOCUSING ON EXCELLENCE AND CONTINUOUSLY PROVIDING MEMBERS WITH VALUE FOR MONEY.

STAKEHOLDER REPORT

CHAIRMAN'S STATEMENT

George Jones

I am pleased to report that IPB delivered another solid performance for the year, resulting in a surplus before tax of €42.3 million. The past twelve months have seen encouraging signs for the wider insurance market as the sector returns to profitability following a difficult few years. The claims environment is showing some signs that we may be reaching the top of the cycle as frequency and costs begin to stabilise. Investment performance once again exceeded forecasts for the year and served as the primary driver of the reported surplus for the year.

FOLLOWING THE ESTABLISHMENT of the Cost of Insurance Working Group in 2016 the Group commenced its work to identify and address the drivers for the rising costs of insurance. IPB, led by our CEO Michael Garvey, presented to the Group chaired by Minister of State for Financial Services and Insurance Michael D'Arcy TD. The Group published its second report looking at liability insurance on January 25th of this year and it is hoped that formal implementation of key findings should bring some stability to liability insurance costs.

As outlined in last year's report, a core objective for the Mutual over the 2017-2019 period is the transfer of our Member risks from their balance sheet to ours. I am pleased to note that significant progress has been made in this regard as a majority of our local authority Members continued to transfer additional insurable risks to their Mutual during the year. This will greatly assist Members by providing them with the optimum level of insurance protection going forward, reducing exposure to their balance sheets and providing greater clarity and certainty from a budgeting perspective.

Insurance Industry

The Insurance Ireland Factfile for 2016 reported that total net underwriting losses for its non-life insurance members amounted to €94m, a steady improvement on the 2015 figure where losses stood at €339m. Allowing for investment income, net operating profit for 2016 was €16m versus a net loss of €216m in the previous year. The liability market continues to lag behind motor and property, recording another significant net underwriting loss of €112.4m in 2016 a slight reduction from the €122m loss reported 12 months earlier.

Following several years of premium inflation, as the insurance market underwent a major correction, there are signs that the sector is beginning to stabilise. According to the Consumer Price Index, personal motor insurance premiums, the largest class of non-life insurance, fell by 11% in 2017 (2016: 7.1% increase).

Irish Economy

Our Members' ability to deliver services is contingent on State finances and the overall health of the Irish economy. Prospects for the exchequer remain positive; the headline GDP figure for

2017, at 7.8%, overstates the country's underlying economic conditions due to the influence of multinational activity, which does not accurately reflect the domestic economy. The CSO has reported that Modified Domestic Demand, which removes the distorting effects of foreign multinational companies, showed growth running at 3.9% in 2017. Whilst this suggests that Brexit is so far having limited initial impact on the economy, a large amount of uncertainty remains as to the final outcome in these negotiations. The signs are positive, however, as consumer spending on goods grew by 4.6%, indicating public confidence in the economy at present.

As more people return to work there is less capacity available to meet domestic and multinational employment demand. Any employment growth will require net inflows of skilled workers to sustain forecasted growth. Strong growth helped generate almost 1,300 new jobs per week throughout 2017 resulting in nearly 2.25 million people now at work. Due to the increased numbers of people employed within the economy, it is clear that domestic demand will play an even greater role in economic activity with further strong growth again anticpated as the Central Bank forecast 4.4% expansion for 2018.

Looking ahead, the outlook is positive although downside risks remain in relation to external factors such as Brexit and international corporate tax policy issues. Other external risks that require monitoring include international trade challenges from potentially weaker foreign demand, currency fluctuations, and recent US tax policy changes potentially impacting on foreign direct investment into Ireland. Closer to home, risks to growth include the challenge of attracting skilled workers from overseas, a limited housing supply and the high cost of rental accommodation.

Brexit

To date, the impact of Brexit on the economy has mainly been felt by exporters through weaker sterling. Given the extent of the trading relationship with the UK, there is no doubt that the economic impact of Brexit on Ireland will be negative and the scale of the impact will depend on both the timing and extent of changes to trading arrangements.

Global Markets

The investment performance for the year delivered significantly higher returns than budgeted, driven by strong gains from our holding in equities. The current period of negative interest rates and poor short-term bond yields continue to be both negative and challenging. As a result, we adopted a defensive strategy to manage Members' capital and protect the balance sheet from the aforementioned external risks by maintaining a larger than normal holding in short-dated bonds and cash.

Investment returns are forecast at lower levels than in recent years due to continued negative interest rates and bond yields. Interest rates are rising in the US on inflation expectations, meanwhile, the end of Quantitative Easing (QE) policy in Europe should be viewed as a step towards normalisation of interest rates following a prolonged period of low-cost money. Sovereign bond yields are expected to rise over 2018, with a corresponding fall in values impacting negatively on our investment return.

Despite this, the economic outlook over the medium term remains optimistic with growth projected at more sustainable rates. For an open economy like Ireland, there are very real threats in the immediate horizon in the form of Brexit, which may present political and economic barriers with our largest trading partner and lead to further reviews of our investment policy.

MEMBERS

Over the past few years, our Members have been presented with significant national social and economic challenges. Chief among these challenges is the national housing shortage, which has placed increased pressure on local authorities and their resources as housing lists continue to grow. It should be noted that the local government sector currently manages over 120,000 social housing units.

At the same time, our local authority Members need to invest in local infrastructure and facilities that have been impacted by underinvestment over the past decade. The lack of investment in roads and footpaths presents a challenge for Members and their Mutual insurer.

In the first quarter of 2017, we announced our intention to release €200m in retained earnings back to Members over an agreed period following regulatory and Member approval. Members have identified an opportunity to earmark these funds to address their risk exposures including remediation of roads, footpaths and other pedestrian walkways. Members have also identified an opportunity to transfer most, and in many cases all their insurable risks, to IPB.

Our position as a mutual allows us to make decisions in the best interests of our Members, uninfluenced by shareholder considerations. The release of these funds to Members is a result of the careful investment of Members' equity and prudent management has ensured that Members can rely on their Mutual insurer to be there when the need is greatest.

Social Enterprise Development Fund

In support of our local authority Members, IPB joined with the Department of Rural & Community Development to co-fund a two-year Social Enterprise Development Fund, which will be delivered by Social Innovation Fund Ireland in partnership with all 31 local authority Members. The €1.6m fund will support Ireland's local authorities in building a national pipeline of social enterprises, fostering innovation and social entrepreneurship at a local level.

GDPR

The Board has taken a leadership position in ensuring IPB's adherence to the requirements of the EU's General Data Protection Regulation (GDPR), which takes effect in May 2018. The necessary financial and human resources have been allocated to ensure optimum readiness ahead of the May 25th deadline this year and action plan progression continues to be monitored by the Audit Committee and Board.

Board Composition and Succession Planning

In 2016, the Board of Directors developed succession plans for the period 2017-2020 in accordance with the provisions of the CBI's Corporate Governance Requirements for Insurance Undertakings 2015, which are effective from January 2016. In June of last year, Independent Non-Executive Director Garry Cullen retired from the Board. I want to acknowledge Garry's considerable contribution as a Board Member in the course of which he applied his extensive experience following a stellar career spanning over 40 years in insurance in Ireland and internationally.

Caitriona Somers joined the Board in July of last year and brings a wealth of experience as a Fellow of the Chartered Insurance Institute and Chartered Institute of Loss Adjusters, having served during her executive career, as a member of the Executive Global Leadership Team of the Cunningham Lindsey Group.

This year will see changes in the composition of the Board's Group Non-Executive Directors (GNEDs). Ongoing implementation of the Board's succession plans will see the retirement of two individuals from GNED roles and referral for election to the roles, subject to regulatory support of two candidates arising from the establishment of a succession pool particular to GNEDs roles composed of Nominees of our Members' organisations. This involved the engagement of individuals presenting with the knowledge, skills and experience required to perform the role of Director of an insurance undertaking in a period of exposure to the activities of the Board in an observer capacity in order to support the assignees to optimum effect in the prospective performance of the role.

Looking Ahead

The decision for our closest trading partner, the UK, to leave the EU will be felt most keenly in 2018 by our tourism and agriculture sectors. As the outcome of Brexit negotiations becomes clearer, it is likely that further business trade may be disrupted while some of this may be offset by companies relocating from the UK.

At home, the insurance industry in Ireland remains challenging but there are some green shoots appearing as early indications suggest that claims inflation is stabilising and the industry begins to move towards positive underwriting results. We will maintain our focus on delivering for our Members, strengthening our offering as the insurer to local government, education authorities and complementary State and semi-state agencies. We have a firm commitment to delivering the benefits of mutuality by doing more to protect and reward our Members than ever before.

On that note, I am pleased to announce on behalf of the Board that we are again able to declare a dividend to Members for 2018, subject to regulatory referral and legislative compliance. Our commitment to returning value to our Members is unique in the Irish insurance market and we will continue to leverage the advantages of mutuality for the benefit of the Membership.

The ongoing expansion of the economy, notwithstanding Brexit worries, is encouraging and any sustained domestic growth will require a strong financial services sector with an identifiable Irish presence. I am convinced that IPB, as the nation's only wholly Irish-owned general insurance company, presents a unique offering and unrivalled expertise in our core market sector. We are committed to further growing our depth and breadth of coverage to ensure that our Members have the protection they need to face the challenges that lie ahead.

Conclusion

Our clear vision for the future involves delivering on our commitment to doing more for our Members and their communities and achieving our objective to transfer our Members' risks to their Mutual insurer. We will continue to support Members in the management and mitigation of their risk exposures, meanwhile adding value through Member dividends, new and enhanced insurance covers, superior customer experience and value-added delivery supports.

George Jones
Chairman

CEO STATEMENT

Michael Garvey

I am pleased to report a stronger-than-forecast result for your Mutual in 2017. Under most metrics, the company achieved or exceeded targets. The Business has again returned a very solid surplus for the year of €42.3m, primarily due to better-than-expected investment returns and continued year-on-year improvement in our underwriting result. Gross Written Premium (GWP) for the year grew to €141.1m, a 13% increase on 2016 GWP of €124.9m. This growth was driven primarily by a combination of risk transfer as Members move to ground-up cover and rate increases.

THE NET UNDERWRITING result for the year was slightly under target at €2.7m (2016: -€3.9m), an improvement of €6.6m year-on-year following two consecutive years of underwriting losses. The number of claims notified increased to 6,772 in 2017 (2016: 6,440); however, this increase of 5.1% was mainly due to the significant progress made in transferring Members' risk to IPB during the year by moving to Ground-up Cover.

I am encouraged by the overall performance of your Mutual during the year. That said, the challenges of increasing claims frequency and costs are of major concern. I am pleased to report that we have made significant progress in the implementation of our claims management strategy, which is designed to address both the frequency and cost of claims. In partnership with our Members, our combined efforts will, I believe, deliver significant improvements over the next few years in the areas of risk management, hazard elimination and delivering safer working and public environments, leading to reduced claims frequency and cost.

The underlying performance and profitability of the insurance business (as measured by loss ratio and combined operating ratio) remains our core focus. The net Combined Operating Ratio (COR) for the year improved to 97.7% (2016: 104%). Meanwhile, operational efficiency improved slightly with a net expense ratio of 14.9% (2016: 15%).

One of our key aims during the year was the transfer of more of our Members' insurable risks from their balance sheets to ours and supporting them in the management and mitigation of their risk exposures. We have made substantial progress with Members in all identified areas of focus. We continue to work with Members to reduce risks through enhanced risk management and mitigation initiatives to address the sustained adverse claims environment. This is being supported by returning value to Members through the distribution of retained

...I am encouraged by the overall performance of your Mutual during the year. That said, the **challenges of increasing claims frequency and costs** are of major concern...

earnings accumulated following a period of above-average investment returns.

Retained Earnings Distribution (RED)

Reflecting our Mutual status and our commitment to delivering value for Members we announced our intention to distribute €200 million in retained earnings to Members at last years AGM. The retained earnings distribution programme commenced with the first tranche of €10m issued alongside the commercial dividend in Q2 2017, and the second tranche of €90m concluding ahead of our 2018 Annual General Meeting, bringing the total distribution to €100m as agreed with our Members.

The remaining payments will be issued in four equal instalments over the next four years from 2019-2022 (subject to the necessary approvals) as agreed with the Members. It is hugely encouraging that the RED will be utilised primarily on improvements to risk management, risk remediation, hazard elimination and reduction of insurance liabilities.

Underwriting

Our underwriting performance continues to be impacted by increasing claim frequency and costs. In response to poor underwriting results over the past number of years, IPB had no option but to introduce rate increases in recent years consistent with the experience of the wider insurance industry where corrective rating action has been the subject of considerable comment in both Dáil Éireann and the media. The prevailing adverse claims environment necessitated an average rate increase of 6% across our portfolio of Member business in 2017. As the primary stakeholders of the business, it is essential that Members are protected by having a mutual insurer that delivers a positive underwriting result on a consistent basis. This prudent approach to pricing of Member and non-Member business has delivered a modest underwriting performance this year. I am pleased to report that your mutual continues to benefit from excellent retention rates amongst both our Members at 100% and non-member business at 97%, demonstrating the value for money offering IPB has for all customers.

Investments

As a function of the Quantitative Easing (QE) programme operated by the European Central Bank, shorter-dated bond yields and cash rates remained negative but have troughed and are expected to rise over the next 12 months. This has both a positive and negative impact on the portfolio valuation as higher rates will result in higher reinvestment returns, but these returns are offset by a decline in the value of existing bond holdings. Equity Market profits were a key feature of 2017 and the major component of the investment return.

Our budget forecasts for 2018 predict that returns will revert to market and industry norms of 1% to 1.5%, as the six year period of exceptional investment profits comes to an end. The 2017 investment return of 3.2% (€39.6m) was a remarkable achievement when compared to 1.9% (€23.1m) for the prior year and exceeds the weighted average benchmarks of 1.4% by almost 2%.

Claims

Claims incurred net of reinsurance amounted to €95m (2016: €88.8m). The claims environment continues to be a challenge, though there is some evidence that it is beginning to stabilise. Some of the drivers of the continued high cost of claims for the industry include:

- **Increased involvement** of solicitors in Injuries Board claims
- The **high rejection rate** of Injuries Board awards in favour of pursuing court awards
- **Rising cost** of professional legal and expert fees
- **Impact of increasing the court jurisdiction** of the Circuit Court from €38k to €60k (for personal injury claims), €75k otherwise
- The continuing **impact of the reduction in the discount rate** from 3% to 1% for the cost of future care, and from 3% to 1.5% for loss of earnings.

On a positive note, the level of awards in the High Court appears to be stabilising following some recent examples of Court of Appeal decisions to reduce awards by almost 50%. In addition, the provision of guidelines to judges on the assessment of damages appears to be bringing greater consistency to court awards.

Ireland's insurance sector continues to see improvement in financial results as corrective rating and underwriting action in recent years are finally returning the industry to underwriting profitability. Claims costs related to personal injuries remain high by European standards although there are encouraging signs that the industry may have reached a peak in claims frequency; however, high claims costs remain a challenge that has the potential to reduce

...Your Mutual continues to benefit from **excellent retention rates** among both our Members at 100% and non-member business at 97%, demonstrating the value for money offering IPB has for all customers...

...The mapping of claims hotspots across the country was completed in the first half of 2017 and will play an **important role in prioritising surfaces and hazards for remediation** in towns across the country...

the competitiveness of commercial enterprise unless it is tackled. For IPB, the impact of internal claims management improvements and the signs of a moderating claims environment are very encouraging.

A further welcome development for the broader industry was the Supreme Court ruling on the Setanta Insurance case, which found that the Motor Insurers Bureau of Ireland (MIBI) was not liable for the cost of third-party claims of insolvent insurers. Unfortunately, in our experience, the amended Book of Quantum has increased the level of damages awarded by the Injuries Board for most categories of injury. Notwithstanding the increased levels of awards, the rejection rate of Injuries Board awards remains high amongst claimants with only three in every five claimants accepting Injuries Board awards.

Process Improvements

We have now embedded our multifaceted claims strategy, working closely with our Members. During the year we introduced Liability Loss Adjustors (LLAs) to assist in the investigation of claims on behalf of our Members. The response from local authority engineers has been hugely positive and it is now embedded as the preferred model for early investigation and claims report generation. This has led to reductions of up to 75% in report-completion times (from an average of 267 days to 70 days) as well as significant improvements in the quality and detail contained within the documentation received. Earlier reporting and shorter claims lifecycles are two factors that will ultimately result in lower claims cost and better claims outcomes.

During the year, our dedicated fraud Special Investigations Unit (SIU) had notable successes resulting in savings for Members of €1.7m (2016: €0.7m). The mapping of claims hotspots across the country was completed in the first half of 2017 and will play an important role in prioritising surfaces and hazards for remediation in towns across the country. We also invested in additional resourcing through increased headcount, systems upgrades, insurance cover improvements and delivery supports to meet the increased demand from Members.

I am pleased to report that we achieved our target to map specific categories of claims across all local authority areas, utilising geo-location technology to identify and analyse claims trends. This initiative has received a hugely positive response from Members who seek to reduce the incidence of claims through proactive risk management and remediation activity, particularly in claims hotspots.

In 2018 we will continue to support this initiative and we have intensified our efforts in working with our Members to reduce public liability claims through a process of education and awareness of the factors causing claims. Our Client Enterprise Risk Department is concentrating on risk management and remediation aimed at eliminating the cause of accidents with the objective of reducing personal injury claims.

Government Leadership

I would like to acknowledge the leadership shown by Government by introducing initiatives that have the potential to assist in tackling the current challenges facing the insurance industry. In particular, the review undertaken by the Cost of Insurance Working Group (CIWG) and the updating of the Purple Book by the Road Management Office (RMO) are two such initiatives that will assist our Members in tackling claims cost challenges.

CIWG

IPB participated in Phase Two of the CIWG review during the year, which studied the potential drivers of liability insurance costs in Ireland. As one of the largest liability insurers in the market, we presented our views and recommendations to the CIWG with a focus on tackling claims frequency and claims cost inflation. Our contribution outlined a range of issues that if addressed, we believe, will result in improved claims outcomes over the medium to longer term and consequently reduce insurance premiums. Our key message to the CIWG was: "If as a country we fail to tackle the quantum of minor personal injury awards and bring them into line with other European countries, the cost of insurance will not decrease to levels experienced in other jurisdictions."

The publication of Phase Two of the CIWG Report on January 25th featured several of the recommendations presented to the Group by IPB. I believe the Report's findings will help bring much-needed stability to the cost of liability insurance. However, this will depend on full and proper implementation of the Report's recommendations. Benchmarking awards against European norms and achieving consistency concerning personal injury award levels are required if the cost of claims, and ultimately insurance premium, are to return to more sustainable levels.

RMO & Purple Book

Last April, the RMO published the updated Purple Book and in January this year launched the national online road opening system, MapRoad Roadworks Licensing

...I am pleased to report that the cost of running your Mutual remained at the lower end of the industry range, **our expense ratio of 14.9% is well ahead of our peers** whereas the industry average was 26%[3] in 2016...

(MRL). The road opening system operates in accordance with the guidelines for Managing Openings in Public Roads as set out in the updated Purple Book. The update to the Purple Book will assist Members in identifying claims where third parties have undertaken works. This will provide greater clarity on who is liable for a claim. IPB's Risk Management Team is working closely with Members and the Land Use and Transportation Committee (LUT) to support their efforts in embedding the system.

Strategic Development

A key strategic goal for us is the continuing transfer of risk from our Members' balance sheets to ours, along with the implementation of our claims management strategy. The outcomes from these initiatives will see improved protection and an overall stronger financial position for our Members. This will also lead to more accurate budget forecasting for Members with greater certainty around future insurance costs.

Modified Community Rating

Another critical component of our strategic development was the introduction of a Modified Community Rating (MCR) pricing model for Members. The MCR model applies rate adjustment on a more equitable basis, preventing some Members overpaying and others underpaying. The MCR model became operational in January 2017 and delivers more accurate and equitable pricing, taking into account individual Member performance and at the same time retaining the core community rating model.

Capital Adequacy and Solvency II

As a company, IPB understands and is fully committed the obligations of our ever-changing regulatory environment. We have now firmly embedded the Solvency II requirements concerning capital, governance and risk management as well as reporting and public disclosure.

As at the 31 December 2017, IPB remains highly capitalised under the Solvency II regime. In October 2017, Standard & Poor's maintained IPB's credit rating at A- (Stable) and continues to note the capital and financial strength aspect of IPB's rating as AAA. This has been achieved against the backdrop of a significant distribution of retained earnings to Members. Notwithstanding this, I am confident that we have the appropriate levels of capital to support our appetite for growth including the ongoing transfer of Members' risk to IPB's balance sheet through the elimination of Retro[1] and policy excesses[2]. To that end, our three-year business plan to year-end 2020 has been robustly challenged by stress and scenario testing aligned to the company's Own Risk and Solvency Assessment (ORSA) process.

Listening to Members

New Products

By listening to, and working closely with our Members, we have enhanced our product offering and delivery supports. The evolving risk profile of our Members requires continuous assessment to ensure that your Mutual can provide insurance and risk management solutions to respond to new and emerging risks. In the fourth quarter of 2017, we introduced two new insurance products for Members along with an enhancement to an existing product.

Environmental Impairment Liability – General Operations Cover (EIL GO)

EIL GO is a product that offers protection for Members against environmental damage arising from their day-to-day operations at any of the wide range of non-specified sites that they manage.

Cyber & Data Security Insurance

Cyber-attacks are a growing risk for enterprises of all sizes and a cyber-related crisis can be one of the most complicated challenges for any organisation. IPB's new cyber product offers a wide range of benefits including cover for financial loss, emergency 24-hour access to crisis management support as well as significant forensic and analytical facilities and expertise.

Engineering Insurance

During the year, we reviewed our Members' engineering cover requirements and subsequently realigned this offering by taking over the underwriting of this risk. This supports our objective of owning and managing all Member insurable risks.

All these products are now available to Members. A critical component of our commitment will see us continue to identify potential risks and seek to provide comprehensive insurance solutions that deliver peace of mind at competitive premiums.

Member Survey

IPB's annual Members' Satisfaction Index (MSI) is an important reference point in guiding us on Members' views and needs. In 2017, following discussion with our Members' representative bodies, the survey format was enhanced to include feedback generated from one-to-one telephone interviews.

Specialist Research agency B2B Research Ltd. conducted the surveys over an eight-week period commencing in November 2017. The survey achieved an overall response rate of 72% and I am delighted to report that the findings recorded a robust overall satisfaction level of 96% (2016: 94%). The overall average of all satisfaction metrics is the highest achieved in the five-year history of the survey. In particular, I am encouraged to see our Members give IPB a 98.6% trust rating, a strong endorsement of our mutual model.

Great Place to Work

We continue to focus on developing the company's workplace culture, built on our mutual values. I would like to acknowledge the support and efforts of everyone in the organisation from our Board through to all our employees in achieving official recognition as a 'Great Place to Work'. The Great Place to Work Institute ranked IPB as one of Ireland's top 20 places to work in the medium-sized enterprise category at their annual national awards ceremony in February of this year. These awards are focused on identifying high-performance workplaces and this achievement reflects our ongoing efforts to deliver on our commitment to creating a great place to work and living the values of our mutual ethos.

Quality Management System

In February 2017 we successfully transitioned to the new version of the international standard I.S. EN ISO 9001:2015 following an audit by the National Standards Authority of Ireland (NSAI). Accreditation to the new standard demonstrates our ongoing commitment to quality assurance, process-efficiencies and delivering a high-quality offering to all customers.

Conclusion

The introduction of the MCR model for Members was a significant development for the company in 2017. I am happy to report that 84% of local authority Members have transferred additional risk to their Mutual through a combination of elimination of excesses and/or retro-rated premium in the past 12 months. This will continue to be a critical area of focus for the business for the coming year as we aim to further cement our position as a leading liability insurer in the Irish market.

The claims environment is showing signs of stabilising; however, overall it remains challenging. The high cost of claims continues to be a concern particularly regarding award levels for soft tissue and other minor injuries.

We are, working in partnership with our Members, making great progress in transferring insurable risks from our Members' balance sheets. As your Mutual insurer, it makes sense that we underwrite all identifiable insurable risks that Members face in the course of your daily operations. We have unrivalled expertise in the sector and I believe we have an obligation to offer optimum levels of cover that may not otherwise be available in the commercial market.

As a mutual, we are conscious that we must deliver maximum value to our Members. I am pleased to report that the cost of running your Mutual remained at the lower end of the industry range: our expense ratio of 14.9% is well ahead of our peers whereas the industry average was 26%[3] in 2016.

We are on a clear path to modest, yet sustainable growth in keeping with our mutual ethos. I am convinced that by continuing to work shoulder to shoulder with our Members to manage and remediate risk, our combined efforts will lead to a safer public environment for citizens and savings for the Sector through reduced claims and ultimately lower premiums.

Michael Garvey
Chief Executive Officer

1 'Retro' refers to retro-rated premium whereby policyholders' premiums are calculated for liability insurance retrospectively based on the insured's actual claims experience during the policy term. As the lifespan of a claim can span a number of years, the claims experience or losses may result in Retro premium balances accruing over time. Elimination of these historic balances and this basis of rating provides greater certainty regarding the insured's annual insurance costs, aiding their budgeting process.

2 Policy Excess refers to a first portion of a claim amount for which the policyholder is not covered. Amounts exceeding this portion are then covered by the insurer up to the maximum limits within the policy. Ground-up cover is where no policy excess applies and the insurer is liable for the full amount of the claim for which cover is provided under the policy.

3 Source: Insurance Ireland Factfile 2016

MANAGEMENT ANALYSIS

The Business has again returned a very solid surplus for the year at €42.3 million, primarily due to better-than-expected investment returns and continued year-on-year improvement in our underwriting result.

CHALLENGES

In recent years our **strong investment return** has cushioned the impact of a challenging claims environment.

Volatility in markets **directly impacts** our investment return.

NUMBER OF NEW CLAIMS

2015: 6,046

2016: 6,440

2017: 6,772

NET COMBINED RATIO (NCR)

The NCR for the year improved to 97.7% due to better underlying performance of the Business.

2016: 104%

2017: 97.7%

95% STRATEGIC TARGET

ACTION NEEDED/ FOCUS ATTENTION

In preparation for this market change we are now focused on ensuring the sustainability of the core business to achieve a return.

- Management of **claims frequency and cost.**
- Further **reductions in operating expenditure.**
- Continue to **grow GWP** in line with risk appetite and needs of Members.

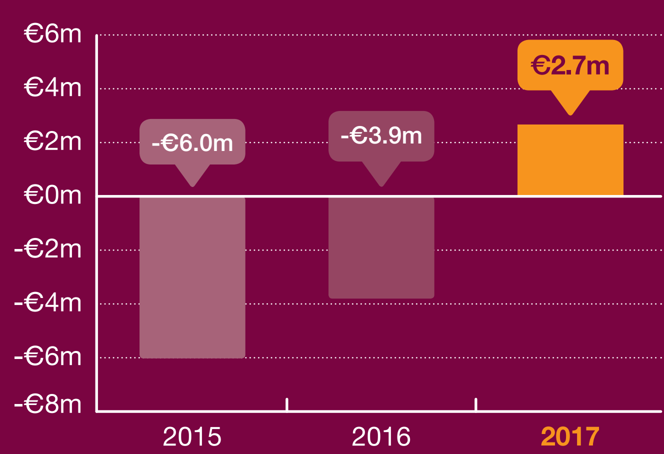
OPERATING EXPENDITURE

Our operational expenditure ratio of 14.9% is well ahead of our industry peers (26%).

14.9%

2016: 15%

NET UNDERWRITING RESULT



RETURNING VALUE TO OUR MEMBERS

We have five years to achieve our targets. In tandem with substantial **retained earnings distribution,** insurance **risk is to be transferred** from Members to IPB.

We will focus on **remediating or removing hazards** that result in claims against our Members.

€200m
OVER 5 YEARS

A- (STABLE)
STANDARD AND POOR'S RATING MAINTAINED IN 2017

SOLVENCY 3.4 COVER RATIO

NEW DIVIDEND 40% of surplus after tax MODEL

We are committed to:

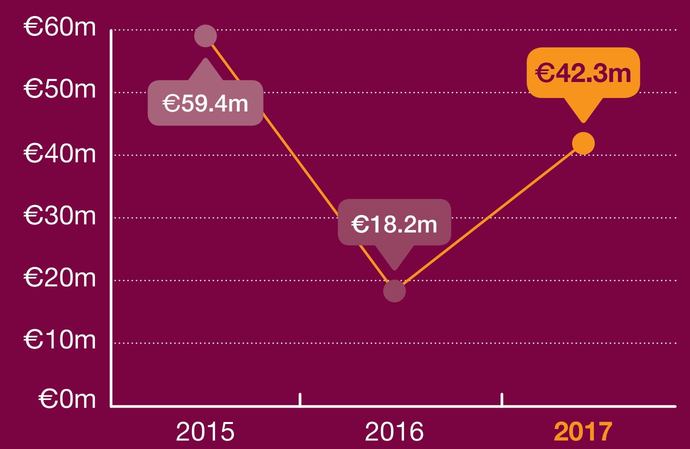
- Retaining **A rating.**
- Maintaining our **strong capital position.**

SUSTAINABLE PRICING

We are committed to providing sustainable **return of retained earnings to Members** on an ongoing basis.

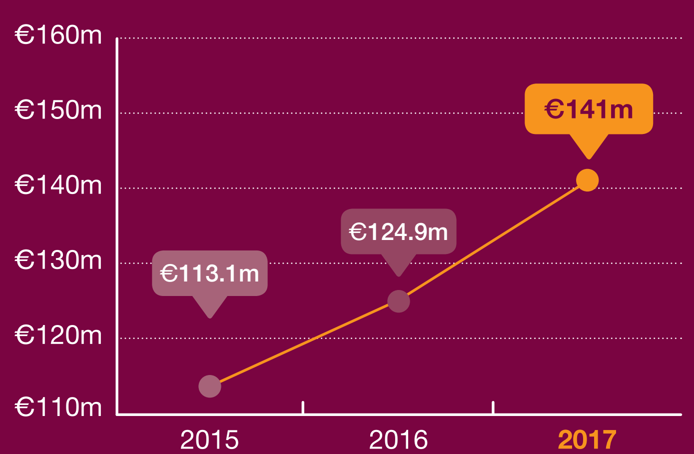
SURPLUS BEFORE TAX

Investment performance exceeded forecasts and served as the primary driver of the reported surplus for the year.



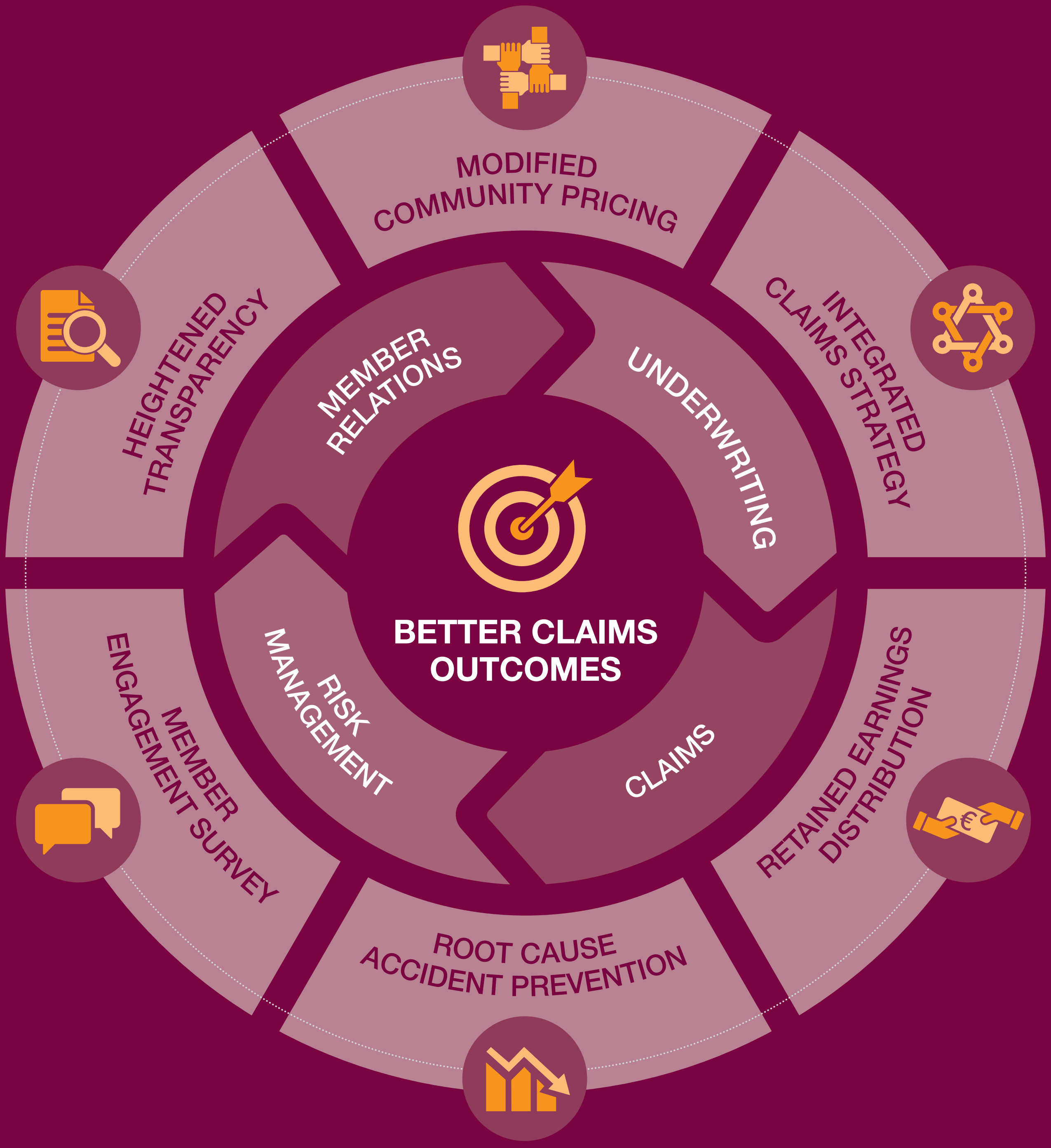
GROSS WRITTEN PREMIUM

Steady growth in premium levels as we underwrite broader and wider cover for our Members and other clients.



ADDING VALUE FOR OUR MEMBERS

Our focus for the year centred on the delivery of our stated objectives of transferring more of our Members' insurable risks from their balance sheets to ours and supporting Members in the management and mitigation of their insurable risk.



MODIFIED COMMUNITY RATING

- Fair and sustainable pricing
- Rate and pricing strategy
- Timely communications
- Enhanced products

INTEGRATED CLAIMS STRATEGY

- Fraud initiatives
- Litigation strategies
- Engineer engagement
- Process improvements

RETAINED EARNINGS DISTRIBUTION

- Substantial return of earnings to Members enabling transfer of insurable risk
- Stabilisation of future premiums

ROOT CAUSE ACCIDENT PREVENTION

- Increased awareness
- Proactive risk management
- Elimination of claims causing hazards
- Reduced accident and injury
- Reduction in claims and cost of claims

MEMBER ENGAGEMENT SURVEY

- 96% overall satisfaction
- 99% found IPB to be trustworthy
- 96% found IPB to be responsive

HEIGHTENED TRANSPARENCY

- Increased understanding of process
- Enhanced MI
- Targeted and focused communications
- Enabled to take remedial action

SOCIAL ENTERPRISE DEVELOPMENT FUND

In partnership with our local authority Members, IPB has teamed up with Social Innovation Fund Ireland (SIFI) and the Department of Rural & Community Development to create a national Social Enterprise Development Fund (SEDF).

SOCIAL ENTERPRISES are becoming increasingly important in addressing social and ethical needs and doing so in a manner that is sustainable into the longer term. The importance of this emerging enterprise classification is recognised by our local authority Members and features in their Local Economic and Community Plans (LECP).

The SEDF is a €1.6 million fund that will be invested in the most promising social enterprises across Ireland. Delivered over a two-year term, successful applicants will receive a place on a six-month Accelerator Programme, reserved for the most promising social enterprises across our local authority Members' areas. The programme will also result in eight successful applicants receiving financial support of €50,000 each across three categories, Urban, Town and Rural, with a minimum of two awardees from each category.

Accelerator Programme

The Accelerator Programme will run over a six-month period for all social enterprise applicants determined as being at the appropriate stage for next-stage development. The programme is designed to help social enterprises develop their business skills and to provide them with ongoing peer support and advice, so that they develop sustainable enterprises that have a powerful impact in their community. Coordinated by Social Innovation Fund Ireland, it is designed to address specific challenges that social enterprises face such as marketing, operations, financials and growth strategy. They will also benefit from access to a peer-network of the very best social enterprises in Ireland.

Pictured at the launch of the €1.6 million Social Enterprise Development Fund at IPB's offices are (from left to right) Fingal County Council Chief Executive Paul Reid, IPB Chairman George Jones, SIFI Chief Executive Deirdre Mortell, Minister of State for Rural Affairs and Natural Resources Seán Kyne and IPB Chief Executive Officer Michael Garvey.

Addressing Social Needs

Unlike conventional, profit-orientated businesses, social enterprises often view success as the ability to collaborate around a shared goal rather than to simply compete and grow the size of their organisation. They often play a particularly important role in areas of market failure for social services such as in rural areas. Social enterprises operate across a wide range of sectors and vary in size from small independent operators to larger community-based enterprises. One thing they all have in common is that they are established to address social needs.

Economic Impact

According to SIFI, it is estimated that social enterprises could grow to represent 5% of GDP and generate at least 65,000 jobs; currently it is estimated that between 25,000 and 33,000 people are employed in over 1,400 social enterprises. But while job creation is important, the bigger impact of social enterprise is in providing sustainable solutions to many societal problems. The fund launched in January 2018; awardees will be announced during the summer and showcased at a special event later in the year.

REPORT OF THE BOARD AND EXECUTIVE

GOVERNANCE AND CONTROL AT IPB

The Board is responsible for ensuring the effectiveness of IPB's system of internal control, which manages the risk of failure to achieve business objectives and provides assurance against the risk of material misstatement and/or loss.

IN LINE WITH the Corporate Governance Requirements for Insurance Undertakings 2015 ('the Requirements') the Board confirms the application, up to the date of approval of the financial statements, of an ongoing and regularly reviewed process for identifying, evaluating and managing IPB's significant risks. Key internal control provisions include:

- **A Risk Committee** with responsibility for establishing, documenting and devolving a comprehensive risk management framework
- **An Audit Committee** with responsibility for overseeing IPB's financial reporting, audit, legal and regulatory compliance monitoring processes
- **An Investment Committee** responsible for reviewing and providing guidance on the asset allocation strategy and the investment activities of the business
- **A Remuneration and Nomination Committee** responsible for approving IPB's Remuneration Policy for recommendation to the Board and supporting an annual compliance assessment
- **An internal audit function,** the main role of which is to identify, monitor and manage significant internal control risks for IPB
- **A risk management function** underpinning all aspects of the business and overseeing a risk management framework supporting the operation of risk management policies in the areas of underwriting, reinsurance, claims reserving and investments. The risk management function acts in tandem with a compliance function overseeing a compliance and regulatory governance framework and providing assurance that IPB operates in a transparent, compliant manner
- **A comprehensive functional management control system** that provides, among other things, financial controls incorporating budgeting and periodic variance analysis.

The above are reinforced via clearly defined lines of responsibility and authority, while our risk governance operating model involves adopting the 'three lines of defence' risk management system with the first line comprising business and front line operations, risk management and internal control; the second line comprising risk, legal and compliance; and the third line comprising internal and external audit.

...The risk management function acts in tandem with a compliance function **overseeing a compliance and regulatory governance framework** and providing assurance that IPB operates in a transparent, compliant manner...

CORPORATE GOVERNANCE LEADERSHIP STATEMENT

IPB ensures compliance with Articles 44-51 (System of Governance) of EU (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485 of 2015), and while not deemed a major institution under the Requirements, IPB is committed to adhering to associated corporate governance standards.

Role of the Board

The Board's key role involves leadership and oversight of the Chief Executive Officer's effective implementation of the business strategy. The Chairman is responsible for leading the Board and ensuring the full participation of each Director.

Constructive challenge by the Board to Management is critical in providing assurance to IPB's stakeholders that the business and its Management Team achieve appropriate governance standards while meeting the goals and objectives of the business.

Composition of the Board

Board membership is consistent with regulatory requirements and responsive to the evolution of IPB's business activities. The Board, following Central Bank of Ireland consultation on its optimum composition, is comprised of four group non-executive Directors, three independent non-executive Directors and two executive Directors. The independent non-executive Directors' skills assist the development of the business while the group non-executive Directors ensure maintenance of the experience of the Membership's operations and continuity of IPB's strong legacy, and each Board member participates in a comprehensive training and development programme to ensure continuous enhancement of skills, knowledge and experience.

The Key Role of The Board and Board and Committee Meeting Protocol

The Board requires its Directors to act in the best interests of the business and be independent of any other institution, Management, political interests or inappropriate outside interests, including their own. In advocating a requirement for transparency at all levels of the business, the Board has elected to require a declaration of conflicts of interest by Directors as a standing agenda item at its Board and Committee meetings. A Conflicts of Interest Policy features as part of the Business Code of Conduct Policy, which the Board has approved as part of this objective, and the Directors have, during 2017, satisfied the requirements of independence in line with the Fitness and Probity Standards. Prior to each Board and Committee meeting, each Director is provided with papers in a timely fashion and the Company Secretary acts as the central point for management of Board and Committee meetings, the coordination of documentation, and attendance to procedural compliance with regulatory control requirements. Where a Director requires additional information, expertise or guidance they can call upon any member of the Management Team to provide verbal briefings or written reports, or seek external expertise in consultation with the Company Secretary.

Board Performance

The Board undertakes an annual written evaluation of its performance and that of its Committees and Directors, with actions agreed on identifying enhancement opportunities such as the prospect of a rotation of the role of Committee chairpersons. An independent review of the Board's effectiveness was undertaken in 2015 in line with best practice adherence to governance provisions, with a further review scheduled for 2018. The roles of Chairman and Deputy Chairman are elected annually by the Board and, in line with the Requirements, each Director's role is reviewed and renewed, or re-elected, or retired, as appropriate, via the annual evaluation process. A further review is conducted every three years

...The Board requires its Directors to **act in the best interests of the business** and be independent of any other institution, Management, political interests or inappropriate outside interests, including their own...

post-appointment, and a review of the membership of the Board of any person who is a Director for nine years or more is conducted on an annual basis, with written documentation of the rationale for any continuance submitted to the Central Bank of Ireland by the Board.

Terms of Reference and Reserved Powers – Responsibility

The Board meets regularly or as required to meet its responsibilities per its authority as outlined in clear terms of reference detailing items relating to business strategy, internal risk and regulatory management frameworks and other systems of control reserved for discussion, debate and decision. The Board, in conjunction with the Nomination Committee, will also engage as apt in the process of appointing and removing key roles within the Board membership or Management, providing the required oversight of the activity of the business to inform its consideration of the risk appetite.

THE BOARD OF DIRECTORS

George Jones
Chairman & Group Non-Executive Director

George is a member of the Institute of Directors in Ireland and the Insurance Institute of Ireland. He has spent in excess of 40 years working in the insurance industry, holding management roles in the areas of corporate, personal, commercial and human resources. George has extensive experience of local government, having been associated with Wicklow County Council and Greystones Town Council for over 38 years.

Michael Garvey
Chief Executive Officer & Executive Director

Michael is a member of the Institute of Directors in Ireland, the Insurance Institute of Ireland and a fellow of the Association of Chartered Certified Accountants. Michael has over 30 years' experience in the insurance industry in various leadership roles and has developed extensive director experience at Board and shareholder level in working with two of Ireland's largest insurance companies over a period in excess of 20 years.

Michael McGreal
Deputy Chairman & Group Non-Executive Director

Michael is a member of the Corporate Governance Association of Ireland, the Insurance Institute of Ireland and the Institute of Directors in Ireland. He has attained a Diploma in Corporate Governance from University College Dublin and holds a Certificate in Company Direction awarded by the Institute of Directors UK. Michael is a member of the National Oversight and Audit Commission (NOAC) at the Department of Housing, Planning, Community and Local Government and he also has a long history of involvement in local government, having been associated with Roscommon County Council for over 30 years.

Enda Devine
Finance Director & Executive Director

Enda is a fellow of the Association of Chartered Certified Accountants, a fellow of the Institute of Bankers, a member of the Institute of Directors in Ireland and a member of the Insurance Institute of Ireland with a Diploma in Information Systems awarded by Trinity College Dublin. He has held a number of senior executive and Board-level positions in leading financial services organisations throughout a period in excess of 15 years.

Michael Fitzgerald
Group Non-Executive Director

Michael is a member of the Institute of Directors in Ireland and the Insurance Institute of Ireland. A Tipperary county councillor for 35 years, he has served as chairman of his local authority on three occasions, chaired the South East Regional Authority and acted as president of the Association of County and City Councils. Michael became the first cathaoirleach of the newly established Tipperary County Council in 2014 and he acts as its representative on the Governing Body of University College Cork.

Dermot Gorman
Independent Non-Executive Director

Dermot has over 35 years' experience in the insurance industry. He is a Fellow of the Chartered Insurance Institute and a chartered director with the Institute of Directors. He is a member of the Insurance Institute of Ireland and the Institute of Directors in Ireland, and an affiliate member of the Society of Actuaries in Ireland. He holds a Diploma in Finance Law from the Law Society of Ireland and a Diploma in Corporate Governance awarded by University College Dublin, together with a Diploma in Company Direction awarded by the Institute of Directors UK.

Sean O'Grady
Group Non-Executive Director

Sean is a member of the Institute of Directors of Ireland and the Insurance Institute of Ireland, with considerable knowledge in the insurance industry gleaned from over 30 years of professional experience. He has served as mayor of Killarney on five occasions, is a former member of Killarney Town Council with over 40 years' experience, and is a founding member and former director of Killarney Credit Union.

John Smyth
Independent Non-Executive Director

John is a chartered director, chartered secretary and fellow and past president of the Institute of Directors in Ireland. He was recently appointed to the Board of the Department of Finance, Northern Ireland and is chairman of its Audit and Risk Assurance Committee. He is a professional corporate governance specialist with extensive experience in Ireland, the United Kingdom and Europe and he has been awarded a Diploma in Corporate Governance by University College Dublin and a Diploma in Company Direction by the Institute of Directors UK.

Caitríona Somers
Independent Non-Executive Director

Caitríona is a chartered director and fellow of the Chartered Insurance Institute and the Chartered Institute of Loss Adjusters, with a Diploma in Company Direction and an MSc in Business and Digital Innovation. She has extensive experience of the general insurance industry developed throughout her career, during which she spent ten years as CEO of the Irish subsidiary of a global loss adjusting, claims management and risk solutions firm and was a member of the executive global leadership team of the group.

MEETINGS ATTENDED

			BOARD 10 meetings in 2017*	AUDIT COMMITTTEE 5 meetings in 2017	INVESTMENT COMMITTEE 4 meetings in 2017	REMCO 8 meetings in 2017	RISK COMMITTEE 5 meetings in 2017
NAME	APPOINTMENT DATE	TERM ON THE BOARD (YEARS/ MONTHS)	ROLE / ATTENDANCE	ROLE / ATTENDANCE	ROLE / ATTENDANCE	ROLE / ATTENDANCE	ROLE / ATTENDANCE
George Jones Chairman & Group Non-Executive Director	25 May 06	11.7	Chairman 10	Invitee 4	Invitee 1	Member 8	Invitee 2
Michael Garvey Chief Executive Officer & Executive Director	02 Sep 16	1.3	Member 10	Invitee 5	Member 4	Invitee 6	Invitee 5
Michael McGreal Deputy Chairman & Group Non-Executive Director	26 May 05	12.7	Deputy Chairman 10	Member 5	– –	Chairman 8	– –
Gary Cullen Independent Non-Executive Director	21 Jul 11	6**	Member 6	– –	– –	Member 4	Member 3
Enda Devine Finance Director & Executive Director	02 May 12	5.7	Member 10	Invitee 5	Member 4	Invitee 3	Invitee 5
Michael Fitzgerald Group Non-Executive Director	31 May 07	10.7	Member 10	– –	– –	– –	Member 5
Dermot Gorman Independent Non-Executive Director	21 Jul 11	6.5	Member 9	Member 5	– –	Member 8	Chairman 5
Sean O'Grady Group Non-Executive Director	29 May 08	9.7	Member 10	– –	Member 4	– –	– –
John Smyth Independent Non-Executive Director	21 Jul 11	6.5	Member 10	Chairman 5	Chairman 4	Member 8	– –
Caitríona Somers*** Independent Non-Executive Director	01 Jul 17	0.5	Member 4	– –	– –	Member 4	Member 2

*Including a Board Strategy Day
**Retired as a Non-Executive Director, 30 June 2017
***Appointed as Independent Non-Executive Director, 1 July 2017

Changes in committee composition on retirement of Garry Cullen on 30 June 2017 and appointment of Caitríona Somers on 1 July 2017:

- Garry Cullen retired as Investment Committee Chairman and John Smyth was appointed to the role
- Garry Cullen retired as Risk Committee Chairman and REMCO member and Caitríona Somers was appointed to the role.

THE BOARD COMMITTEES

The Board has, taking into account the size and complexity of IPB as a business, delegated authority to an Audit Committee, Risk Committee, Investment Committee and a Remuneration and Nomination Committee to complete programmes of work on its behalf and report regularly under clear terms of reference reviewed on an annual basis at a minimum, and accessible by all stakeholders on IPB's website at www.ipb.ie.

The Audit Committee

During 2017 the Audit Committee was extensively engaged in reviewing IPB's approach to its claims and underwriting activities, with an on-going evaluation of IPB's approach to combating fraud. This activity was undertaken in addition to the discharge of responsibilities specified in its terms of reference which include, among other things, reviewing and monitoring the integrity of IPB's financial statements and the judgements therein for Board recommendation; reviewing the terms of engagement, aptitude, independence and annual plans of the auditors and making recommendations to the Board; and assessing the adequacy of internal controls. The Audit Committee Chairman has outlined his role and the Audit Committee's objectives over the coming year as: "continuing to oversee assurance in an enhanced control environment by encouraging challenging and constructive interrogation of submissions, assessing external environmental issues and their potential impact on IPB and corresponding control implementation, ensuring the ongoing effectiveness of audit functions and the integrity of financial reporting to Members and other stakeholders, and providing the Board with confirmation of apt advancements in this area. The Committee members have actively engaged in discharging their responsibilities during 2017 and our priorities in maintaining this momentum include overseeing a targeted approach to ensuring IPB's continual commitment to best practice, satisfying the reporting requirements of the Companies Act 2014, the EU (Statutory Audits) Directive and EIOPA Guideline 37."

The Risk Committee

The Committee is responsible for overseeing the risk management function via identifying, measuring, monitoring, reporting and managing IPB's risk exposures, and advising the Board on risk strategy and policy in line with IPB's risk appetite, system for monitoring alerts, and proximity warnings to ensure pre-emptive action in advance of potential breaches.

2017 has seen the continued evolution of IPB's Risk Framework, particularly in relation to the articulation of risk appetite and risk monitoring. Following the retirement of Garry Cullen in July 2017, Caitríona Somers joined the committee and brings extensive experience of general insurance in the Irish market. The Risk Committee Chairman has noted that he has articulated the Risk Committee's objectives over the coming year as: "continuing to ensure the risk management function's effective engagement with the business and other assurance functions, monitoring the adequacy of information security and cyber security, and engaging with product development initiatives in our Members' interests throughout 2018."

...The Investment Committee's remit … includes reviewing and monitoring the application of IPB's Investment Policy in line with the Risk Appetite Statement in order to **produce the best possible returns** in recognition of solvency requirements and regulatory provisions...

The Investment Committee

The Investment Committee's continuous review of the performance of IPB's investment portfolio continued in 2017 with analysis of the implications of risk and regulatory requirements on performance. The Investment Committee's remit, as detailed in its Terms of Reference, includes reviewing and monitoring the application of IPB's Investment Policy in line with the Risk Appetite Statement in order to produce the best possible returns in recognition of solvency requirements and regulatory provisions. The Investment Committee undertook the activity outlined above in 2017 in addition to considering political developments associated with Brexit and the outcomes of elections in the United States of America and the EU. The Investment Committee Chairman has commented on its intended activities for 2018 as involving: “The continual review of the appropriateness of the risk appetite and optimum approaches to the management of foreign bond holdings together with prudent application of governance requirements to ensure the delivery of a positive performance, secure Members’ interests and provide a measure of assurance for all stakeholders.”

...The continual review of the appropriateness of the risk appetite and optimum approaches to the management of foreign bond holdings together with prudent application of governance requirements to ensure the delivery of a positive performance, **secure Members’ interests and provide a measure of assurance** for all stakeholders...

The Remuneration & Nomination Committee

The Remuneration and Nomination Committee’s remit, as per its Terms of Reference, involves recommending succession planning for the Board and Management for Board approval, and this includes overseeing the fitness and probity process associated with the appointment or removal of Board members and any head of control function by conducting an annual review of their compliance with requisite standards. The Committee is also responsible for the Board recommendation of IPB’s Remuneration Policy, non-executive Director fee structures, and the remuneration of executive Directors and individuals remunerated per the criteria specified in its Terms of Reference. The Committee’s performance of its role in 2017 included the oversight of a review, in consultation with independent external advisers, to ensure that the organisation’s remuneration and management structures serve to attract knowledgeable and experienced individuals and motivate them to perform in the long-term interests of IPB and its stakeholders.

The Chairman has commented on the engagement by the Committee in performing its duties throughout 2017 as follows: “The Committee’s contribution during 2017 to the Board’s enhancement of the organisation structure through the appointment of a Leadership Team further to the recruitment of Mr Garvey to the role of CEO and Executive Director is reflective of the commitment evidenced in its activities to ensuring ready responsiveness to IPB’s evolving operating environment. In tandem with this and the relevance of the operating environment to the matter of succession planning for the Board, the Committee engaged with the Board in the process of recruitment of an independent non-executive director to replace a retiring independent non-executive director, culminating in Ms Somers’ appointment to the Board. The assignment of two individuals to the roles of Board Observer in the context of succession planning for the Board further illustrates the Committee’s contribution to developing the skills, knowledge and experience of the Board and this will see further progression throughout 2018 and thereafter.”

RISK MANAGEMENT

Risk Management Structure

Risk management is central to safeguarding the promise that IPB makes to its policyholders and to protecting the interests of all stakeholders.

The Board is responsible for ensuring that risk is effectively managed by those involved in running the company on a day-to-day basis. The Board establishes prudent and effective controls to manage risk via the Risk Framework and sets the company's appetite for risk via the Risk Appetite Statement.

The Risk Committee assists the Board with its oversight of risk and risk management. It meets at least four times per year and follows a structured approach that covers all key risk types within the business, including emerging and strategic risks. The Risk Committee is advised by subject matter experts on risk management, underwriting, claims, investments and compliance, *inter alia.*

Risk management is core to all business activities and staff are guided by the company's risk Risk Appetite Statement as well as documented policies and procedures, underpinned by an active and embedded risk management department.

The Risk Framework

The Risk Framework describes the company's system to identify, measure, monitor and manage risk in the business. It ensures that risk management is aligned with the company's strategic objectives and it is guided by seven key principles. Implementation of the Risk Framework relies on a system of integrated risk management tools that promote a culture of risk management throughout the company.

The Board articulates risk appetite in order to ensure the solvency of the company at all times. Risk appetite is ultimately expressed in terms of detailed operating limits that guide the day-to-day activities of those entrusted to run the business. This enables the company to pursue its strategic objectives while limiting risk in a transparent and structured manner. All risks are monitored regularly and certain risk types are monitored daily. Procedures are in place to reduce risk levels should operating limits be threatened.

Risk and other company policies define the formal risk management and risk control requirements of the company.

...The Risk Framework describes the company's system to **identify, measure, monitor and manage risk** in the business. It ensures that risk management is aligned with the company's strategic objectives and it is guided by seven key principles...

The effectiveness of policies and key controls is regularly reviewed and tested.

The company uses the Solvency II Standard Formula to quantify risk in the business. The appropriateness of the Standard Formula is assessed as part of the Own Risk and Solvency Assessment (ORSA) process. This model is also used to quantify the capital impact of key events, scenarios and proposed Management actions.

The Risk Committee and Board are regularly informed by a comprehensive risk report and subject experts from relevant areas of the company. The risk report covers all risk types and includes detailed risk metrics and other data on key risk exposures. It also captures detailed information at the individual risk level. A dynamic operational risk register is the key tool in the management of operational risk. The risk management department engages with staff at all levels to ensure a detailed understanding of the various operational risks to which the company is exposed. The management of risk is further facilitated by a robust incident management policy promoting the prompt reporting and root-cause analysis of incidents and errors.

The ORSA is the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the risks the company faces. It considers the overall capital needs of the company with reference to a wide range of stressed scenarios. It also considers other risks that may be outside the scope of the Standard Formula. The company continues to evolve the ORSA in line with Solvency II guidelines as well as the profile and strategy of the company.

The Risk Function

The Risk Function, led by the Chief Risk Officer, is responsible for the design and implementation of the Risk Framework within IPB. The Risk Function is independent of other business units and has adequate resources and authority to operate effectively. The Risk Function's role includes effective oversight of and contribution to discussions on risk management and risk related matters within IPB. Core responsibilities include, *inter alia:*

- **Identify, measure, manage, monitor and report** on risks to the business
- **Implement the company's Risk Framework** and risk-related policies
- The overall **coordination of the ORSA,** including oversight of IPB's capital model
- **Reporting on risk matters** to the Board and Risk Committee including provision of a comprehensive risk report for Board and Risk Committee meetings
- **Promotion of a strong risk culture.**

...A dynamic operational risk register is the key tool in the management of operational risk. The risk management department **engages with staff** at all levels to **ensure a detailed understanding** of the various operational risks to which the company is exposed...

COMPLIANCE AND REGULATORY FRAMEWORK

IPB Insurance Company Limited by Guarantee trading as IPB Insurance is authorised by the Central Bank of Ireland (Central Bank) under the European Union (Insurance and Reinsurance) Regulations 2015 (Statutory Instrument No. 485 of 2015) to carry out non-life insurance business. IPB Insurance is an authorised 'insurance undertaking', as specified within the relevant legislation, and therefore undertakes its insurance business in the manner specific to the limitations imposed on it through the implementation of these regulatory requirements.

1st LINE

BUSINESS & FRONT-LINE OPERATIONS

Management has the responsibility for identifying and controlling risks

2nd LINE

COMPLIANCE, LEGAL & RISK

Reports to the Board and Management, and advises the first line of defence

3rd LINE

INTERNAL & EXTERNAL AUDIT

Provides assurance in respect of the design and effectiveness of the first line

THE IPB COMPLIANCE Framework is the framework for the management of compliance risk within IPB. The Framework is based on best practice within the insurance industry. IPB strives to provide its Members, clients and staff with confidence that the appropriate regulatory controls are embedded within its business. This ensures that the company continues to deliver consistency to Members and clients in a positive and commercially competitive manner. In the current regulatory environment, compliance is a clear driver for the success of IPB in the market and, as such, IPB continues to invest in its processes, policies and people to maintain a high level of compliance in every aspect of its business.

Responsibilities to the Board

The Board of IPB attaches great importance to its regulatory responsibilities and is committed to dealing with the Central Bank of Ireland as well as other regulatory bodies in an open, cooperative and transparent manner. It is the role of the Compliance function to provide reasonable assurances to the Board to enable it and its members to discharge their statutory obligations.

Although the Board has delegated the day-to-day compliance activities to the Compliance function, it exercises oversight over it in accordance with its responsibilities. The Compliance function reports directly to the Board on all regulatory matters and it has been mandated to provide training to the company on all significant legislative and regulatory issues and compliance risk management controls. It also provides periodic reporting on compliance statistics, regulatory risk analysis, action plans and significant issues to the Board and its Committees.

Scope, Universe and the Role of the Compliance Function

As defined in the IPB Compliance Framework, the Compliance function is a control and advisory function that is an integral part of the three lines of defence and risk management system within financial services firms.

The Compliance function complements IPB Insurance's other assurance functions such as internal audit, risk and legal in the provision of advice to the business and the monitoring of IPB's compliance with all applicable legislation, regulation, codes and guidelines issued by the Central Bank of Ireland, as well as other regulatory bodies.

The compliance universe of laws and regulations governing activities carried out by IPB is broad and consists of a vast number of requirements set at the national, EU and international levels including the following:

- Consumer Protection Code 2012
- Data protection
- Solvency II
- Conduct of business requirements
- Corporate Governance Requirements for Insurance Undertakings 2015
- Minimum Competency Code 2017
- Fitness & Probity Standards
- Oversight of prudential regulatory requirements
- Various legislation at EU and international levels

Roles & Responsibilities of the Compliance Function

The role of the Compliance function is to provide sufficient assurances to the Board to enable the Board and its members to discharge its statutory duties to ensure compliance with relevant obligations. The key objectives of the Compliance function are as follows:

...IPB strives to provide its Members, clients and staff with confidence that **the appropriate regulatory controls are embedded within its business.** This ensures that the company continues to deliver consistency to Members and clients in a positive and commercially competitive manner....

- The **provision of advice** to Management and the Board on existing and emerging laws and regulations
- **Guidance and education** of staff and management on compliance matters, dealing with queries, as well as the review and implementation of compliance procedures within business areas
- The **establishment and implementation** of the Compliance Framework, business identity and measurement of compliance risks
- The **identification, assessment and monitoring of compliance risk** by performing compliance monitoring activities
- **Statutory responsibilities** and liaison with regulatory and other statutory agencies
- **A compliance programme** based on a risk-based compliance plan of activities performed annually and reviewed on an ongoing basis based on time, resources and required coverage
- **Other activities** driven by business requirements.

IPB as a business continues to operate to the highest compliance and regulatory standards possible. This is only achievable with the direct participation of staff, Management and the Board as leaders of the business.

Compliance and Ethics

Compliance is not limited to the embedding of regulatory requirements to ensure compliance as a financial institution; rather, IPB seeks to operate from a position of a positive and clear ethical background in order to support the people of the business in their day-to-day management of situations that may cause any ethical concern to them.

Key policies and procedures supporting this objective include those relating to the whistleblowing policy, business code of conduct, processes concerning the management of third parties and parties personally known to staff, processes supporting the maintenance of standards of staff behaviour and general policies concerning conflicts of interest and receipt of gifts from customers.

FUNCTIONAL INTERNAL CONTROL

Management at the functional level is responsible for ensuring that a risk and control environment is established as part of day-to-day operations. They provide management assurance to the Board by identifying risks and business improvement actions, implementing controls and reporting on progress.

THE SYSTEM OF internal controls operated by Management within IPB consists of a number of inter-related elements, including, for example:

- **Management oversight** and the control culture of the organisation
- **Risk recognition and assessment**
- **Control activities** and segregation of duties
- **Information and communication**
- **Monitoring activities** and correcting deficiencies
- **Monitoring external relationships.**

Outsourcing

IPB outsources a number of functions to third parties. The Board recognises that the accountability of the Directors and Management of IPB cannot be delegated to the entities providing the outsourced facilities. Moreover, the Board is aware that while the outsourcing of certain activities can create a number of benefits to IPB, there are a number of risks attached that need to be managed effectively. Accordingly, IPB has in place a comprehensive outsourcing policy, which has been approved by the Board, as well as firmly established oversight procedures.

Internal Audit

IPB has outsourced the role of internal audit to independent third-party KPMG. The Internal Audit function provides objective and independent assurance to the Board, IPB Management and Members that a robust internal control framework is in place, while constantly striving to independently recommend enhanced operational controls as appropriate.

KPMG, on an annual basis, implements a schedule of internal audits and reviews across all functions, including the Board as part of their remit. The internal audits are carried out using a risk-based approach, and address *inter alia,* compliance risks, operational risks, systems integrity and the safeguarding of assets.

The primary reporting line for internal audit is directly to the chair of the Audit Committee. They may also report directly to the CEO, Audit Committee or the Board on their findings in respect of the above or other material considerations which may come to light.

...The Internal Audit function provides **objective and independent assurance** to the Board, IPB Management and Members that a robust internal control framework is in place...

MANAGEMENT ANALYSIS, FINANCIAL STATEMENTS AND OTHER INFORMATION

MANAGEMENT ANALYSIS

Market Context

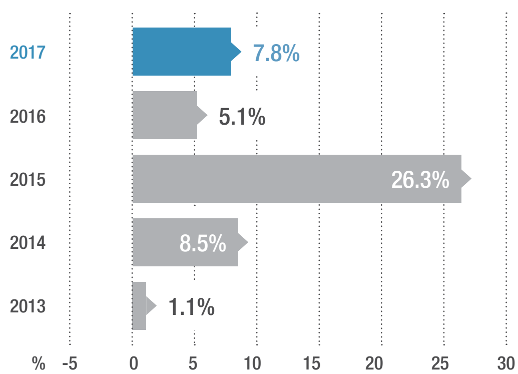
The Irish economy continues to grow at a strong pace, supported by the buoyancy of domestic economic activity.

Economy

Gross Domestic Product Growth

7.8%

Represents an increase of 2.7% from 2016



- There has been a strong economic recovery in Ireland over the past number of years.
- While headline national accounts data remain volatile (such as for 2015) and continue to be strongly influenced by the activities of multinational enterprises, the evidence from a broad range of domestic spending and activity indicators is that the domestic side of the economy is growing at a solid pace.

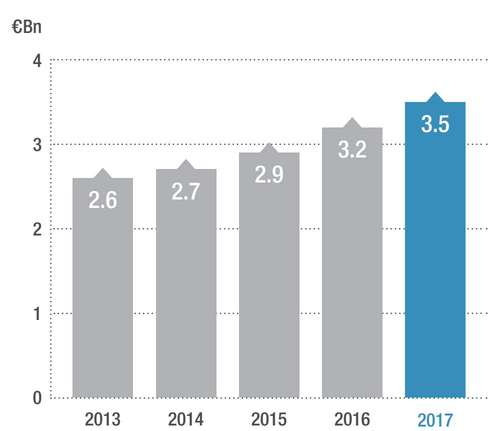
Source: Central Statistics Office.

Industry

Irish Non-Life Insurance Market

€3.5bn

The estimated value of the Irish non-life insurance market in 2017

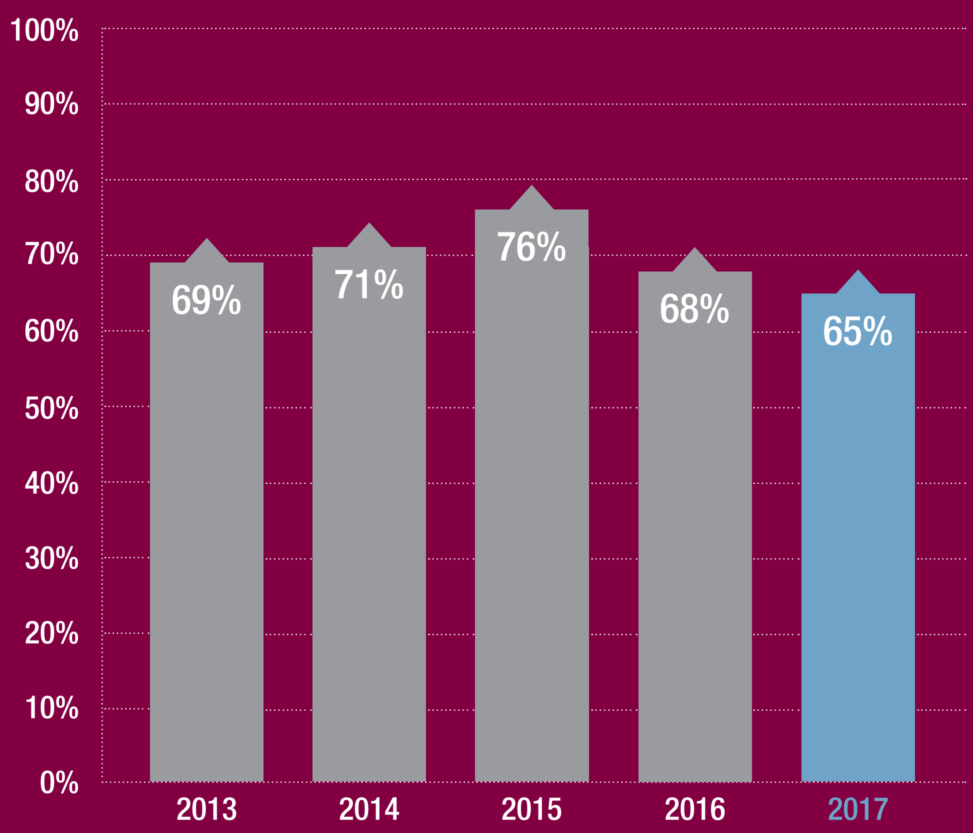


- The Irish non-life domestic insurance market grew by an estimated €0.3bn in 2017.
- The increased level of premium is driven by rate increases and improving economic conditions.

Source: Insurance Ireland Factfile 2016, Insurance Ireland Quarterly Statistics to Q3 2017 plus estimate of Q4 2017.

Market Context (continued)

Claims Environment
Market Gross Loss Ratio



65%
The estimated market gross loss ratio

- Claim costs continued to rise in 2017; however, the rise in premium was slightly higher and compressed the ratio.
- The non-life insurance industry is facing many challenges such as increasing legal and operating costs.

Note: Market Gross Loss Ratio % = Gross Claims Incurred/ Gross Earned Premium %

Source: Insurance Ireland Factfile 2016, estimate for 2017.

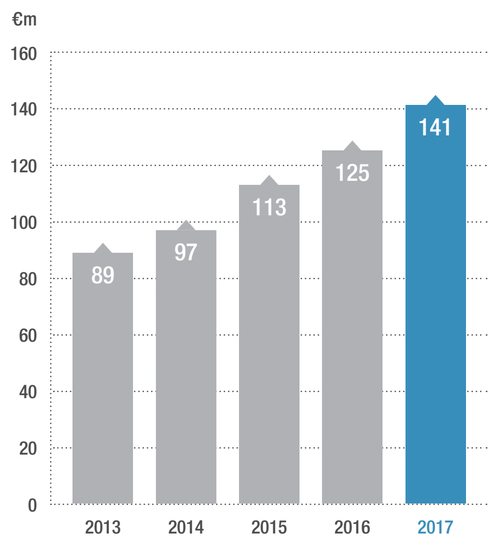
Financial Highlights

The company's financial position remains strong and the sustainability of its earnings continues to be underpinned by strong financial management.

Gross Written Premium

€141m

Gross written premium is €16m (13%) higher than in 2016

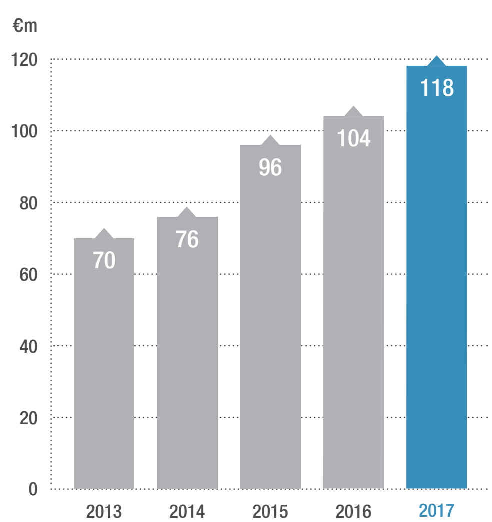


- Gross written premium grew due to increased levels of insurance cover, pricing adjustments and new business secured.
- Retention rates of circa 99%.

Net Written Premium

€118m

Net written premium is €14m higher than 2016

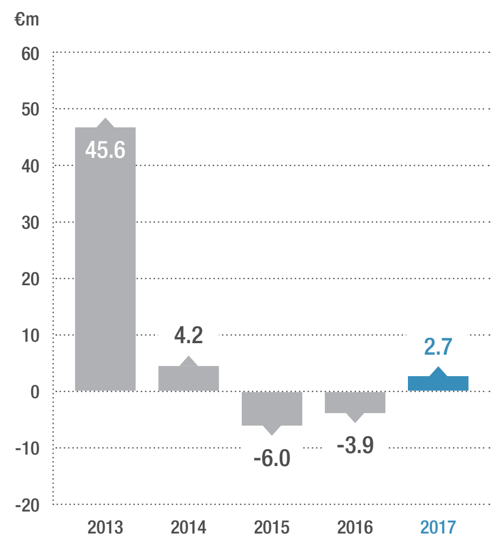


- Prudent reinsurance policy in place.
- Reinsurance profile largely unchanged year on year.

Financial Highlights (continued)

Net Underwriting Result

- The net underwriting result has improved by €6.6m in 2017 to €2.7m.
- The net underwriting result includes operating and underwriting expenses and commission income.
- The improvement in the net underwriting result is due to increased premium and a moderation in the net claims incurred performance.

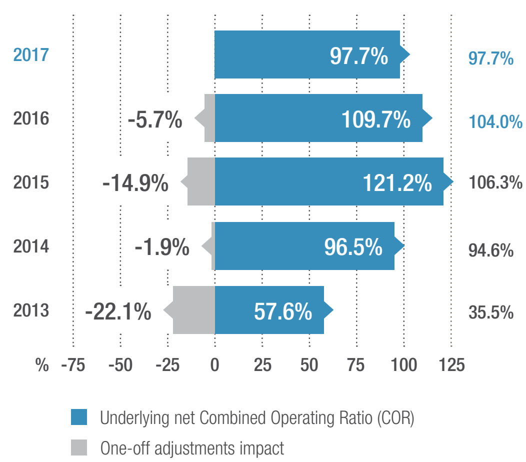


€2.7m

Net underwriting result has improved by €6.6m in 2017 to €2.7m

Net Combined Ratio

- The net net Combined Operating Ratio (COR) has improved to 97.7% from 104% in 2016 due to a positive net underwriting result.
- There are no once-off adjustments posted in 2017.
- A conservative reinsurance programme is maintained.
- The reserving policy is to create a 'best estimate' provision for claims and then add a margin for uncertainty.



97.7%

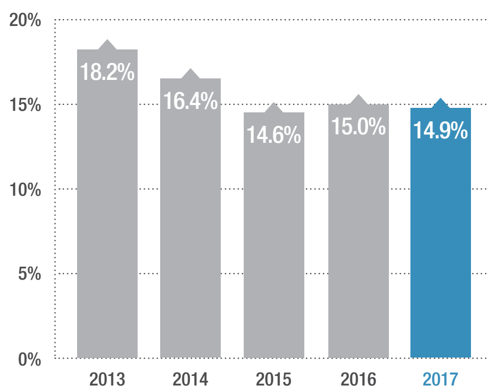
Net Combined Operating Ratio (COR)

Financial Highlights (continued)

Net Expense Ratio

14.9%

The net expense ratio reduced by 0.1% from 2016

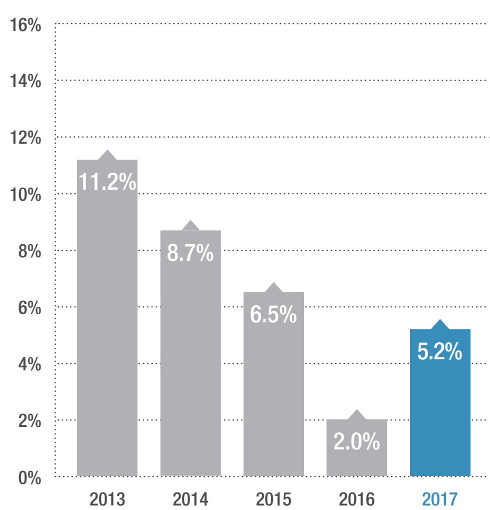


- The net expense ratio has reduced to 14.9% from 15.0% in 2016.
- An increase in reinsurance commission together with higher earned premium has reduced the overall net expense ratio.

Return on Equity

5.2%

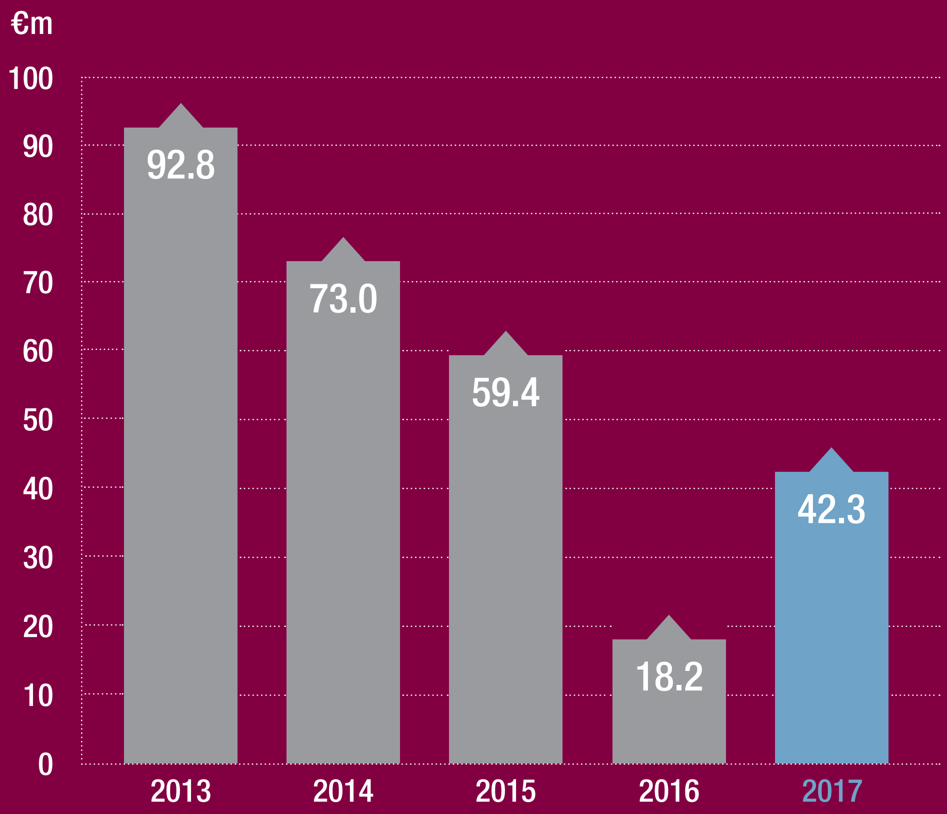
Return on equity in 2017



- Return on equity has risen to 5.2% from 2.0% in 2016.
- The increase is primarily due to strong market gains in investments.

Financial Highlights (continued)

Surplus Before Tax



€42.3m
Surplus before tax in 2017

- Surplus before tax has increased from €18.2m to €42.3m in 2017 due to increased investment returns and a positive underwriting result.

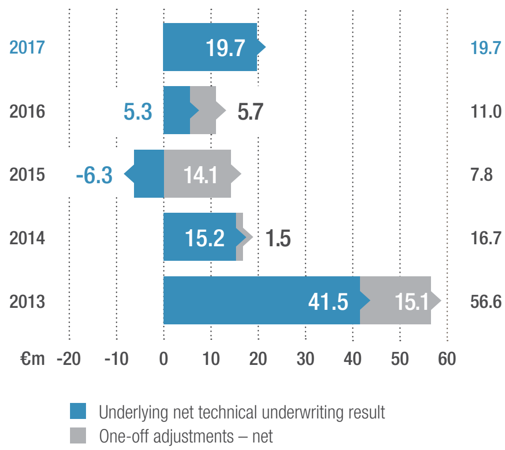
Note: Surplus before tax = profit before tax.

Financial Highlights (continued)

Technical Underwriting Result – Net

€19.7m

Underlying technical underwriting result – net in 2017



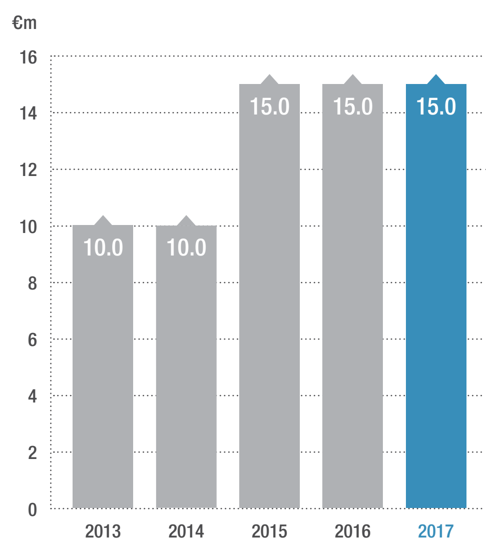
- An underlying technical underwriting profit of €19.7m was recorded.
- There were no once-off adjustments in 2017.
- The technical underwriting result excludes allocated investment income, operating costs and commission income.

Note: Once-off adjustments in prior years include movements in real yield provision, ULAE, IBNR, provision for bad debt and the MOU impact on these movements.

Members' Commercial Dividend

€15m

Members' Commercial Dividend paid out in 2017

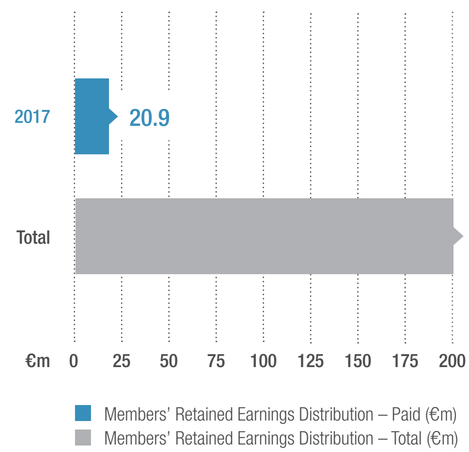


- The Members' Dividend underlines the company's commitment to Members.
- A change to the model has been introduced for 2018 and beyond whereby up to 40% of surplus after tax can be paid as Members' Commercial Dividend.

Financial Highlights (continued)

Members' Retained Earnings Distribution

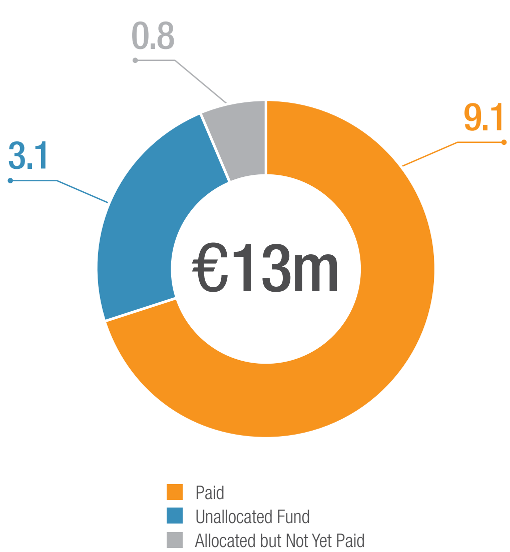
- A €200m Members' Retained Earnings Distribution was approved by Members at the 2017 AGM subject to annual review and confirmation of IPB Insurance's 'ability to pay' with reference to outstanding liabilities and wider market dynamics.
- As at the end of December 2017, €20.9m had been distributed with a further €79.1m due for distribution in 2018 and the balance of €100m to be paid over the next four years.



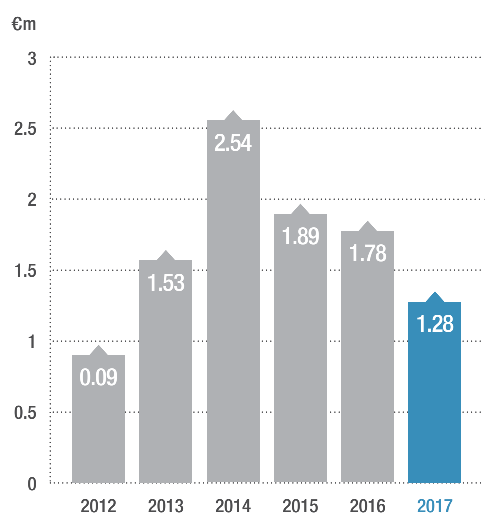
€20.9m
Members' Retained Earnings Distribution paid out in 2017

Social Dividend Fund

Total IPB CSE Fund (€13m 2012-2017)



Paid by Year (€m)



€13m
Contribution to Social Dividend Funds between 2012-2017

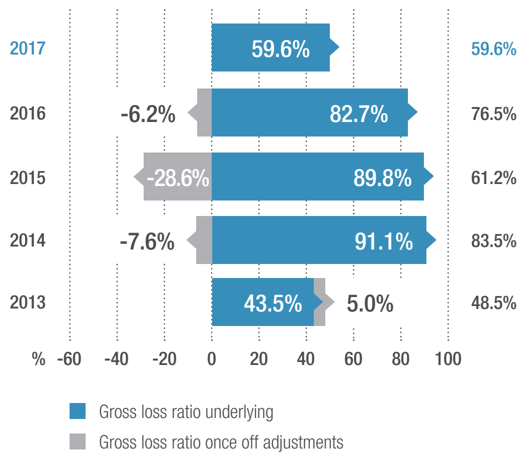
€9.1m
Social Dividend Funds paid out 2012-2017

Claims and Losses

Gross Loss Ratio

59.6%

Underlying gross loss ratio down from 82.7% in 2016

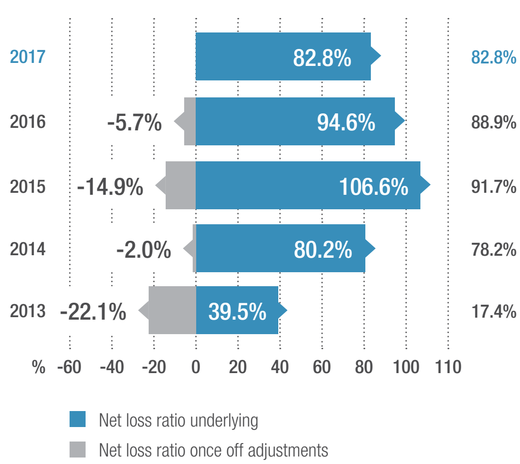


- The underlying gross loss ratio has decreased from 82.7% to 59.6%.
- The profile of the book is significantly weighted towards long-term exposures.
- The company only writes business that is within the risk appetite approved by the Board.

Net Loss Ratio

82.8%

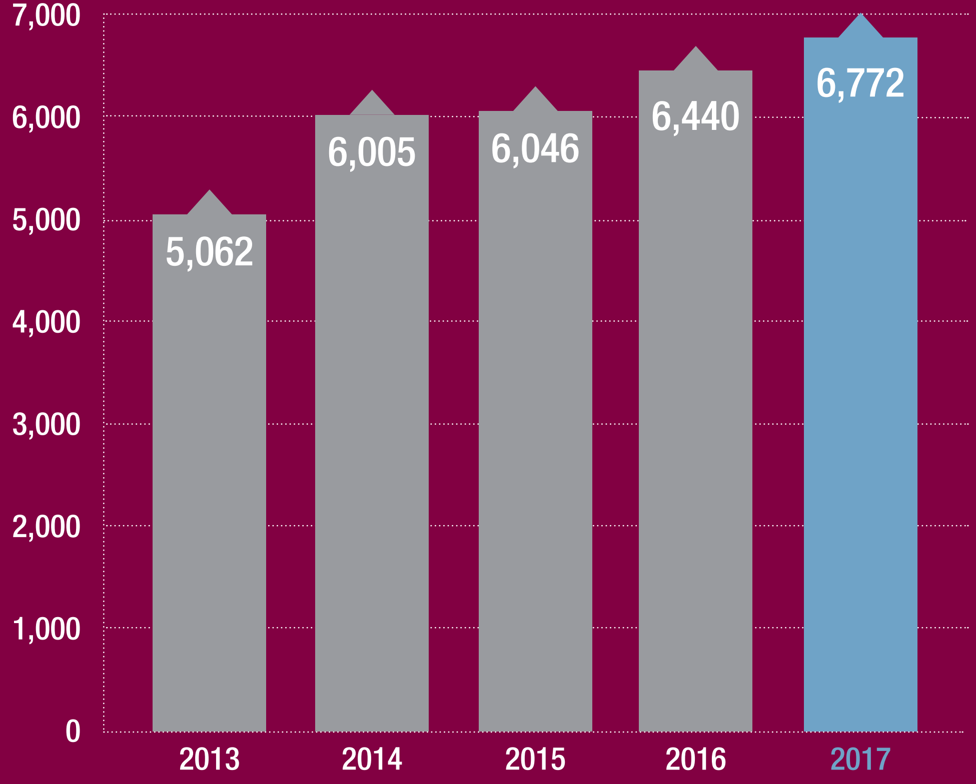
Underlying claims net loss ratio shows a decrease from 94.6% in 2016



- The underlying net loss ratio has decreased to 82.8% from 94.6% in 2016 due to higher earned premiums in 2017 and proportionately lower net claims incurred.

Claims and Losses (continued)

Number of New Claims



6,772
Claim numbers up 5.1% on 2016

- Claim numbers have risen by 332 (5.1%) to 6,772 between 2016 and 2017.
- This increase is due to increased levels of new liability claims due to the provision of additional ground-up covers for Members.

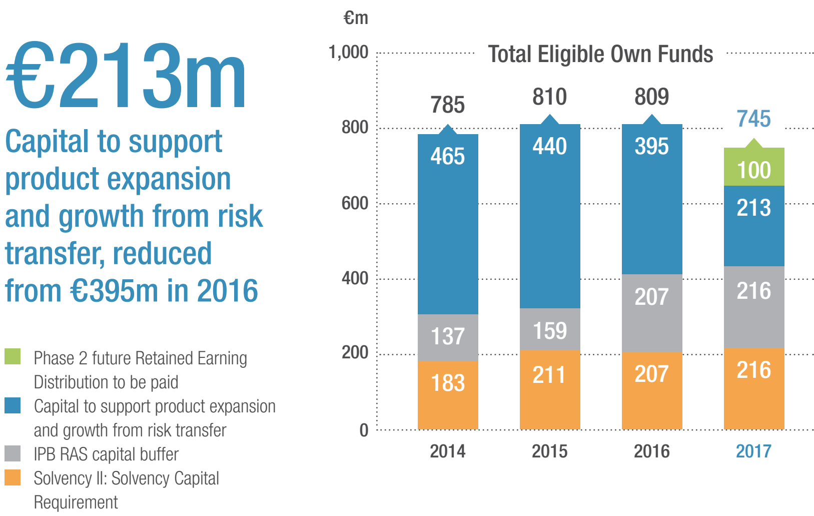
Solvency

The company's Solvency Capital Requirement (SCR) is as defined under Solvency II and is calculated using the Solvency II standard formula. The capital available to the company is of very high quality, consisting entirely of retained earnings.

Solvency II
Solvency Overview (€m)

€213m

Capital to support product expansion and growth from risk transfer, reduced from €395m in 2016

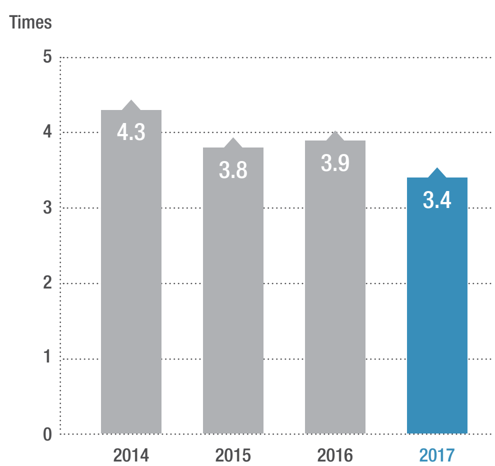


- The company holds significant regulatory and economic capital in addition to the SCR, as well as sufficient capital to:
  – Cover latent risks inherent in its business.
  – Deliver on its strategic objectives and to support product expansion and growth from risk transfer.
  – The €745m Eligible Own Funds has been reduced to allow for the payment of the remaining €79m of phase 1 of the Retained Earnings Distribution (€100m – €21m paid to date) and for the payment of a proposed commercial dividend in 2018 based on the 2017 performance.
  – The €100m future Retained Earnings Distribution is the second phase of the distribution expected to be spread over the next four years.

Solvency II
Required Margin Cover

3.4

Times the capital required under Solvency II

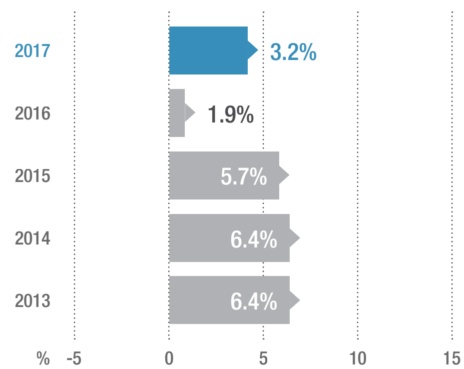


- The company's reinsurance programme enables it to minimise volatility in earnings from large losses and catastrophic events.
- The overall solvency margin continues to remain strong, with the cover representing 3.4 times the capital required under Solvency II.
- The company's credit rating from Standard & Poor's remains at A- with a stable outlook.
- The company has set the minimum credit rating for reinsurers with which it transacts at A-.

Investments and Asset Allocation

Investment Returns

- The €39.6m investment return was a strong performance when compared to €23.1m for the prior year.
- The investment return exceeds the weighted average benchmarks of 1.4% by almost 2%.
- Positive investment returns have been achieved despite the volatility in the financial markets and the historically low interest rate environment.

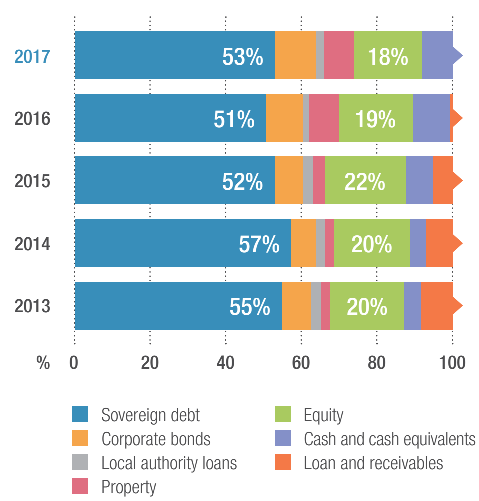


3.2%

Investment return is higher than 2016 but lower than prior years due to exceptional returns in prior years and a low interest rate environment

Analysis of the Investment Portfolio

- The market value of the investment portfolio is €1.2bn.
- The company follows a high-quality, low-risk investment strategy.
- The company's focus is on high-quality bonds and cash, with limited holdings in equities and property.
- The company continued to take action to mitigate falling yields, while maintaining the overall high credit quality and diversification of the portfolio.



53%

Of the portfolio is invested in sovereign debt

Controls and Accounting Policies

Internal controls approach

Financial misstatement risk assessment

Controls and Procedures

It is Management's responsibility to produce the financial information contained in this report, which was recommended to the Board by the Audit Committee and approved by the Board. The company's controls and procedures are designed to provide reasonable assurance that information is accumulated and communicated to the company's leadership group and thereafter to the Board Members. This includes the chief executive officer, finance director, director of operations, director of investments, director of legal & company secretariat, and director of underwriting, as appropriate, to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

Management of the company is responsible for establishing and maintaining adequate internal control over financial reporting. These controls include policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions, acquisitions and disposals of the assets of the company.
- Provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with IFRS, and that receipts and expenditures are being made only in accordance with the authorisations of Management and directors of the company.
- Provide reasonable assurance regarding the prevention or timely detection of unauthorised acquisition, use or disposal of the company's assets that could have a material effect on the financial statements.

All control systems contain inherent limitations, no matter how well designed. As a result, the company's Management acknowledges that its internal control over financial reporting will not prevent or detect all misstatements due to error or fraud. In addition, Management's evaluation of controls can provide only reasonable, not absolute, assurance that all control issues that may result in material misstatements, if any, have been detected.

Changes in Internal Control over Financial Reporting

There have been no significant changes that have materially affected the company's internal control over financial reporting during the financial year ended 31 December 2017.

FINANCIAL STATEMENTS

DIRECTORS' REPORT

The Directors have pleasure in submitting the Stakeholder and Annual Report and the audited financial statements for the financial year ended 31 December 2017.

Directors' Responsibilities Statement

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with the Companies Act 2014 and the applicable regulations.

Irish company law requires the Directors to prepare financial statements that give a true and fair view of the state of affairs of the company for each financial year and of the profit or loss of the company for that period. Under the law, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ("Relevant Financial Reporting Framework"). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the company as at the financial year end date, and of the profit or loss of the company for the financial year, and otherwise comply with the Companies Act 2014.

In preparing those financial statements, the Directors are required to:
- Select suitable accounting policies for the company financial statements and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether the financial statements have been prepared in accordance with the applicable accounting standards, identify those standards and note the effect and the reasons for any material departure from those standards.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for ensuring that the company keeps or causes to be kept adequate accounting records that correctly explain and record the transactions of the company; enable at any time the assets, liabilities, financial position and profit or loss of the company to be determined with reasonable accuracy; enable them to ensure that the financial statements and Directors' report comply with the Companies Act 2014; and enable the financial statements to be audited.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Directors' Compliance Statement

In accordance with the requirements of Section 225 of the Companies Act 2014 for Directors to include a compliance certificate in the Annual Report of the entity of which they are a Director to acknowledge their responsibility for securing compliance with the relevant obligations of the company, the Directors of the company duly acknowledge such responsibility and confirm the implementation of the following assurance measures:

1) That a compliance policy statement has been drawn up setting out the company's policies in respect of the company's compliance with its relevant obligations and that, in the Directors' opinions, they are appropriate to the company.

2) That appropriate arrangements or structures that are, in the Directors' opinions, designed to secure material compliance with the company's relevant obligations have been put in place in the form of a review of satisfaction of the provisions of the Companies Act 2014 pertaining to the company, and engagement with its tax advisers on the satisfaction of taxation legislation. These arrangements or structures include reliance on the advice of persons employed by the company and retained by it under a contract for services, being persons who appear to the Directors to have the requisite knowledge and experience to advise it on compliance with its relevant obligations.

3) That a review has been conducted during the financial year of those arrangements and structures referred to in point 2 above.

Post-Balance Sheet Events

There were no events since the financial year end that warrant disclosure in the financial statements or notes thereto.

Results for the Financial Year, Dividends and Financial Statements

The Statement of Comprehensive Income for the financial year ended 31 December 2017 and the Statement of Financial Position as at 31 December 2017 are set out in the Management Analysis and Financial Statements section of this report. The profit on ordinary activities before taxation amounted to €42.3m (2016: profit of €18.2m). After a taxation charge of €4.7m (2016: €2.2m) and a dividend of €15m and retained earnings distribution of €100m (2016: €15.0m), the decrease in retained earnings is €77.4m (2016: €1.0m increase).

The Board is delighted to be able to confirm that a €15m dividend was paid to Members during 2017. No Directors were involved in any transactions with the business during the financial year other than those outlined in the Directors' Remuneration Report in note 7(b) in the financial statements.

Principal Activities, Business Review and Future Developments

The principal activity of the company continues to be the provision of comprehensive insurance products and risk management facilities to its Members and customers. The Chairman's Statement and Chief Executive Review in the Report of the Board and Executive section of this report provide an overview of the performance for the financial year and future strategy for the business.

Principal Risk and Uncertainties

The principal risks and uncertainties that the company faces are, by the very nature of the business, those for which it provides or has provided insurance cover. The company seeks to ensure that it collects sufficient premium income to meet the cost of potential claims over time, but the uncertainty surrounding the severity and frequency of claims can lead to significant variation in the company's performance in the short term. Although considerable judgement is involved, the Directors adopt a prudent approach to the provision and valuation of insurance reserves, with annual support and certification being provided by an appropriately qualified and experienced in-house actuarial team supported by external reviews as required.

Another risk facing the company is the prevailing economic environment and its impact on the value of assets held to support the technical reserves. The company manages its capital requirements by assessing its required solvency margins on an ongoing basis. The Board also reviews the capital structure of the company on an ongoing basis to determine the appropriate level of capital required to pursue the business strategy. Note 26 of the Management Analysis section of this report provides some sensitivity information on the possible impacts of these scenarios.

Risk Management

The Directors regularly consider the principal risk factors that could materially and adversely affect the future operating profits or financial position of the company. The company's Risk Management and Compliance and Regulatory Governance Frameworks are outlined in the Report of the Board and Executive section of this report. Details of the key risks are outlined in the Risk Management section (note 26) in the financial statements. With regard to the financial risk management objectives and policies of the company, please refer to the financial statements.

Directors and their Interests

The present Directors of the company, together with their respective biographies, are identified in the Report of the Board and Executive section of this report. The Directors of IPB do not have any interests in the company, either during or at the end of the financial year, as defined through the holding of shares or any share capital, other than being remunerated for the undertaking of their roles appropriately as Directors of IPB and/or as chairpersons of sub-committees of the Board.

Accountability and Audit

The Directors are responsible for the preparation of the financial statements and a statement detailing the full extent of these responsibilities is set out in this report.

Going Concern

The financial statements have been prepared on a going concern basis and, as required by the Corporate Governance Requirements for Insurance Undertakings 2015 ("Requirements"), the Directors have satisfied themselves that the company is a going concern, having adequate resources to continue in operational existence for the foreseeable future. In forming this view, the Directors have reviewed the company's budget for 2018 and forecasts for 2019 and 2020, 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 IPB's corporate strategy.

Corporate Governance

The Directors of the company duly acknowledge the company's compliance with the Requirements. Further information in relation to corporate governance is included in the Governance and Control section of the report.

Disclosure of Information to Auditors

So far as each of the Directors in office at the date of approval of the financial statements is aware:

- There is no relevant audit information of which the company's auditors are unaware; and
- The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Books and Accounting Records

The Directors are responsible for ensuring that proper books and accounting records, in compliance with Section 281-285 of the Companies Act 2014, are kept by the company. To achieve this, the Directors have appointed experienced accounts personnel who report to the Board and ensure that the requirements of Section 281-285 of the Companies Act 2014 are complied with. These books and accounting records are maintained at the company's premises at 1 Grand Canal Square, Grand Canal Harbour, Dublin D02 P820.

Auditors

The auditors, Deloitte chartered accountants and statutory audit firm, were appointed by the Board at the Annual General Meeting (AGM) on 17 May 2013 to audit the financial statements for the financial year ended 31 December 2013 and subsequent financial periods. They have indicated their willingness to continue in office in accordance with Section 383(2) of the Companies Act 2014.

Approval of Financial Statements

The financial statements were approved by the Board on 29 March 2018.

On behalf of the Board

George Jones **Michael Garvey**

INDEPENDENT AUDITOR'S REPORT

To the Members of IPB Insurance CLG

In our opinion the financial statements:
- give a true and fair view of the assets, liabilities and financial position of the company as at 31 December 2017 and of the profit for the financial year then ended; and
- have been properly prepared in accordance with the relevant financial reporting framework and in particular with the requirements of the Companies Act 2014.

The financial statements we have audited comprise:
- the Statement of Comprehensive Income;
- the Statement of Financial Position;
- the Statement of Changes in Equity;
- the Statement of Cash Flow; and
- the related notes 1 to 30, including a summary of significant accounting policies as set out in note 1.

The relevant financial reporting framework that has been applied in their preparation is the Companies Act 2014 and International Financial Reporting Standards (IFRS) as adopted by the European Union ("the relevant financial reporting framework").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are described below in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, including the Ethical Standard issued by the Irish Accounting and Auditing Supervisory Authority, as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

We have nothing to report in respect of the following matters in relation to which ISAs (Ireland) require us to report to you where:
- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current financial year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Claims Outstanding

Key audit matter description

The estimation and valuation of claims outstanding is a major determining factor in IPB Insurance's results and financial position.

Claims outstanding is calculated using complex actuarial methodologies based on historical data to determine a best estimate and a margin above best estimate to allow for uncertainty in the external environment, data, assumptions and methodologies. A range of assumptions is used in the actuarial methodologies including expected loss ratios, claims inflation and claims development patterns. Elements of the claims provision allow for greater judgment, and changes in assumptions can result in material impacts to the financial statements.

Due to the significant judgment and estimation involved in the determination of the claims outstanding, this was considered a key audit matter. Claims outstanding amounted to €499 million as at 31 December 2017. Refer to the accounting policy on page 58 to 70 and the disclosures in notes 3, 4 and 16 of the financial statements.

How the scope of our audit responded to the key audit matter

The procedures performed to address the key audit matter of the valuation of claims outstanding included:

- We tested the key controls for the setting of an initial claim reserve, review and ultimate settlement of individual case reserves for claims;
- This work included testing of IT controls over the relevant systems, change controls and management processes over critical models;
- We tested the key controls within the actuarial process used to calculate the total claims outstanding liability;
- We reconciled the data used by the actuaries to source systems;
- We evaluated the consistency of methodologies and the appropriateness of the assumptions used by the company;
- Our actuarial specialist team performed an independent recalculation of the best estimate for a sample of significant lines of business;
- Our actuarial specialists assisted us in challenging Management's judgements, assumptions and the process followed for setting and updating these assumptions, particularly in relation to the margin for uncertainty. We focused on the consistency in treatment and methodology period-on-period and with reference to recognised actuarial practice; and
- For a sample of open claims we performed an assessment of the development of the case file to test if the determination of the outstanding claims amount was appropriate.

Recognition of Retro Premium Asset

Key audit matter description

Gross written premium includes premium adjustments for retrospectively rated policies. The calculation of this retro premium is complex and involves a significant amount of inputs in relation to historical claims experience data.

Retro premium insurance assets amounted to €24 million as at 31 December 2017. Refer to the accounting policy on page 60 and the disclosures in note 15 of the financial statements.

How the scope of our audit responded to the key audit matter

The procedures performed to address the key audit matter of the revenue recognition of retro premium included the following:

- We have tested the key controls over the process designed to record and monitor the retro rated premium asset;
- We tested on a sample basis the accuracy and completeness of information used within the retro premium process; and
- We performed a re-calculation on a sample basis of retro premium, and performed an assessment of the recoverability of the asset.

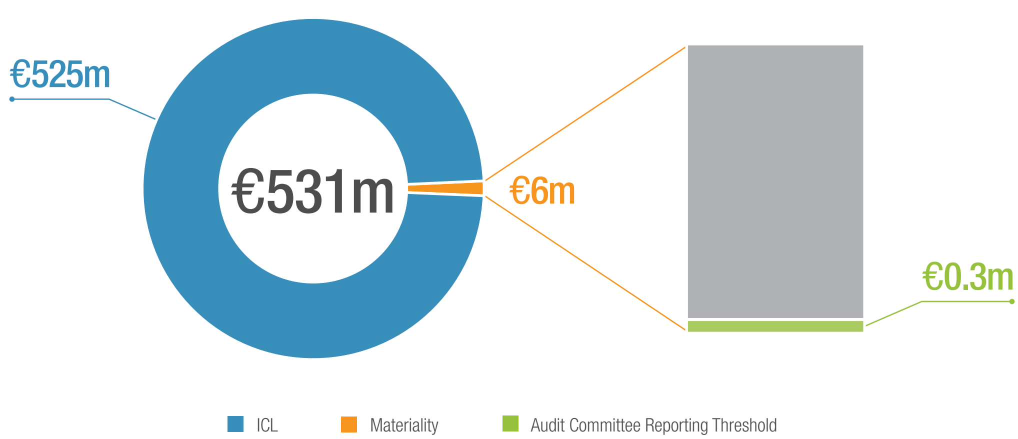
Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our Application of Materiality

We define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the company to be €6,000,000, which is approximately 1% of insurance contract liabilities. We have considered the insurance contract liabilities to be the critical component for determining materiality because it is the principal benchmark within the financial statements relevant to Members of the company in assessing capital strength. We have considered quantitative and qualitative factors such as understanding the entity and its environment, history of misstatements, complexity of the company, and reliability of the control environment therein.

We agreed with the Audit Committee that we would report to them any audit differences in excess of €300,000, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.



An Overview of the Scope of our Audit

Our audit was scoped by obtaining and understanding of the company and its environment, including company-wide controls, and assessing the risks of material misstatement within the company. We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. The risks of material misstatement that had the greatest effect on our audit are identified as key audit matters in the table above.

In establishing the overall approach to the audit, we determined the type of work that required the involvement of specialists. As a result, we included actuarial and IT specialists as part of our engagement team. Where the work was performed by specialists, we gave instruction as to the type of work to be performed and reviewed the results of this work to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the financial statements. We also assessed the competency of the specialists performing the work.

Other Information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and otherwise comply with the Companies Act 2014, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (Ireland), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the entity (or where relevant, the group) to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit.

This report is made solely to the company's Members, as a body, in accordance with Section 391 of the Companies Act 2014. 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 auditor's 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.

Report on Other Legal and Regulatory Requirements

Opinion on Other Matters Prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- We have obtained all the information and explanations which we consider necessary for the purposes of our audit.
- In our opinion the accounting records of the company were sufficient to permit the financial statements to be readily and properly audited.
- The financial statements are in agreement with the accounting records.

- In our opinion the information given in the Directors' Report is consistent with the financial statements, and the Directors' Report has been prepared in accordance with the Companies Act 2014.

Matters on which we are Required to Report by Exception

Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

We have nothing to report in respect of the provisions in the Companies Act 2014 which require us to report to you if, in our opinion, the disclosures of Directors' remuneration and transactions specified by law are not made.

Other Matters which we are Required to Address

We were appointed by the Board at the Annual General Meeting on 17 May 2013 to audit the financial statements for the financial year ended 31 December 2013 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is five years, covering the years ending 2013 to 2017.

The non-audit services prohibited by IAASA's Ethical Standard were not provided and we remained independent of the company in conducting the audit.

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISA (Ireland) 260.

Glenn Gillard
For and on behalf of Deloitte
Chartered Accountants and Statutory Audit Firm
Deloitte & Touche House, Earlsfort Terrace, Dublin 2
29 March 2018

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in Ireland governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Approved by the Board on 29 March 2018

Directors

George Jones

Michael Garvey

STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 31 December 2017

	Note	2017 €'000	2016 €'000
Gross written premiums	4	141,095	124,872
Premiums ceded to reinsurers	4	(22,930)	(21,166)
Net written premiums		**118,165**	**103,706**
Change in the gross provision for unearned premiums	4	(3,471)	(3,829)
Change in the reinsurance provision for unearned premiums	4	–	–
Net earned premiums		**114,694**	**99,877**
Commission income	5	8,668	6,576
Net investment return	6	39,634	23,118
Other revenue		**48,302**	**29,694**
Total revenue		**162,996**	**129,571**
Gross claims paid	4	(71,655)	(78,320)
Claims recovered from reinsurers	4	905	14,417
Claims paid net of reinsurance		**(70,750)**	**(63,903)**
Gross change in contract liabilities	4	(10,390)	(14,266)
Change in contract liabilities ceded to reinsurers	4	(13,829)	(10,658)
Net claims incurred		**(94,969)**	**(88,827)**
Operating expenses	7	(23,921)	(20,036)
Underwriting expenses	4	(1,790)	(1,538)
Other costs	29	–	(1,000)
Total claims and other expenses		**(120,680)**	**(111,401)**
Profit before tax		**42,316**	**18,170**
Tax expense	8	(4,671)	(2,219)
Profit for the year		**37,645**	**15,951**
Total comprehensive income for the year		**37,645**	**15,951**
Profit attributable to:			
Members		37,645	15,951

STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Note	2017 €'000	2016 €'000
Assets			
Intangible assets	10	475	565
Property, plant and equipment	11	515	816
Investment properties	12	92,750	92,575
Financial assets			
– Derivative financial instruments	13	531	757
– Financial assets at fair value through profit or loss	14	992,768	967,461
– Loans and receivables	14	30,464	23,452
Insurance assets	15	23,966	32,018
Reinsurance assets – claims outstanding	16	32,484	46,313
Deferred tax assets	21	146	142
Current tax assets	8	3,981	6,349
Insurance receivables	17	24,728	12,494
Other receivables	18	123	139
Prepayments and accrued income	19	8,110	8,417
Cash and cash equivalents	20	123,169	125,980
Total assets		**1,334,210**	**1,317,478**
Equity			
Retained earnings		714,217	791,572
Total equity		**714,217**	**791,572**
Liabilities			
Insurance contract liabilities			
– Provision for unearned premiums	16	26,010	22,538
– Claims outstanding	16	499,355	488,965
Derivative financial instruments	13	501	1,619
Insurance payables	22	3,312	3,115
Trade and other payables	23	90,815	9,669
Total liabilities		**619,993**	**525,906**
Total equity and liabilities		**1,334,210**	**1,317,478**

Approved by the Board on 29 March 2018

Directors

George Jones

Michael Garvey

Approved by the Board
on 29 March 2018

Directors

George Jones

Michael Garvey

STATEMENT OF CHANGES IN EQUITY

As at 31 December 2017

	Note	Retained earnings €'000	Total equity €'000
At 1 January 2017		**791,572**	**791,572**
Profit for the year		37,645	37,645
Other comprehensive income		–	–
Total comprehensive income		**37,645**	**37,645**
Dividends payable/paid during the year	9	(115,000)	(115,000)
At 31 December 2017		**714,217**	**714,217**
At 1 January 2016		**790,621**	**790,621**
Profit for the year		15,951	15,951
Other comprehensive income		–	–
Total comprehensive income		**15,951**	**15,951**
Dividends paid during the year	9	(15,000)	(15,000)
At 31 December 2016		**791,572**	**791,572**

STATEMENT OF CASH FLOWS

For the financial year ended 31 December 2017

	Note	2017 €'000	2016 €'000
Operating activities			
Gross premiums received		142,652	114,514
Reinsurance premiums paid		(25,029)	(20,081)
Commission received on reinsurance premiums paid		8,360	6,271
Commission paid to insurance brokers		(1,696)	(1,464)
Claims paid gross		(71,278)	(83,231)
Claims reinsurance recoveries		(140)	13,457
Interest received		13,510	15,497
Dividends received		4,489	5,242
Operating and other expenses paid		(21,557)	(22,354)
Premiums placed with other insurers		(1,842)	(1,681)
Commission earned on premiums placed with other insurers		308	305
Cash generated from operating activities		**47,777**	**26,475**
Taxation paid		(2,413)	(3,471)
Net cash flows from operating activities		**45,364**	**23,004**
Investing activities			
Loans repaid by local authorities		3,023	2,544
Purchase of investments designated at fair value through profit or loss		(198,317)	(196,543)
Proceeds from sale of investments designated at fair value through profit or loss		185,106	210,664
Purchase of investment property		(366)	(49,567)
Property rental income		5,440	4,881
(Increase)/decrease in loans and receivables on deposit with credit institutions		(10,000)	26,608
Purchase/disposal of property and equipment		(254)	(122)
Gain/(loss) on FX currency contracts		3,406	7,833
Purchase of intangible assets		(276)	(185)
Net cash flows from/(used in) investing activities		**(12,238)**	**6,113**
Financing activities			
Dividends paid		(35,937)	(15,000)
Net cash flows used in financing activities		**(35,937)**	**(15,000)**
Net increase/(decrease) in cash and cash equivalents		(2,811)	14,117
Cash and cash equivalents at 1 January	20	125,980	111,863
Cash and cash equivalents at 31 December	**20**	**123,169**	**125,980**

Approved by the Board on 29 March 2018

Directors

George Jones

Michael Garvey

NOTES TO THE FINANCIAL STATEMENTS

1. Corporate Information

IPB Insurance CLG, trading as IPB Insurance ("the company"), is a mutual company, limited by guarantee, incorporated and domiciled in Ireland. The principal activities of the company continue to be the provision of a comprehensive insurance and risk management service to its Members and customers.

The financial statements were authorised in accordance with a resolution of the Directors on 29 March 2018.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the financial statements are set out below.

Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) and with those parts of the Companies Acts 2014 applicable to companies reporting under IFRS.

The financial statements have been prepared on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value through the profit and loss.

The financial statements are prepared in euro and all values are rounded to the nearest thousand (€'000) except where otherwise stated.

Judgements, Estimates and Assumptions

The company's accounting policies are integral to understanding and interpreting the financial results reported in the financial statements. Some of these policies require Management to make estimates and subjective judgements that are difficult and complex and often relate to matters that are inherently uncertain. The policies outlined below are considered to be particularly important to the presentation of the company's financial position and results because changes in the judgements and estimates could have a material impact on the financial statements. Judgements and estimates are adjusted in the normal course of business to reflect changes in underlying circumstances.

(a) Judgements

For certain accounting policies there are different accounting treatments permitted under IFRS that would have a significant influence on the basis on which the financial statements are reported. In the process of applying the company's accounting policies, Management have made judgements, apart from those involving estimations and assumptions, that have a significant effect on the amounts recognised in financial statements. These are discussed below.

(i) Fair value of financial instruments using valuation techniques

The Directors use their judgement in selecting an appropriate valuation technique. Where possible, financial instruments are marked at prices quoted in active markets. In the current market environment, such price information is typically not available for all instruments and the company uses other valuation techniques to measure such instruments. These techniques use market-observable 'inputs' where available, derived from similar assets in similar and active markets, from recent transaction prices for comparable items, or from other observable market data. For positions where observable reference data are not available for some or all parameters the company estimates the non-market observable inputs used in its valuation models.

For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates although some assumptions are not supported by observable market prices or rates.

(b) Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Insurance contract liabilities

The classes of business written by the company give rise to a significant degree of uncertainty concerning the ultimate cost of claims. Uncertainty arises for the following reasons in respect of the majority of policies written by the company:

- Whether an event has occurred that would give rise to a policyholder suffering an insured loss.
- The extent of policy coverage and limits applicable.
- The amount of insured loss suffered by the policyholder.
- The timing of a settlement to the policyholder.
- The costs associated with handling claims.

Estimates have to be made both for the expected cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be determined with certainty.

The company uses estimation techniques, based on statistical analysis of past experience and future estimates, to calculate a range of estimated cost of claims outstanding at the reporting date, which is subjected to sensitivity analysis. These techniques take into account the characteristics of the company's business. Provisions are calculated gross of any reinsurance recoveries. A separate provision is made for the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

(ii) Fair value of financial assets and liabilities

The determination of fair value for financial assets and liabilities for which no observable market price exists requires the use of valuation techniques as described in note 14. For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

(c) Assumptions

The main assumption is that the development pattern of the current claims will be consistent with previous experience while considering the likely future costs. Qualitative judgement is used to assess the extent to which past trends may not apply in future. These changes or uncertainties may arise from issues such as the effects of one-off occurrences, changes in external or market factors such as public

Notes to the Financial Statements

attitudes to claiming, levels of claims inflation and the legal environment, or internal factors such as business mix and claims handling procedures. This leads to the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved. Changes in assumptions about these factors could affect the reported fair value of insurance contract liabilities.

Insurance Contracts

(a) Product classification

Insurance contracts are those contracts under which one party, the insurer, accepts significant insurance risk from another party, the policyholder, by agreeing to compensate the policyholder if a specified uncertain future event, the insurance event, adversely affects the policyholder. Once a contract has been classified as an insurance contract it remains an insurance contract for the remainder of its lifetime even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. All insurance contracts entered into by the company meet the definition of insurance contracts.

Reinsurance contracts are those contracts issued by one insurer (the reinsurer) to compensate another insurer (the cedant) for losses on one or more contracts issued by the cedant. Ceded reinsurance arrangements do not relieve the company from its obligations to policyholders. All reinsurance contracts entered into by the company meet the definition of reinsurance contracts.

(b) Premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. They are recognised on the date on which the policy commences. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior accounting periods.

Premiums collected by intermediaries, but not yet received, are assessed based on estimates from underwriting or past experience and are included in gross written premiums.

Premium adjustments for retrospectively rated policies are recognised as accrued income when the related losses are paid. A provision for premium adjustments for retrospectively rated policies is also recognised when provision is made for the related losses within case reserves.

Reinsurance premiums comprise the total premiums payable for contracts entered into during the period and are recognised on the date on which the policy incepts. Reinsurance premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

(c) Provision for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned premiums for gross premium are calculated on the twenty-fourths basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums. Unearned premiums for reinsurance premiums are calculated on the twelfths basis as reinsurance contracts renew at 1 January every year.

At each reporting date the company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims over unearned premiums. The calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant technical provision. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the Statement of Comprehensive Income by setting up a provision for premium deficiency.

(d) Claims incurred
Gross claims incurred include all claims occurring during the year, whether reported or not; related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustment to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claims are recognised according to the terms of the relevant reinsurance contract.

(e) Insurance contract liabilities
Insurance contract liabilities include the outstanding claims provision, the provision for unearned premium, a provision for unallocated loss adjustment expenses, and, if required, the provision for premium deficiency.

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred less any payments on account or part payments at the reporting date, whether reported or not, together with related claims handling costs. In addition, the company provides for its share of the Motor Insurers' Bureau of Ireland levy for the following year, based on our estimated market share of the motor line of business in the current financial year as at the financial year-end date.

Delays can be experienced in the notification and settlement of certain types of claims; therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions. The liability is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is calculated. A margin for uncertainty of 18% is included on insurance contract liabilities.

Insurance contract liabilities are accounted for in line with Central Bank Reserving Adequacy Guidelines.

The liabilities are derecognised when the obligation to pay a claim expires, is discharged or is cancelled.

(f) Reinsurance assets
Reinsurance assets represent balances due from reinsurance companies. Reinsurance assets include the reinsurance outstanding claims provision and the reinsurers' share of the provision for unearned reinsurance premiums.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurers' policies and are in accordance with the related reinsurance contract. Amounts recoverable from reinsurers are adjusted for an estimate for potential disputes and defaults.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. The impairment loss is recorded in the Statement of Comprehensive Income.

Reinsurance assets are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(g) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, the carrying amount of insurance receivables approximates to their fair value.

Insurance receivables are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

(h) Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration paid or payable less directly attributable transaction costs. Subsequent to initial recognition, insurance payables are measured at fair value.

Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

(i) Commission income

Commission income receivable on outward reinsurance contracts is deferred and earned on a straight-line basis over the term of the reinsurance contract.

Insurance agency commissions, which do not require the provision of further services, are recognised as revenue on the effective commencement or renewal date of the related insurance policies.

Financial Instruments

(a) Financial assets

Initial recognition and measurement

On initial recognition financial assets may be categorised into one of the following categories:

- Financial assets at fair value through profit or loss.
- Loans and receivables.
- Held-to-maturity financial assets.
- Available-for-sale financial assets.

The classification depends on the purpose for which the investments were required. Management determines the classification of its investments at initial recognition.

The company designates investments in equity and debt securities at fair value through profit or loss. Equity securities also include managed funds. This is in accordance with the company's investment strategy, under which the investment return is internally managed and evaluated on the basis of the total return on the investment.

Other financial investments consist of loans to local authorities and deposits with credit institutions with an original maturity date in excess of three months. These investments are designated as loans and receivables.

Financial assets arising from non-investment activities include cash and short-term deposits, and insurance and other receivables.

A financial asset is initially recognised at fair value on the date the company commits to purchase the asset. Purchases or sales of financial assets that require delivery of assets within a timeframe established by regulation or convention in a marketplace are recognised on the trade date. In the case of all financial assets not classified at fair value through profit or loss, transaction costs are directly attributable to its acquisition.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification. Financial assets at fair value through profit or loss are carried in the Statement of Financial Position at fair value, with changes in fair value recognised in net investment return in the Statement of Comprehensive Income. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method (EIR).

Investment income is recognised in the Statement of Comprehensive Income as part of the net investment return. Dividends on equity investments are recognised on the date at which the investment is priced 'ex-div'. Interest income on debt securities is accrued and recognised in the Statement of Comprehensive Income using the coupon rate. Interest income on loans and receivables is recognised using the EIR method.

Gains and losses arising on financial assets are recognised in net investment income in the Statement of Comprehensive Income.

De-recognition
A financial asset is derecognised when the rights to receive cash flows from the investment have expired or have been transferred and when the company has substantially transferred the risks and rewards of ownership of the asset.

(b) Financial liabilities

Initial recognition and measurement
The company determines the classification of its financial liabilities at initial recognition. All financial liabilities are designated at fair value through profit or loss and recognised initially at fair value.

Subsequent measurement
Financial liabilities are carried in the Statement of Financial Position at fair value with changes in fair value recognised in the Statement of Comprehensive Income. Gains or losses are recognised in the Statement of Comprehensive Income.

De-recognition
A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires.

(c) Derivative financial instruments

The company uses forward currency contracts to limit its exposure to foreign currency transactions. These derivative financial instruments, which are designated as held for trading, are typically entered into with the intention to settle in the near future.

Derivatives are initially measured at fair value on the date the contract is entered into, and subsequently re-measured at fair value. Each derivative is carried as a financial asset when the fair value is positive and as a financial liability when the fair value is negative.

Gains or losses on assets or liabilities held for trading are recognised in net investment income in the Statement of Comprehensive Income.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in hand and short-term deposits with an original maturity of three months or less in the Statement of Financial Position.

(e) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted exit price, without any deduction for transaction costs.

For financial assets and liabilities not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, a discounted cash flow analysis or other valuation models.

(f) Impairment of Financial Assets

The company assesses, at each reporting date, whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Where there is objective evidence that an impairment loss has been incurred for financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future expected credit losses that have not yet been incurred. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced and the amount of the loss is recognised as an expense in the Statement of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the carrying amount of the asset is increased or decreased to the revised estimate of its recoverable amount, but only to a level that does not exceed the carrying amount that would have been determined had the impairment not been recognised.

(g) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Investment property

Investment property, comprising freehold and leasehold land and buildings, is held for long-term rental yields and is not occupied by the company, and is stated at its fair value at the balance sheet date. Market valuations are carried out each year by the property managing agents using the RICS (Royal Institute of Chartered Surveyors) Valuation – Professional Standards. Every three years a full red book valuation is carried out on each property. On an annual basis, desk-based valuations are carried out and valuation certificates are issued. Gains or losses arising from changes in the value of investment property are included in the investment return in the Statement of Comprehensive Income for the period in which they arise.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations are recognised and measured at fair value less costs to sell.

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Goodwill arising on consolidation represents the excess of the cost of acquisition over the company's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associated or jointly controlled entity at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill that is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Investment in subsidiaries

Investments in subsidiaries held by the company are carried at cost less any accumulated impairment losses.

Taxation

(a) Current tax

Tax assets and liabilities, for the current and prior periods, are measured at the amount expected to be recovered from or paid to the taxation authorities, using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Current tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income and not in the Statement of Comprehensive Income.

Current tax assets and liabilities are offset where a legally enforceable right exists to set off the recognised amounts and the company intends to settle on a net basis, or to release the asset and settle the liability simultaneously.

(b) Deferred tax

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised. The exception to this is where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax relating to items recognised outside the Statement of Comprehensive Income is recognised outside of the Statement of Comprehensive Income in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets and liabilities are offset where there is a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to taxes levied by the same taxation authority.

Retirement Benefits

(a) Defined contribution scheme

Contributions to defined contribution schemes are charged to the Statement of Comprehensive Income on an accruals basis.

Members’ Distribution Policy

Dividends are recognised as a liability when approved by the Board. See the Members’ Distribution Policy in Note 25, Capital Management.

Other Accounting Policies

(a) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the assets’ estimated useful lives as follows:

- IT software – 33% per annum.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimates being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

(b) Property, plant and equipment

Property, plant and equipment are stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and/or accumulated impairment losses, if any.

Depreciation is calculated on the straight-line method to write down the carrying value of assets to their residual values over their estimated useful lives as follows:

- Fixtures and fittings – 33% per annum
- IT hardware – 33% per annum
- Leasehold improvements – 20% per annum
- Motor vehicles – 33% per annum.

An item of equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss on de-recognition is calculated as the difference between the net disposal proceeds and the carrying amount of the asset, and is taken into the Statement of Comprehensive Income in the period the asset is de-recognised.

The assets' residual values and useful lives are reviewed and adjusted prospectively, if appropriate, at each reporting date.

(c) Impairment of non-financial assets

The company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount for the individual asset. The estimated recoverable amount is the higher of the asset's fair value less costs to sell or value in use. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable amount. This impairment loss shall be recognised immediately in the Statement of Comprehensive Income in the expense category consistent with the nature of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the company estimates the recoverable amount of that asset. The carrying amount of the asset shall be increased to its recoverable amount. This increase is a reversal of an impairment loss and shall not exceed the carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised for the asset in prior periods. The reversal of an impairment loss for an asset shall be recognised immediately in the Statement of Comprehensive Income, unless it is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

(d) Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are re-translated at the rate of exchange ruling at the reporting date.

All differences are taken to the Statement of Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transactions and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on translation of non-monetary items is recognised in line with the gain or loss of the item that gave rise to the translation difference.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(e) Provisions including Social Dividend

Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event whereby it is probable that the company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(f) Adoption of new or revised IFRS accounting standards and interpretations:

As permitted under Irish company law, the company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The IFRS adopted by the EU and applied by the company are those that were effective at 31 December 2017. These have been applied for the preparation of these financial statements.

In the current year the company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017. The application of the amendments has had no material impact on the disclosure or the amount recognised in the company's financial statements.

The following list provides a brief outline of the impact of new and amended IFRS interpretations that the company has not yet adopted:

Standards issued, but not yet effective

Standards issued, but not yet effective, up to the date of issuance of the company's financial statements are listed below. This listing is of standards and interpretations issued that the company reasonably expects to be applicable at a future date. The company intends to adopt the standards when they become effective.

Listing of accounting standards that have amendments that are not yet effective	Mandatory for accounting periods starting on or after	Likely impact
Amendments to IFRS 10 and IAS 28 (Sept 2014)	TBC – pending EU adoption	Not applicable as the company does not have associates or joint ventures.
IFRS 9	1 January 2018	Impact on the company is outlined below.
IFRS 15	1 January 2018	Not applicable as the company accounts for revenue on insurance contracts.
Amendments to IAS 12 (Jan 2016)	TBC – pending EU adoption	Limited impact on the company.
IFRS 16	TBC – pending EU adoption	Limited impact on the company.
Amendments to IFRS 2	TBC – pending EU adoption	Not applicable as the company is a mutual and does not have shares.
Amendments to IAS 7	TBC – pending EU adoption	Limited impact on the company.
Amendments to IAS 40	1 January 2018	Limited impact on the company.
IFRIC 22	1 January 2018	Not applicable to insurance contracts or reinsurance.

IFRS 9

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. Companies that have not previously applied any version of IFRS 9 and whose predominant activity is issuing contracts within the scope of IFRS 4 can adopt a deferral approach and continue to apply IAS 39 rather than IFRS 9 until 1 January 2021. The company plans to take this deferral approach applicable to insurance companies and continue to apply IAS 39 for the next three years and will apply IFRS 9 initially on 1 January 2021. The company meets the deferral approach criteria as over 90% of the carrying amount of its liabilities arises from contracts within the scope of IFRS 4.

The company has performed a preliminary assessment of the potential impact of the adoption of IFRS 9 based on its position at 31 December 2017.

1) Classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables, and available for sale.

Based on its preliminary assessment the company does not believe that the new classification requirements, if applied at 31 December 2017, would have material impact on its accounting.

The following outlines the various financial instruments and their impact:

- Loans to local authorities and deposits with credit institutions with an original maturity date in excess of three months are currently designated as loans and receivables and are measured at amortised cost using the effective interest rate (EIR). These will now be classified as measured at amortised cost under IFRS9 and continue to be accounted for at amortised cost.
- All other financial assets and financial liabilities will continue to be measured on the same basis as is currently adopted under IAS 39.

2) Impairment – Financial Assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI. Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12 months after the reporting date
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since its initial recognition, and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has a low credit risk at the reporting date.

The company does not believe that the change in impairment accounting policy will have a significant impact as loans to local authorities are repaid in a timely manner. The company will continue to assess this and ensure that any impairment impacts are identified.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

3. Change in Accounting Estimate

3) Hedge accounting

Hedge accounting has implications under IFRS 9 that do not apply to the company as it has not designated its forward currency contracts as a hedging instrument. These will continue to be designated as derivatives and measured at fair value.

The Directors anticipate that the adoption of the other standards and interpretations listed above will have no material impact (other than on presentation and disclosure) on the financial standards of the company in future periods.

3. Change in Accounting Estimate

Note 16 sets out the breakdown of insurance contract liabilities and their movement in the year. Significant changes in the estimate year on year are discussed below.

An Accounting Estimate – Impact of Claim Provisions Real Yield Fall

Irish practices in relation to bodily injury awards are based on the use of a discount rate (real yield) to calculate the future costs of care on catastrophic injuries. Previously the discount rate used was approximately 3%, which was determined in the Boyne judgement in 2002. The High Court judgement in the case of Russell vs HSE in 2014 saw a discount rate of 1% applied to a lump sum in respect of cost of future care. Although this case did not involve a loss of earnings claim, it was suggested that a 1.5% rate would be appropriate for future loss of earnings. This judgement was appealed in 2015 to the Court of Appeal with the 1% future care rate upheld and permission to appeal to the Supreme Court refused in 2017.

Future loss of earnings might be expected to increase in line with earnings inflation, while future cost of care might be expected to increase in line with medical costs inflation. Historically, both earnings inflation and medical costs inflation have exceeded consumer price inflation, and we consider that this pattern is likely to continue in future.

In 2016 the majority of affected specific case estimates were updated to reflect the new discount rate of 1% for cost of future care and 1.5% for future loss of earnings. This led to a corresponding reduction on the real yield provision that was established in prior years. The balance remaining in relation to the real yield provision as at the end of 2016 was €4.4m gross (€1.6m net), which consisted of the net amount of what the company estimates may be payable less the amounts already applied to specific case estimates. During 2017, all case estimates were adjusted to include the effects of the revised discount rates and as such the provision of €4.4m gross (€1.6m net) was reduced to nil as at 31 December 2017.

A provision was also included in 2016 in the real yield (binary events) provision for PPO (Periodic Payment Order) claims (gross: €3m, net: €1.5m). PPOs would replace a lump sum award in certain catastrophic injury claim cases and instead a periodic payment would be awarded to cover future care and costs. These provisions remain in place as at 31 December 2017 as it is prudent to include them.

This results in a net binary event provision at year-end of €1.5m (2016: €3.1m). The amount of the effect in future periods is not disclosed because estimating it is impractical due to the lack of available market evidence.

The table opposite provides an overview of the impact on the Statement of Comprehensive Income and the Statement of Financial Position of the accounting estimate change in respect of the real yield.

Analysis of the binary event provision change on the Statement of Comprehensive Income	2017 €'000	2016 €'000
Gross of reinsurance – decrease to claims incurred	4,383	22,059
Net of reinsurance – decrease to net claims incurred	1,621	14,368

Analysis of the binary event provision change on the Statement of Financial Position	2017 €'000	2016 €'000
Gross of reinsurance – decreased gross claim provisions	(4,383)	(22,059)
Net of reinsurance – decreased net claim provisions	(1,621)	(14,368)
Total provision gross of reinsurance – real yield/PPOs	3,000	7,383
Total provision net of reinsurance – real yield/PPOs	1,500	3,121

Notes to the Financial Statements

4. Analysis of Underwriting Result

4. Analysis of Underwriting Result

Analysis of underwriting result by product 2017	Third party liability €'000	Fire and other damage to property €'000	Motor €'000	Other €'000	Total €'000
Gross written premiums	97,177	26,339	9,247	8,332	141,095
Premium ceded to reinsurers	(6,066)	(15,998)	(622)	(244)	(22,930)
Change in the gross provision for unearned premiums	(503)	(2,657)	(185)	(126)	(3,471)
Net earned premiums	**90,608**	**7,684**	**8,440**	**7,962**	**114,694**
Gross claims paid	(62,503)	(1,879)	(5,732)	(1,541)	(71,655)
Claims recovered from reinsurers	1,808	(2,311)	1,408	–	905
Gross change in contract liabilities	(10,315)	(330)	1,613	(1,358)	(10,390)
Change in contract liabilities recovered from reinsurers	(10,100)	(1,757)	(1,972)	–	(13,829)
Net claims incurred	**(81,110)**	**(6,277)**	**(4,683)**	**(2,899)**	**(94,969)**
Technical underwriting result – net	**9,498**	**1,407**	**3,757**	**5,063**	**19,725**
Commission income	371	7,929	42	326	8,668
Operating expenses	(16,475)	(4,465)	(1,568)	(1,413)	(23,921)
Underwriting expenses	(1,040)	(557)	(57)	(136)	(1,790)
Underwriting result	**(7,646)**	**4,314**	**2,174**	**3,840**	**2,682**
Net investment return	27,297	7,399	2,598	2,340	39,634
Other costs	–	–	–	–	–
Profit before taxation	**19,651**	**11,713**	**4,772**	**6,180**	**42,316**
Net insurance liabilities	**441,911**	**12,273**	**23,868**	**14,829**	**492,881**

Underwriting expenses relate to commission payable to brokers and surveyor report costs. The allocation of net investment return, operating expenses and other income/(costs) is based on the proportion of gross written premium across each product line.

FX gains/losses on the insurance business are included within net investment return.

Analysis of underwriting result by product 2016	Third-party liability €'000	Fire and other damage to property €'000	Motor €'000	Other €'000	Total €'000
Gross written premiums	83,863	25,115	7,738	8,156	124,872
Premium ceded to reinsurers	(5,518)	(14,766)	(574)	(308)	(21,166)
Change in the gross provision for unearned premiums	(5,844)	1,942	(365)	438	(3,829)
Net earned premiums	**72,501**	**12,291**	**6,799**	**8,286**	**99,877**
Gross claims paid	(59,399)	(8,924)	(8,345)	(1,652)	(78,320)
Claims recovered from reinsurers	5,843	5,298	3,276	–	14,417
Gross change in contract liabilities	(14,929)	3,367	(2,758)	54	(14,266)
Change in contract liabilities recovered from reinsurers	(5,454)	(1,223)	(3,960)	(21)	(10,658)
Net claims incurred	**(73,939)**	**(1,482)**	**(11,787)**	**(1,619)**	**(88,827)**
Technical underwriting result – net	**(1,438)**	**10,809**	**(4,988)**	**6,667**	**11,050**
Commission income	350	5,858	38	330	6,576
Operating expenses	(13,455)	(4,030)	(1,242)	(1,309)	(20,036)
Underwriting expenses	(848)	(507)	(51)	(132)	(1,538)
Underwriting result	**(15,391)**	**12,130**	**(6,243)**	**5,556**	**(3,948)**
Net investment return	15,525	4,650	1,433	1,510	23,118
Other costs	(672)	(201)	(62)	(65)	(1,000)
Profit before taxation	**(538)**	**16,579**	**(4,872)**	**7,001**	**18,170**
Net insurance liabilities	**421,451**	**7,529**	**23,324**	**12,886**	**465,190**

Other costs relate to increases in the Social Dividend Fund (see note 29).

Notes to the Financial Statements

4. Analysis of Underwriting Result (continued)

Analysis of underwriting result by location	2017 Republic of Ireland €'000	2017 Northern Ireland €'000	2017 Total €'000	2016 Republic of Ireland €'000	2016 Northern Ireland €'000	2016 Total €'000
Gross written premiums	139,272	1,823	141,095	122,741	2,131	124,872
Premium ceded to reinsurers	(22,813)	(117)	(22,930)	(20,962)	(204)	(21,166)
Change in the gross provision for unearned premiums	(3,546)	75	(3,471)	(4,198)	369	(3,829)
Net earned premiums	**112,913**	**1,781**	**114,694**	**97,581**	**2,296**	**99,877**
Gross claims paid	(70,937)	(718)	(71,655)	(77,912)	(408)	(78,320)
Claims recovered from reinsurers	819	86	905	14,347	70	14,417
Gross change in contract liabilities	(9,871)	(519)	(10,390)	(11,460)	(2,806)	(14,266)
Change in contract liabilities recovered from reinsurers	(13,601)	(228)	(13,829)	(12,583)	1,925	(10,658)
Net claims incurred	**(93,590)**	**(1,379)**	**(94,969)**	**(87,608)**	**(1,219)**	**(88,827)**
Technical underwriting result – net	**19,323**	**402**	**19,725**	**9,973**	**1,077**	**11,050**
Commission income	8,653	15	8,668	6,537	39	6,576
Operating expenses	(23,612)	(309)	(23,921)	(19,694)	(342)	(20,036)
Underwriting expenses	(1,784)	(6)	(1,790)	(1,529)	(9)	(1,538)
Underwriting expenses	**2,580**	**102**	**2,682**	**(4,713)**	**765**	**(3,948)**
Net investment return	39,122	512	39,634	22,723	395	23,118
Other costs	–	–	–	(983)	(17)	(1,000)
Profit before taxation	**41,702**	**614**	**42,316**	**17,027**	**1,143**	**18,170**
Net insurance liabilities	**488,639**	**4,242**	**492,881**	**461,621**	**3,569**	**465,190**

The allocation of net investment return, operating expenses and other costs is based on the proportion of gross written premium in each geographical location.

5. Commission Income

Analysis of commission income	2017 €'000	2016 €'000
Commission income	308	305
Reinsurance commission income	8,360	6,271
Total commission income	**8,668**	**6,576**

Commission income is earned by the company on contracts whereby the company places insurance contracts with another insurance company rather than underwriting the business itself.

Reinsurance commission reflects the amounts allowed by the company's reinsurers to cover administration and other expenses.

6. Net Investment Return

Analysis of net investment return 2017	Investment income €'000	Net realised gains/ (losses) €'000	Net unrealised gains/ (losses) €'000	FX gains/ (losses) €'000	Investment expenses €'000	Total investment return €'000
Investment properties	5,291	–	(191)	–	–	5,100
At fair value through profit or loss						
– Debt securities	13,583	(1,278)	(6,826)	(3,274)	–	2,205
– Equity securities	5,150	14,121	12,672	(2,684)	–	29,259
Loans and receivables						
– Loans to local authorities	112	–	–	–	–	112
– Deposits with credit institutions	17	–	–	–	–	17
Cash and cash equivalents	(357)	–	–	(149)	–	(506)
Derivatives	–	–	–	4,298	–	4,298
FX gain/(loss) on insurance business	–	–	–	(162)	–	(162)
Investment expenses	–	–	–	–	(689)	(689)
Total net investment return	**23,796**	**12,843**	**5,655**	**(1,971)**	**(689)**	**39,634**

Notes to the Financial Statements

Notes to the Financial Statements

6. Net Investment Return (continued)

7. Total Operating Expenses

Analysis of net investment return 2016	Investment income €'000	Net realised gains/ (losses) €'000	Net unrealised gains/ (losses) €'000	FX gains/ (losses) €'000	Investment expenses €'000	Total investment return €'000
Investment properties	4,343	–	558	–	–	4,901
At fair value through profit or loss						
– Debt securities	14,594	(356)	3,444	813	–	18,495
– Equity securities	5,146	15,859	(19,334)	(4,790)	–	(3,119)
Loans and receivables						
– Loans to local authorities	134	–	–	–	–	134
– Deposits with credit institutions	585	–	–	–	–	585
Cash and cash equivalents	(220)	–	–	(274)	–	(494)
Derivatives	–	–	–	3,777	–	3,777
FX gain/(loss) on insurance business	–	–	–	(267)	–	(267)
Investment expenses	–	–	–	–	(894)	(894)
Total net investment return	**24,582**	**15,503**	**(15,332)**	**(741)**	**(894)**	**23,118**

Investment income includes interest earned on debt securities and cash and cash equivalents, interest income calculated using the effective interest rate on loans to local authorities and deposits with credit institutions for a period of three months or more, and dividends receivable on equity securities. Investment expenses are also included in net investment return.

FX gains/losses on the insurance business are included within net investment return.

7. Total Operating Expenses

7(a) Operating Expenses

Analysis of other operating expenses	2017 €'000	2016 €'000
Directors' remuneration (note 7(b))	1,196	908
Employee benefits expense (note 7(c))	13,780	12,538
Amortisation on intangibles (note 10)	367	482
Depreciation on property, plant and equipment (note 11)	413	564
Auditors' remuneration (note 7(d))	160	136
Legal and professional fees	746	545
Marketing	579	615
Stakeholder engagement – risk management	231	206
Other expenses	6,449	4,042
Total operating expenses	**23,921**	**20,036**

7(b) Directors' Remuneration

Analysis of Directors' remuneration	2017 €'000	2016 €'000
Directors' remuneration – salaries, benefits and fees	1,098	825
Directors' remuneration – PRSI	75	58
Directors' remuneration – pensions	23	25
Total directors' remuneration	**1,196**	**908**

Directors' remuneration includes salaries paid to Executive Directors during the period. All of the payments in respect of Directors' pensions are payments to a defined contribution scheme.

7(c) Employee Benefits Expense

Analysis of employee benefits expense	2017 €'000	2016 €'000
Staff costs – salaries and benefits	11,935	10,800
Staff costs – PRSI	1,039	957
Staff costs – pensions (note 24)	806	781
Total employee benefits expense	**13,780**	**12,538**

The average number of full-time equivalents employed by the company in the financial year is shown in the table below:

Employee numbers	2017	2016
Permanent staff	126	122
Total	**126**	**122**

The actual number of full-time equivalent staff employed by the company at 31 December 2017 was 131 (2016:123).

7(d) Auditors' Remuneration

An analysis of the auditors' remuneration is set out below:

Analysis of auditors' remuneration	2017 €'000	2016 €'000
Fees and expenses paid to our statutory auditors are analysed as follows:		
– Audit of the financial statements	96	96
– Other assurance services	64	40
Tax advisory	–	–
Other non-audit services	–	–
Total auditors' remuneration	**160**	**136**

Auditors' remuneration (excluding value added tax) in 2017 for audit services is €0.096m (2016: €0.096m) and for other assurance services fees is €0.064m (2016: €0.040m). The other assurance services relate to a Solvency II review and pension audit. The Board and the Audit Committee review on an on-going basis the level of fees and are satisfied that they have not affected the independence of the auditors.

8. Tax Charge on Profit on Ordinary Activities

8(a) Current Tax Year Charge

Tax charge on profit on ordinary activities	2017 €'000	2016 €'000
Analysis of charge for year		
Tax charge based on the results for the year is as follows:		
Current tax		
– In respect of current year	(4,675)	(814)
– In respect of prior year	–	(464)
Total current tax charge	**(4,675)**	**(1,278)**
Deferred tax		
– Origination and reversal of temporary differences	4	(941)
Total deferred tax charge	**4**	**(941)**
Total income tax expense recognised in the current year relating to continuing operations	**(4,671)**	**(2,219)**

Trading income is subject to corporation tax at the rate of 12.5%.

8(b) Tax Charge on Profit on Ordinary Activities

The tax assessed for the year differs from the standard rate of corporation tax due to the differences as explained below:

Tax charge on profit on ordinary activities analysis	2017 €'000	2016 €'000
Profit on ordinary activities before tax	42,316	18,170
Profit on ordinary activities multiplied by standard rate of corporation tax of 12.5%	5,290	2,271
Effect of		
– Expenses not deductible for tax purposes	107	95
– Adjustment in respect of prior years	–	464
– Income taxed at higher rate (25%)	14	16
– Income not subject to tax	(737)	(655)
– Temporary tax differences	(3)	24
– Income tax withheld	–	4
Tax charge	**4,671**	**2,219**

The total tax charge in future periods will be affected by any changes in the corporation tax rate.

Current tax assets and liabilities

The current tax asset of €3.981m (2016: €6.349m) relates to withholding tax amounts that are refundable to the company of €0.184m (2016: €0.291m) and a corporation tax refund of €3.797m (2016: €6.058m) that is due to the company.

9. Dividends Paid and Proposed

Dividend paid and proposed	2017 €'000	2016 €'000
Declared and payable during the year		
– Retained earnings distribution	100,000	–
– Interim dividend	15,000	15,000
Total dividends paid in the year	**115,000**	**15,000**

The payment of a distribution in any year is at the sole discretion of the Board, with a requirement for regulatory referral with recommendation to the Members required in respect of any distributions determined as final in a particular period. Payment in any one year does not entitle Members to payment in subsequent years. Any dividend payment respects the sanctity of the financial strength of the company.

The proposed interim dividend for noting at the 2018 AGM is not recognised as a liability in the 2017 financial statements.

Notes to the Financial Statements

10. Intangible Assets

10. Intangible Assets

Intangible assets 2017 & 2016	IT software €'000
Cost	
Balance at 1 January 2016	1,628
Additions	205
Balance at 1 January 2017	1,833
Additions during the year	277
Balance at 31 December 2017	**2,110**
Amortisation	
Balance at 1 January 2016	(786)
Amortisation for the year	(482)
Balance at 1 January 2017	(1,268)
Amortisation for the year	(367)
Balance at 31 December 2017	**(1,635)**
Carrying amounts	
Balance at 31 December 2016	565
Balance at 31 December 2017	**475**

Intangible assets 2016 & 2015	IT software €'000
Cost	
Balance at 1 January 2015	1,166
Additions	462
Balance at 1 January 2016	1,628
Additions during the year	205
Balance at 31 December 2016	**1,833**
Amortisation	
Balance at 1 January 2015	(403)
Amortisation for the year	(383)
Balance at 1 January 2016	(786)
Amortisation for the year	(482)
Balance at 31 December 2016	**(1,268)**
Carrying amounts	
Balance at 31 December 2015	842
Balance at 31 December 2016	**565**

11. Property, Plant and Equipment

Property, plant and equipment 2017 & 2016	Fixtures & fittings €'000	Leasehold improvements €'000	IT hardware €'000	Motor vehicles €'000	Construction in progress €'000	Total €'000
Cost						
Balance at 1 January 2016	266	1,497	344	153	–	2,260
Additions	–	–	124	–	–	124
Disposals	(26)	–	(12)	–	–	(38)
Reallocation of construction in progress	–	–	–	–	–	–
Balance at 1 January 2017	240	1,497	456	153	–	2,346
Additions	–	8	105	–	–	113
Disposals	–	–	(1)	(153)	–	(154)
Balance at 31 December 2017	**240**	**1,505**	**560**	**–**	**–**	**2,305**
Depreciation						
Balance at 1 January 2016	(163)	(581)	(173)	(87)	–	(1,004)
Depreciation for the year	(79)	(297)	(141)	(47)	–	(564)
Depreciation on disposal	26	–	12	–	–	38
Balance at 1 January 2017	(216)	(878)	(302)	(134)	–	(1,530)
Depreciation for the year	(22)	(275)	(97)	(19)	–	(413)
Depreciation on disposal	–	–	1	153	–	154
Balance at 31 December 2017	**(238)**	**(1,153)**	**(398)**	**–**	**–**	**(1,789)**
Carrying amounts						
Balance at 31 December 2016	24	619	154	19	–	816
Balance at 31 December 2017	**2**	**352**	**160**	**–**	**–**	**515**

Notes to the Financial Statements

Property, plant and equipment 2016 & 2015	Fixtures & fittings €'000	Leasehold improvements €'000	IT hardware €'000	Motor vehicles €'000	Construction in progress €'000	Total €'000
Cost						
Balance at 1 January 2015	266	1,500	293	195	–	2,254
Additions	–	(3)	51	–	–	48
Disposals	–	–	–	(42)	–	(42)
Reallocation of construction in progress	–	–	–	–	–	–
Balance at 1 January 2016	266	1,497	344	153	–	2,260
Additions	–	–	124	–	–	124
Disposals	(26)	–	(12)	–	–	(38)
Balance at 31 December 2016	**240**	**1,497**	**456**	**153**	**–**	**2,346**
Depreciation						
Balance at 1 January 2015	(84)	(282)	(74)	(40)	–	(480)
Depreciation for the year	(79)	(299)	(99)	(47)	–	(524)
Balance at 1 January 2016	(163)	(581)	(173)	(87)	–	(1,004)
Depreciation for the year	(79)	(297)	(141)	(47)	–	(564)
Depreciation on disposal	26	–	12	–	–	38
Balance at 31 December 2016	**(216)**	**(878)**	**(302)**	**(134)**	**–**	**(1,530)**
Carrying amounts						
Balance at 31 December 2015	103	916	171	66	–	1,256
Balance at 31 December 2016	**24**	**619**	**154**	**19**	**–**	**816**

12. Investment Properties

Investment properties	2017 €'000	2016 €'000
Balance at 1 January	92,575	42,450
Additions	366	49,567
Disposals	–	–
Movement in fair value	(191)	558
Balance at 31 December	**92,750**	**92,575**
Rental income derived from investment properties	5,291	4,343
Direct operating expenses generating rental income	–	–
Direct operating expenses not generating rental income	–	–
Income for the period	**5,291**	**4,343**

13. Derivative Financial Instruments

The company is exposed to currency risks arising from the foreign currency investments it holds, mainly Norwegian debt securities, sterling-denominated debt and equity securities, Danish debt securities and US equity securities. The company enters into forward currency agreements, normally for a six-month period, to reduce foreign currency risk. These derivative instruments are held for trading and not as hedging instruments.

The following table shows the fair value of derivative financial instruments, recorded as net assets or liabilities on an individual contract basis, together with their underlying principal.

Derivative financial instruments – held for trading	Assets €'000	Liabilities €'000	Nominal value '000
Balance at 31 December 2017			
Forward foreign exchange contracts – NOK	102	0	NOK 40,000
Forward foreign exchange contracts – GBP	70	489	GBP 54,000
Forward foreign exchange contracts – USD	113	0	USD 12,000
Forward foreign exchange contracts – SEK	0	12	SEK 8,000
Forward foreign exchange contracts – CHF	238	0	CHF 6,000
Forward foreign exchange contracts – DKK	8	0	DKK 80,000
Total financial instruments held for trading	**531**	**501**	
Balance at 31 December 2016			
Forward foreign exchange contracts – NOK	43	220	NOK 185,000
Forward foreign exchange contracts – GBP	699	1,007	GBP 51,000
Forward foreign exchange contracts – USD	15	233	USD 8,500
Forward foreign exchange contracts – SEK	0	16	SEK 8,000
Forward foreign exchange contracts – CHF	0	107	CHF 6,500
Forward foreign exchange contracts – DKK	0	36	DKK 145,000
Total financial instruments held for trading	**757**	**1,619**	

Notes to the Financial Statements

14. Other Financial Assets and Liabilites

14. Other Financial Assets and Liabilities

Financial instruments other than derivative financial instruments are summarised by the following categories:

Other financial assets	2017 €'000	2016 €'000
Designated at fair value through profit or loss		
– Debt securities	771,533	734,993
– Equity securities	221,235	232,468
Total financial assets designated at fair value through profit or loss	**992,768**	**967,461**
Loans and receivables		
– Loans to local authorities	20,429	23,452
– Deposits with credit institutions	10,035	–
Total loans and receivables at amortised cost	**30,464**	**23,452**
Total other financial assets	**1,023,232**	**990,913**

The company ceased providing new loans to local authorities in 2009 (see note 28).
Balances outstanding are monitored on a monthly basis.

Determination of Fair Value and the Fair Value Hierarchy

The company held the following financial instruments carried at fair value: debt securities, equity securities and derivatives.

The company held the following loans and receivables at amortised cost: loans to local authorities and deposits with credit institutions.

The valuation technique for determining and disclosing the fair value hierarchy of financial instruments is as follows:

- Level 1 – quoted (unadjusted) prices in active markets for identical assets and liabilities
- Level 2 – other techniques, including prices received from brokers, for which all inputs that have a significant effect on the recorded fair value are observable either directly or indirectly
- Level 3 – techniques using inputs that have a significant effect on the recorded fair value and are not based on observable market data.

The following tables provide an analysis of financial assets that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable.

Fair value hierarchy 2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Derivative financial assets	–	531	–	531
Financial assets designated at fair value through profit or loss				
– Debt securities	713,512	56,733	1,288	771,533
– Equity securities	183,791	37,443	1	221,235
Loans and receivables				
– Loans to local authorities	–	–	20,429	20,429
– Deposits with credit institutions	–	–	10,035	10,035
Total assets	**897,303**	**94,707**	**31,753**	**1,023,763**
Derivative financial liabilities	–	501	–	501
Total liabilities	**–**	**501**	**–**	**501**

Fair value hierarchy 2016	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Derivative financial assets	–	757	–	757
Financial assets designated at fair value through profit or loss				
– Debt securities	675,706	57,999	1,288	734,993
– Equity securities	199,906	32,561	1	232,468
Loans and receivables				
– Loans to local authorities	–	–	23,452	23,452
– Deposits with credit institutions	–	–	–	–
Total assets	**875,612**	**91,317**	**24,741**	**991,670**
Derivative financial liabilities	–	1,619	–	1,619
Total liabilities	**–**	**1,619**	**–**	**1,619**

Notes to the Financial Statements

14. Other Financial Assets and Liabilites

15. Insurance Assets

Movement in Level 3 Financial Instruments Measured at Fair Value

The following table shows a reconciliation of Level 3 fair value measurement of financial assets.

Reconciliation of Level 3 measurement of financial instruments	2017 €'000	2016 €'000
Balance at 1 January	24,741	54,682
Movement in loans and receivables	7,012	(29,638)
Movement in fair value	–	(303)
Balance at 31 December	**31,753**	**24,741**

There have been no transfers between any of the levels (Levels 1, 2 and 3) in 2016 or 2017. The movement in Level 3 financial instruments is comprised of the repayment of legacy loans to local authorities along with a transfer to a new longer-term deposit with a credit institution (€10m).

Sensitivity of Level 3 Financial Instruments Measured at Fair Value to Changes in Key Assumptions

Level 3 investment classification is based on the assumption that it relates to securities in liquidation and securities carried at amortised cost. The company assumes that all loans and receivables are fully recoverable. The following table shows the impact on the fair value of Level 3 instruments of using reasonable possible alternative assumptions by class of instrument:

Sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions	2017 Carrying amount €'000	2017 Effect of reasonable possible alternative assumptions (+/-)	2016 Carrying amount €'000	2016 Effect of reasonable possible alternative assumptions (+/-)
Financial assets designated at fair value through profit or loss				
– Debt securities	1,288	–	1,288	–
– Equity securities	1	(1)	1	(1)
– Loans and receivables	30,464	–	23,452	–
Balance at 31 December	**31,753**	**(1)**	**24,741**	**(1)**

15. Insurance Assets

Insurance assets relate to retro-rated premiums that may become due from customers. Retro-rated premium arises where certain customers pay a minimum level of premium for a particular underwriting year but may be subject to further levels of premium depending on the claims experience for that underwriting year. Additional premium may not become payable for a number of years until claims fully develop for the underwriting year in question.

Insurance assets	2017 €'000	2016 €'000
Insurance assets – retro-rated premiums	23,966	32,018

16. Insurance Contract Liabilities and Reinsurance Assets

(a) Analysis of the Insurance Contract Liabilities

			2017			2016
Contract liabilities	Insurance contract liabilities €'000	Reinsurance assets €'000	Net €'000	Insurance contract liabilities €'000	Reinsurance assets €'000	Net €'000
Projected outstanding case reserves	426,172	26,900	399,272	415,063	36,480	378,583
Projected IBNR	(28,052)	(253)	(27,799)	(29,672)	(782)	(28,890)
Projected future unallocated loss adjustment expenses	22,062	–	22,062	21,603	–	21,603
Provision for reinsurance bad debts	–	(618)	618	–	(712)	712
Provision for adverse development						
– Margin for uncertainty	76,173	4,955	71,218	74,588	7,065	67,523
– Expected value of real yield provision	3,000	1,500	1,500	7,383	4,262	3,121
Outstanding claims provision	**499,355**	**32,484**	**466,871**	**488,965**	**46,313**	**442,652**
Provision for unearned premiums	22,042	–	22,042	18,223	–	18,223
Unexpired risk reserves	–	–	–	877	–	877
Provision for adverse development						
– Margin for uncertainty	€3,968	–	3,968	3,438	–	3,438
Unearned premium reserve	**26,010**	**–**	**26,010**	**22,538**	**–**	**22,538**
Total contract liabilities	**525,365**	**32,484**	**492,881**	**511,503**	**46,313**	**465,190**

(b) Movement in the Gross and Reinsurance Claims Provision

Movements in gross outstanding claims provision	2017 €'000	2016 €'000
Carrying amount at 1 January	**488,965**	**474,699**
Claim losses and expenses incurred in the current year	128,294	126,145
Decrease in estimated claim losses and expenses incurred in prior years	(41,866)	(11,500)
Change in provision for reduction in real yield	(4,383)	(22,059)
Incurred claims losses and expenses	**82,045**	**92,586**
Less		
Payments made on claims incurred in the current year	(5,492)	(6,767)
Payments made on claims incurred in prior years	(66,163)	(71,553)
Claims payments made in the year	**(71,655)**	**(78,320)**
Carrying amount at 31 December	**499,355**	**488,965**

Notes to the Financial Statements

16. Insurance Contract Liabilities and Reinsurance Assets

Movements in outstanding reinsurance claims provision	2017 €'000	2016 €'000
Carrying amount at 1 January	46,313	56,971
Claim losses and expenses incurred in the current year	5,260	7,922
(Decrease)/increase in estimated claim losses and expenses incurred in prior years	(15,422)	3,528
Change in binary yield provision	(2,762)	(7,691)
Incurred claims losses and expenses	(12,924)	3,759
Less		
Recoveries received on claims incurred in the current year	(928)	(2,000)
Recoveries received on claims incurred in prior years	23	(12,417)
Recoveries on claim payments	(905)	(14,417)
Carrying amount at 31 December	32,484	46,313

(c) Provision for Unearned Premiums

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

Provision for unearned premiums	2017 €'000	2016 €'000
Carrying amount at 1 January	22,538	18,709
Gross premium written during the year	141,095	124,872
Gross premium earned during the year	(137,623)	(121,043)
Changes in unearned premium recognised as income/(expense)	3,472	3,829
Carrying amount at 31 December	26,010	22,538

(d) Assumptions

Please refer to Risk Management note 26 for a description of the assumptions used to calculate insurance liabilities.

17. Insurance Receivables

Insurance receivables	2017 €'000	2016 €'000
Due from policyholders	20,159	10,690
Due from reinsurers	4,569	1,804
Total current receivables	**24,728**	**12,494**

18. Other Receivables

Other receivables	2017 €'000	2016 €'000
Other receivables	123	139
Investments trade in transit	–	–
Total	**123**	**139**

19. Prepayments and Accrued Income

Prepayments and accrued income	2017 €'000	2016 €'000
Retrospective premium receivable	1,050	2,240
Interest on debt securities	4,866	5,058
Interest on cash and cash equivalents	(17)	(18)
Accrued property rental income	2	164
Dividends receivable	865	96
Other accrued income	831	574
Prepayments	513	303
Total	**8,110**	**8,417**

20. Cash and Cash Equivalents

Cash and cash equivalents	2017 €'000	2016 €'000
Cash at banks and on hand	28,767	19,590
Short-term deposits	94,402	106,390
Total	**123,169**	**125,980**

Movement in cash and cash equivalents	2017 €'000	2016 €'000
Balance at beginning of reporting year	125,980	111,863
Balance at end of reporting year	123,169	125,980
Increase/(decrease) in cash and cash equivalents	**(2,811)**	**14,117**

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the company, and earn interest at the respective short-term deposit rates.

The carrying amounts disclosed above reasonably approximate fair value at the reporting date.

21. Deferred Tax Assets/Liabilities

Deferred taxation (assets)/liabilities	2017 €'000	2016 €'000
Balance at 1 January	(142)	(1,083)
Income statement (note 8)	(4)	941
Balance at 31 December	**(146)**	**(142)**
Temporary differences on property, plant and equipment	(146)	(142)
Balance at 31 December	**(146)**	**(142)**

A deferred tax asset is in place for temporary differences between the NBV (net book value) of property, plant and equipment and the tax written down value of those assets.

22. Insurance Payables

Insurance payables	2017 €'000	2016 €'000
Due to policyholders	2,400	1,795
Due to reinsurers	917	1,297
Due to insurance brokers	(5)	23
Total	**3,312**	**3,115**

23. Trade and Other Payables

Trade and other payables	2017 €'000	2016 €'000
Trade creditors	3,927	1,401
Prepayment – property rental income	907	919
Dividend payable	79,063	–
Social Dividend payable	3,822	5,174
Short-term employee benefits	2,476	1,726
Amounts due to brokers on investment purchases	–	–
Accruals	620	449
Total	**90,815**	**9,669**
Tax and social welfare included in accruals		
– PAYE	434	288
– PRSI	174	130
– VAT	12	31
Total	**620**	**449**

24. Pension Costs

The company participates in defined contribution pension schemes.

2017 employers' contributions for the employees' defined contribution pension schemes amounted to €0.825m (2016: €0.806m). Contributions of €0.003m were outstanding as at 31 December 2017 (2016: €0.095m).

Notes to the Financial Statements

Notes to the Financial Statements

25. Capital Management

25. Capital Management

The Central Bank requires the company to maintain an adequate regulatory solvency position. With effect from 1 January 2016, SI 485/2015 – European Union (Insurance and Reinsurance) Regulations 2015 transposed into Irish law the Solvency II Directive (Directive 2009/138/EC) as amended by the Omnibus II Directive (Directive 204/51/EC). The Solvency II Directive, amongst other requirements, established new economic risk-based solvency requirements across all EU member states. Solvency II introduced a risk-based capital as measured by the Solvency Capital Requirement (SCR) that reflects the risk profile of the insurer, as well as a Minimum Capital Requirement (MCR). IPB uses the Solvency II standard formula to measure these risk-based capital requirements. IPB must manage its own funds (as measured under Solvency II valuation rules) to ensure it has capital of sufficient quality to cover the SCR and MCR.

The company has complied with the Solvency II Directive on an ongoing basis throughout the year. The capital available to the company is of a very high quality (Tier 1), consisting entirely of retained earnings. In addition, the assets that comprise the available assets are invested in a very balanced portfolio with limited risk accepted within the parameters of the Board-approved Risk Appetite Statement.

The company's capital levels are consistent with the highest credit rating agency financial strength levels. The company has developed risk metrics to quantify the risks to which the business is exposed. A capital model is used to quantify the risks of the business, taking into account diversification effects. This is done in the context of the company's Own Risk and Solvency Assessment (ORSA), which continues to evolve in parallel with Solvency II guidelines and industry best practice. The company considers overall solvency needs including risks that are beyond the scope of the capital model. This is achieved using a range of sensitivity tests and scenario analysis. The appropriateness of the capital model is regularly assessed. The company considers capital requirements and capital efficiency in the context of profitability, expenses and market position relative to peers.

During 2017 the company paid a commercial dividend to its Members of €15m (2016: €15m) and paid an initial €20.9m of a retained earnings distribution of €200m which is to be paid to Members over a five year period.

Members' Distribution Policy

The payment of a distribution in any year is at the sole discretion of the Board, with a requirement for recommendation to the Members of any distributions determined as final in a particular period. Payment in any one year does not entitle Members to payment in subsequent years. Any proposed dividend payment must, prior to payment, be made known to the Central Bank of Ireland and must be acknowledged without objection by the Central Bank of Ireland. Any dividend payment must respect the sanctity of the financial strength of the company. The Board operates the following restrictions on distribution payments:

- No Member distribution that may be payable should result in the reduction of the solvency cover below 200% of the required Solvency Capital Requirement (SCR) as specified by Solvency II, plus a provision for any anticipated medium-term capital utilisation plans. The distribution should not result in any non-compliance with the company's risk appetite as defined in the operating limits of the Risk Appetite Statement. In addition, any distribution should not materially weaken the company's liquidity position or negatively impact the company's credit rating. The Board reserves the right to cancel, amend or defer any impending dividend or retained earnings distribution on the occurrence of an unforeseen event or action that materially reduces the company's capital strength.

Dividends are recognised as a liability when approved by the Board and are accordingly noted within the regulatory returns as such and within the Annual Stakeholder Report as required.

Members' Dividend

- The Members' Dividend payment in any year should be no more than the profit after tax in the previous financial year or €25m, to be determined at the sole discretion of the IPB Board.
- From 2018 onwards the Members' Dividend payment in any year should be no more than 40% of the profit after tax in the previous financial year.
- The Members' Dividend should be allocated to current Members in proportion to the gross written premium income derived from the Member in the previous year.
- No Members' Dividend should be payable where an underwriting loss, defined as premium earned (including other technical income) less claims incurred less commission and expenses (all elements to be net of reinsurance), has been made in the previous financial year. The Board may override this restriction if they are satisfied that the underwriting loss does not impact the current or future solvency of the business in a material way and where it has been notified to the Central Bank of Ireland.

Retained Earnings Distributions

- Retained earnings distributions in any given year will only be made if the Board is satisfied that the resulting reduction in capital will not result in the capital position of the company falling below the operating limits of the IPB Risk Appetite Statement, to be determined at the sole discretion of the IPB Board.
- Retained earnings distributions are made to current Members in proportion to the average gross written premium income derived from the Member in the years 2011 to 2015.
- The Retained Earnings Distribution will be subject to annual review encompassing stress testing and simulation of IPB's capital and financial sensitivities and assessment of the wider trading environment prior to approval of any distribution in each year. As a regulated entity, the company must communicate any such activity to the Central Bank.

26. Risk Management

The company recognises the critical importance of effective and efficient risk management. In accordance with the company's policies, key management personnel have primary responsibility for the effective identification, measurement, management, monitoring and reporting of risks. The Board defines the overall level of risk and types of risk that the company is prepared to accept in its Risk Appetite Statement. In addition, the Board ensures that the monitoring processes are followed. The major risks the company faces are described below.

Strategic Risk

Strategic risk arises from adverse business strategies, the prospect of failure to implement business strategies and unanticipated changes in the business environment.

The company takes its strategic direction from the Board. The business plan is reviewed annually and is subject to Board approval. The Board monitors progress against the business plan. The company monitors changes in the business environment and considers their impact on the business. The company also considers the implications that changes in the operating model might have for the quality and efficiency of the service that is provided to Members and other policyholders. Other strategic considerations relate to the efficient use of capital and the company's ability to raise capital in the medium to long term.

Underwriting Risk

Underwriting risk arises from uncertainty in the occurrence, amounts and timing of non-life insurance obligations. The key risk associated with any insurance contract is the possibility that an insured event occurs and that the timing and amount of actual claim payments differ from expectations. The principal lines of business covered by the company include public liability, employers' liability, motor and

Notes to the Financial Statements

26. Risk Management (continued)

property. The company manages underwriting risk through its underwriting strategy, claims handling and reinsurance arrangements.

The Board-approved underwriting policy establishes the underwriting strategy and principles. It defines underwriting limits, risk selection, authorities, escalation procedures and actuarial review requirements. The underwriting policy is implemented by means of underwriting guidelines. The company has developed its 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 underwriting strategy includes the employment of appropriately qualified underwriting personnel, the targeting of certain types of business, a constant review of pricing policy using up-to-date statistical analysis and claims experience, and the surveying of risks carried out by experienced personnel.

The frequency and severity of claims can be affected by several factors, most notably the level of awards, inflation on settling claims and the subsequent development of long-term claims. The history of claims development is set out below, both gross and net of reinsurance.

Before the effect of reinsurance, the loss development table is:

Gross of reinsurance Underwriting year	Before 2010 €'000	2010 €'000	2011 €'000	2012 €'000	2013 €'000	2014 €'000	2015 €'000	2016 €'000	2017 €'000	Total €'000
At end of underwriting year		105,682	87,868	88,526	94,457	95,706	126,215	127,895	128,295	
One year later		97,518	85,313	79,462	93,603	93,057	118,924	109,532		
Two years later		95,077	75,842	81,719	85,311	95,242	113,653			
Three years later		84,027	88,753	72,673	79,293	96,996				
Four years later		77,195	78,138	68,222	78,843					
Five years later		75,101	77,733	68,199						
Six years later		68,732	72,669							
Seven years later		61,056								
Ultimate claims losses incurred	**1,060,192**	**61,056**	**72,669**	**68,199**	**78,843**	**96,996**	**113,653**	**109,532**	**128,295**	**1,789,435**
At end of underwriting year		(8,577)	(4,875)	(3,891)	(5,073)	(5,236)	(6,251)	(6,767)	(5,492)	
One year later		(24,301)	(13,396)	(12,008)	(15,599)	(15,729)	(19,410)	(16,917)		
Two years later		(32,435)	(22,552)	(20,736)	(25,709)	(25,227)	(30,128)			
Three years later		(41,213)	(31,856)	(30,948)	(34,242)	(36,626)				
Four years later		(47,073)	(39,578)	(38,343)	(44,352)					
Five years later		(51,501)	(45,787)	(45,601)						
Six years later		(54,574)	(50,232)							
Seven years later		(51,286)								
Cumulative payments to date	**(1,009,446)**	**(51,286)**	**(50,232)**	**(45,601)**	**(44,352)**	**(36,626)**	**(30,128)**	**(16,917)**	**(5,492)**	**(1,290,080)**
Total gross non-life insurance outstanding claims provisions per the statement of financial position	**50,746**	**9,770**	**22,437**	**22,598**	**34,491**	**60,370**	**83,525**	**92,615**	**122,803**	**499,355**

After the effect of reinsurance, the loss development table is:

Net of reinsurance Underwriting year	Before 2010 €'000	2010 €'000	2011 €'000	2012 €'000	2013 €'000	2014 €'000	2015 €'000	2016 €'000	2017 €'000	Total €'000
At end of underwriting year		92,272	85,939	84,120	88,553	85,647	118,742	119,022	123,033	
One year later		78,939	83,745	73,965	87,827	89,712	108,159	103,006		
Two years later		78,204	71,266	75,233	82,695	91,429	104,216			
Three years later		65,020	77,436	68,227	76,669	93,306				
Four years later		60,158	69,885	63,451	76,461					
Five years later		58,244	67,583	63,537						
Six years later		51,658	62,339							
Seven years later		51,949								
Ultimate claims losses incurred	**892,316**	**51,949**	**62,339**	**63,537**	**76,461**	**93,306**	**104,216**	**103,006**	**123,033**	**1,570,163**
At end of underwriting year		(5,095)	(2,433)	(3,515)	(4,352)	(4,234)	(5,587)	(4,767)	(4,564)	
One year later		(12,659)	(9,796)	(10,883)	(13,780)	(14,066)	(16,299)	(13,240)		
Two years later		(19,340)	(20,625)	(19,048)	(23,723)	(23,029)	(26,706)			
Three years later		(28,169)	(29,864)	(28,818)	(32,252)	(34,437)				
Four years later		(33,355)	(37,562)	(35,872)	(42,365)					
Five years later		(37,770)	(43,770)	(42,366)						
Six years later		(40,842)	(48,214)							
Seven years later		(42,810)								
Cumulative recoveries to date	**(848,590)**	**(42,810)**	**(48,214)**	**(42,366)**	**(42,365)**	**(34,437)**	**(26,706)**	**(13,240)**	**(4,564)**	**(1,103,292)**
Total net non-life insurance outstanding claims provisions per the Statement of Financial Position	**43,726**	**9,139**	**14,125**	**21,171**	**34,096**	**58,869**	**77,510**	**89,766**	**118,469**	**466,871**

The Board-approved reinsurance policy establishes the reinsurance strategy and principles. The reinsurance programme reduces the variability of the underwriting result. For its motor, employers' liability and public liability business, the company has in place excess of loss reinsurance treaties. For its property business, the company operates proportional and catastrophe reinsurance treaties.

A primary objective of the company is to ensure that sufficient reserves are available to cover liabilities. The company uses an appropriately qualified and experienced in-house actuarial team supported by external reviews to assist with the estimation of liabilities to ensure that the company's reserves are adequate. Should the reserves be deemed to be inadequate, any deficiency is recognised immediately in the Statement of Comprehensive Income.

Most of the underwriting risk is concentrated in the Republic of Ireland. This geographical concentration may increase the risk from adverse weather events such as windstorm, flood and freeze. Business is also concentrated by line of business, being predominately public liability, employers' liability and property. The other significant insurance risk concentration relates to the fact that the company primarily insures public-sector organisations.

Notes to the Financial Statements

26. Risk Management (continued)

While keeping the insurance needs of Members at the top of the agenda, the company endeavours to apply core underwriting competencies to further diversify the insurance portfolio into complementary lines and policyholders. In any case, all concentrations are significantly mitigated by an appropriate reinsurance programme. There are no other significant underwriting risk concentrations.

Market Risk

Market risk arises from financial instrument market price volatility. It reflects the structural mismatch between assets and liabilities, particularly with respect to duration. It includes interest rate risk, equity risk, property risk, spread risk, currency risk and asset concentration risk. Asset concentration risk arises where there is a lack of diversification, e.g. by issuer.

The Board-approved Investment Policy outlines how market risks are managed. Investments are limited to assets whose risks can be properly identified, monitored and managed. The company employs appropriately qualified and experienced personnel to manage the investment portfolio. Assets held to cover insurance liabilities are invested in a manner appropriate to the nature and duration of the insurance liabilities.

The Risk Appetite Statement is reviewed and approved annually by the Board of Directors. It defines the extent of permissible market risk exposures in terms of specific operational limits.

Compliance with policy and risk appetite is monitored daily and exposures and breaches are reported to the appropriate governance fora.

Currency risk

Currency risk relates to the sensitivity of the value of assets and liabilities to changes in currency exchange rates. The company's liabilities are mostly denominated in euro. The company holds investment assets in foreign currencies, which gives rise to exposure to exchange rate fluctuations. The company is only exposed to high-quality currencies including sterling (GBP) and Norwegian krone (NOK). Currency risk is mitigated using currency forward contracts.

The carrying amount of the company's foreign currency-denominated assets at the reporting date is as follows:

Carrying amount of the company's foreign currency denominated assets 2017	Foreign currency gross €'000	Foreign currency derivatives €'000	Net €'000
British Pounds (GBP)	69,897	60,668	9,229
Norwegian Krone (NOK)	12,957	4,072	8,885
Danish Krone (DKK)	18,035	10,750	7,285
Swedish Krona (SEK)	987	814	173
Swiss Francs (CHF)	5,274	5,129	145
US Dollars (USD)	13,463	9,920	3,543
Total	**120,613**	**91,353**	**29,260**

Carrying amount of the company's foreign currency denominated assets 2016	Foreign currency gross €'000	Foreign currency derivatives €'000	Net €'000
British Pounds (GBP)	63,124	59,539	3,585
Norwegian Krone (NOK)	28,017	20,275	7,742
Danish Krone (DKK)	20,219	19,510	709
Swedish Krona (SEK)	1,028	836	192
Swiss Francs (CHF)	6,449	6,065	384
US Dollars (USD)	12,843	8,011	4,832
Total	131,680	114,236	17,444

The net foreign exchange exposure after currency hedges is €29.3m (2016: €17.4m).

Interest rate risk

Interest rate risk relates to the sensitivity of the values of assets and liabilities to changes in the term structure of interest rates. The company faces a significant interest rate risk due to the nature of its investments and liabilities. Interest rate risk arises primarily from the company's investments in fixed-interest debt securities and from insurance liabilities.

Asset liability matching is used to minimise the impact of an unintended mismatch between assets and liabilities. The characteristics of assets are matched to the characteristics of liabilities as far as possible, including by amount, type, duration and currency. The Risk Committee regularly reviews the appropriate level of exposure to interest rate risk in tandem with the Investment Committee and the Board.

The interest rate stresses are based on an immediate shock to IPB's portfolio of a change in the interest rate or yield curve. The results show the impact of an increase in interest rates of 100 basis points and a decrease of 25 basis points. The numbers have been calculated in accordance with the methodology prescribed by Solvency II, with the yield curve based on swap rates.

At the reporting date, the company held the following assets that are exposed to interest rate risk:

Financial assets subject to interest rate risk	2017 €'000	2016 €'000
Debt securities		
– Irish Government fixed-interest bonds	143,685	139,607
– Other government fixed-interest bonds – eurozone	384,663	368,659
– Other government fixed-interest bonds – non-eurozone	103,393	97,922
– Corporate bonds	78,225	77,126
Loans and receivables		
– Loans to local authorities	–	–
Total	709,966	683,314

Notes to the Financial Statements

26. Risk Management (continued)

The duration profile of the fixed-interest earning investments, categorised by maturity date, is analysed in the following table. The table excludes floating rate notes and non-interest-earning investment assets such as equities, managed funds, property and amounts held on deposits with credit institutions.

Investments analysis	2017 Market value €'000	2017 Weighted average interest rate %	2016 Market value €'000	2016 Weighted average interest rate %
In one year or less	220,055	2.15	71,143	2.67
In more than one year, but less than two years	59,804	0.87	200,471	2.38
In more than two years, but less than three years	101,479	2.68	61,169	0.92
In more than three years, but less than four years	12,980	2.81	45,175	3.53
In more than four years, but less than five years	61,815	1.06	13,613	2.84
More than five years	253,833	3.08	291,743	2.86
Total	709,966	2.37%	683,314	2.57%

The Board-approved Investment Policy sets out the requirements of asset liability matching. The primary objective of the 'matched portfolio' is to ensure that the company meets policyholder obligations as they fall due. This implies high-quality, secure, liquid and local investments with characteristics that approximately match those of the liabilities.

The Board-approved Risk Appetite Statement defines detailed operating limits to limit the extent of mismatch between asset and liabilities.

Spread risk

Spread risk mainly relates to changes in the market value of bonds due to changes in the credit standing of the issuer. The company limits the credit quality of bonds in which the company may invest. The following table provides information regarding the market risk exposure of the company by classifying debt securities by credit rating:

Market risk exposure by credit rating 2016 to 2017	AAA €'000	AA €'000	A €'000	BBB €'000	BB €'000	B €'000	Not rated €'000	Total €'000
Financial assets at fair value through profit or loss								
Debt securities								
2017	234,560	259,419	171,741	–	24,653	–	81,160	771,533
2016	246,194	241,223	191,332	–	–	24,582	31,662	734,993

Where several ratings are available for a given credit exposure, the second-best rating is applied. For unrated bonds, the issuer rating is used as a proxy if the unrated bond does not exhibit any specificities that detriment credit quality, e.g. subordination.

Credit ratings as determined by a number of credit rating agencies were taken into consideration by the company. The company carries out its own credit assessments for key credit counterparties.
The Risk Appetite Statement requires diversification within the fixed interest bond portfolio. In particular, no individual sovereign may exceed 25% of the total sovereign bond portfolio by market value.

Diversification requirements also exist for corporate bonds. Given the rating of its government bond portfolio, the company deems this level of concentration risk to be acceptable. There are no other significant concentrations of risk.

Equity risk

Equity risk relates to the volatility of equity market prices. This volatility may be caused by factors specific to the individual financial instrument, factors specific to the issuer or factors affecting all similar financial instruments traded in the market. Equity risk excludes changes due to currency movements, which is considered as a separate risk type. The company is subject to equity risk due to changes in the market values of its holdings of quoted shares, unquoted shares and managed funds.

Equity risk is managed in line with the Board-approved Investment Policy. The Risk Appetite Statement places operating limits on the size of any single shareholding and on exposure to certain sectors. This imposes a diversification discipline within the equity portfolio. Consequently, there are no significant equity risk concentrations.

Other market risks

Property risk relates to the volatility of real estate market prices. The company's exposure to property risk is aligned to the limits set out in the company's Risk Appetite Statement.

Credit Risk

Credit risk arises from an unexpected default or deterioration in the credit standing of counterparties and debtors, including reinsurance and premium receivables. The company is exposed to credit risk from its operating activities, primarily customer and reinsurer receivables; from cash deposits and bonds from the investment portfolio, and from its loans to local authorities. In the company's Risk Management Framework, credit risk relating to investments is managed as market risk.

The Risk Appetite Statement sets out the operating limits for each reinsurance counterparty, cash counterparty and other credit exposures. The Risk Appetite Statement is regularly assessed for appropriateness and is approved by the Board annually.

The Risk Appetite Statement requires diversification by reinsurance counterparty. In particular, no reinsurance counterparty may exceed 15% of the total reinsurance asset. This limit is increased to 25% for reinsurance counterparties with the very highest credit ratings, typically equivalent to S&P AA- or better. The limits are monitored on a regular basis, and exposures and breaches are reported to the appropriate governance fora. At each reporting date the company performs an assessment of creditworthiness and considers whether its reinsurance assets are impaired.

Cash balances with credit institutions are generally with financial institutions that have a strong credit rating. Balances may also be maintained with other institutions for operational reasons and these balances are kept to minimum levels. The minimum requirements and exposure limits for each counterparty are set out in the Risk Appetite Statement. The limits are monitored on a regular basis and exposures and breaches are reported to the appropriate governance fora. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the company's maximum credit exposure.

Trade and other receivables are balances due from customers. The recoverability of trade and other receivables is monitored on a monthly basis and provision for impairment is made, where appropriate. The following table shows the carrying value of assets that are neither past due nor impaired, the ageing of assets that are past due but not impaired, and assets that have been impaired.

Notes to the Financial Statements

26. Risk Management (continued)

2017	Neither past due nor impaired €'000	Past due less than 30 days €'000	Past due 31 to 60 days €'000	Past due 61 to 90 days €'000	Past due more than 90 days €'000	Carrying amount €'000
Debt securities	771,533	–	–	–	–	771,533
Other investments	221,235	–	–	–	–	221,235
Reinsurance assets (outstanding claims and receivables)	37,053	–	–	–	–	37,053
Loans and receivables	30,464	–	–	–	–	30,464
Insurance receivables	18,740	285	239	163	732	20,159
	1,079,025	285	239	163	732	1,080,444

2016	Neither past due nor impaired €'000	Past due less than 30 days €'000	Past due 31 to 60 days €'000	Past due 61 to 90 days €'000	Past due more than 90 days €'000	Carrying amount €'000
Debt securities	734,993	–	–	–	–	734,993
Other investments	232,468	–	–	–	–	232,468
Reinsurance assets (outstanding claims and receivables)	47,982	149	–	1	(15)	48,117
Loans and receivables	23,379	73	–	–	–	23,452
Insurance receivables	4,445	793	3,569	191	1,692	10,690
	1,043,267	1,015	3,569	192	1,677	1,049,720

The company has the following provisions for doubtful debts at the reporting date. The reinsurance debtors provision is a probability-weighted estimate of the likelihood of future reinsurer counterparty default over the lifetime of a claim, combined with an allowance for the likelihood of possible reinsurance disputes. No actual bad debt expense has occurred in the current year or in 2016. The reinsurance debtor provision below is included in the claims outstanding balance, whereas the other debtors balance is included in insurance receivables.

Bad debt provisions	2017 €'000	2016 €'000
Reinsurance debtors	618	712
Other debtors	137	187
Total	755	899

Notes to the Financial Statements

26. Risk Management (continued)

The following table shows aggregated credit risk exposure for assets with external credit ratings. The credit rating for debt securities is included under spread risk.

Reinsurance assets are reinsurers' share of outstanding claims, IBNR and reinsurance receivables. They are allocated below on the basis of ratings for claims-paying ability.

Loans and receivables from policyholders and intermediaries generally do not have a credit rating.

Market risk exposure by credit rating 2017	AAA €'000	AA €'000	A €'000	BBB €'000	BB €'000	B €'000	CCC €'000	Not rated €'000	Total €'000
Derivative financial instruments	–	–	531	–	–	–	–	–	531
Equity securities	–	10,407	36,270	44,352	8,996	14	–	121,195	221,234
Investment property	–	–	–	–	–	–	–	92,750	92,750
Reinsurance assets (outstanding claims and receivables)	–	10,985	24,404	–	–	–	–	1,664	37,053
Loans and receivables	–	–	10,035	–	–	–	–	20,429	30,464
Insurance receivables	–	–	–	–	–	–	–	20,159	20,159
Cash and cash equivalents	–	–	68,510	54,659	–	–	–		123,169
Total	**–**	**21,392**	**139,750**	**99,011**	**8,996**	**14**	**–**	**256,197**	**525,360**

Market risk exposure by credit rating 2016	AAA €'000	AA €'000	A €'000	BBB €'000	BB €'000	B €'000	CCC €'000	Not rated €'000	Total €'000
Derivative financial instruments	–	–	271	486	–	–	–	–	757
Equity securities	–	15,111	29,771	39,888	9,827	–	17	137,854	232,468
Investment property	–	–	–	–	–	–	–	92,575	92,575
Reinsurance assets (outstanding claims and receivables)	–	26,646	17,612	–	–	–	–	3,859	48,117
Loans and receivables	–	–	–	–	–	–	–	23,452	23,452
Insurance receivables	–	–	–	–	–	–	–	10,690	10,690
Cash and cash equivalents	–	53,858	53,204	10,003	8,915	–	–	–	125,980
Total	**–**	**95,615**	**100,858**	**50,377**	**18,742**	**-**	**17**	**268,430**	**534,039**

Where several ratings are available for a given credit exposure, the second-best rating is applied. The company considers a number of credit rating agencies and also carries out its own credit assessment for key credit counterparties.

Notes to the Financial Statements

26. Risk Management (continued)

Liquidity Risk

Liquidity risk is the risk that the company does not have sufficient liquid financial resources, such as cash, to meet its financial obligations when they fall due. Liquidity risk also arises where assets can only be liquidated at a material cost. The company is exposed to daily calls on its cash resources, mainly for claims and other expense payments.

The Board-approved Investment Policy sets out the assessment and determination of what constitutes liquidity risk for the company. Compliance with the policy is monitored and exposures and breaches are reported to the appropriate governance fora. The policy is reviewed annually. Guidelines are set for asset allocations, portfolio limit structures and the maturity profile of assets in order that sufficient funding is available to meet insurance contract obligations. Asset liquidity is such that it is sufficient to meet cash demands under extreme conditions. Localisation of assets is such that it ensures their availability. The Investment Policy specifies a contingency funding plan should a liquidity shortfall arise.

The company has mitigated much of its liquidity risk through assets and liability matching. The tables below show the maturity analysis of financial assets and financial liabilities based on the remaining undiscounted contractual obligations, including interest receivables or, where relevant, on the following assumptions:

- Loans and other receivables – cash flows for loans to local authorities and deposits with credit institutions are based on agreed principal and interest repayment schedules and are assumed to be repaid on the contracted maturity date.
- Financial assets at fair value through profit or loss – debt securities are assumed to be repaid on the contractual maturity date. However, the company sells debt securities prior to maturity to take advantage of yield curve opportunities. The maturity analysis is based on the assumption that debt securities redeem at par or the gross value as at 31 December 2017 in the case of index-linked bonds. Amortising bonds are stated at their nominal value as at 31 December 2017 in their final year of maturity. Coupon payments are not reflected. Equity securities are assumed to have no maturity date.
- Insurance contract liabilities – maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.
- Cash and cash equivalents – cash flows include interest earned to the end of the reporting period.

Maturity analysis (contracted undiscounted cash flow basis) 2017	Carrying value €'000	Within 1 year €'000	Within 1 to 5 years €'000	After 5 years €'000	No maturity date €'000	Total €'000
Financial assets						
Derivative financial instruments	531	531	–	–	–	531
Financial assets at fair value through profit or loss						
– Debt securities	771,533	213,750	240,881	222,991	10,231	687,853
– Equity securities	221,235	–	–	–	221,235	221,235
Loans and receivables						
– Loans to local authorities	20,429	2,266	8,869	9,826	–	20,961
– Deposits with credit institutions	10,035	10,035	–	–	–	10,035
Insurance assets	23,966	5,752	15,218	2,996	–	23,966
Reinsurance assets						
– Claims outstanding	32,484	13,871	16,989	1,624	–	32,484
Insurance receivables	24,728	24,728	–	–	–	24,728
Other receivables	123	123	–	–	–	123
Cash and cash equivalents	123,169	123,152	–	–	–	123,152
Total	**1,228,233**	**394,208**	**281,957**	**237,437**	**231,466**	**1,145,068**
Financial liabilities						
Insurance contract liabilities						
– Claims outstanding	499,355	213,224	261,163	24,968	–	499,355
Derivative financial instruments	501	501	–	–	–	501
Insurance payables	3,312	3,312	–	–	–	3,312
Trade and other payables	90,815	90,797	–	–	–	90,797
Total	**593,983**	**307,834**	**261,163**	**24,968**	**–**	**593,965**

Notes to the Financial Statements

26. Risk Management (continued)

Maturity analysis (contracted undiscounted cash flow basis) 2016	Carrying value €'000	Within 1 year €'000	Within 1 to 5 years €'000	After 5 years €'000	No maturity date €'000	Total €'000
Financial assets						
Derivative financial instruments	757	757	–	–	–	757
Financial assets at fair value through profit or loss						
– Debt securities	734,993	53,768	323,646	253,592	25,287	656,293
– Equity securities	232,468	–	–	–	232,468	232,468
Loans and receivables						
– Loans to local authorities	23,452	2,485	9,456	12,164	–	24,105
– Deposits with credit institutions	–	–	–	–	–	–
Insurance assets	32,018	8,229	18,570	5,219	–	32,018
Reinsurance assets						
– Claims outstanding	46,313	12,903	26,107	7,303	–	46,313
Insurance receivables	12,494	12,494	–	–	–	12,494
Other receivables	139	139	–	–	–	139
Cash and cash equivalents	125,980	125,961	–	–	–	125,961
Total	**1,208,614**	**216,736**	**377,779**	**278,278**	**257,755**	**1,130,548**
Financial liabilities						
Insurance contract liabilities						
– Claims outstanding	488,965	136,226	275,630	77,109	–	488,965
Derivative financial instruments	1,619	1,619	–	–	–	1,619
Insurance payables	3,115	3,115	–	–	–	3,115
Trade and other payables	9,669	9,669	–	–	–	9,669
Total	**503,368**	**150,629**	**275,630**	**77,109**	**–**	**503,368**

Operational Risk

Operational risk arises from inadequate or failed internal processes, from personnel and systems, or from external events. Operational risk includes legal and regulatory compliance risk but excludes strategic and reputational risk. In particular, the company's operational risk includes outsourcing risks, including bankruptcy of the service providers, disruption of services and failure to achieve standards.

The company regularly reviews all major operational risks. The Risk Committee reviews the risk assessment to ensure that all operational risks are identified and evaluated for recommendation to the Board. Each operational risk is assessed by considering the potential impact and the likelihood of the event occurring. The effectiveness of internal controls on controlling operational risk is also measured.

Compliance monitoring is carried out on an ongoing basis, according to an annual compliance plan that is approved by the Audit Committee and recommended to the Board.

Internal audit is carried out on a continuous basis, in accordance with a rolling internal audit plan approved by the Audit Committee. The internal audit findings are updated on a monthly basis and circulated to the Board.

The company has a business continuity plan for the restoration of functions should critical business processes be disrupted.

The company outsources certain functions to service providers. Outsourced arrangements are governed by service level agreements. Service providers are required to adhere to company policy. Service providers are subject to detailed reporting requirements.

Other Risks

The scope of the company Risk Framework covers all risk types. For example:

- Reputational risk – risk arising from negative perception of the business amongst Members, customers, the Central Bank, counterparties, business partners and other stakeholders.
- Emerging risk – risks that may emerge in the future and have the potential to materially affect solvency.
- The company has considered the impact of the UK's prospective withdrawal from the EU (Brexit) on its business. The company does not believe that Brexit will have a significant impact on its business given that its insurance activities are predominantly located in the Republic of Ireland. The longer-term political and economic effects of Brexit are likely to remain unclear for some time; however, the company will continue to carefully monitor the situation as it develops.

Correlations Between Risks

Risk categories and specific risks are correlated to each other to a greater or lesser extent. Risks are correlated where an unfavourable outcome in one risk tends to be accompanied by an unfavourable outcome in another risk. For example, equity risk and property risk are correlated in the sense that a fall in property values can often be accompanied by a fall in equity values.

Risks have little correlation where it is unlikely that both risks will experience an unfavourable outcome at the same time. Such risks are said to be largely uncorrelated or independent.

The result is a 'diversification benefit'. For example, lapse risk may be somewhat independent of premium risk as lapse rates are unlikely to increase when premium rates are inadequate.

As the same capital resources are used to manage many different sources of risk, it is necessary to manage risk as a portfolio. An isolated change in risk in one part of a portfolio will also influence the capital required to finance other risks due to correlations. Consequently, it is necessary to explicitly model the correlations between risks. The quantification of correlations is highly uncertain and the capital model relies on the 'dependency structure' defined in the Solvency II Standard Formula Technical Specification.

The Risk Report includes quantification of the diversification benefits assumed in the capital model. It also considers key correlations between certain specific risks, often quantitatively, but sometimes in a qualitative manner.

Notes to the Financial Statements

26. Risk Management (continued)

Sensitivity Analysis

The tables below provide sensitivity analysis on the company's key risks. The impact of a change in a single factor is shown with other assumptions left unchanged for each of the risk types.

Risk	Risk methods and assumptions used in preparing the sensitivity analysis
Underwriting risk	The impact of an increase in net loss ratios for general insurance business by 5%.
Currency risk	The impact of a change in foreign exchange rates by ± 10%.
Interest rate risk	The impact of a change in the yield curve on IPB's fixed interest portfolio by 100 basis points and negative 25 basis points. The stress excludes the impact of the change in cashflows from floating rate notes. The underlying yield curve is based on prevailing swap rates as at year end 2017.
Equity risk	The impact of a change in equity market values by ±10%.

The above sensitivity factors have the following impacts on profit before tax and equity:

Sensitivity analysis Impact on profit before tax		2017 €'000	2016 €'000
Underwriting risk	5.00%	(5,735)	(4,994)
Currency risk	10.00%	2,926	1,744
Currency risk	-10.00%	(2,926)	(1,744)
Interest rate risk	1.00%	(20,579)	(23,162)
Interest rate risk	-0.25%	5,846	5,033
Equity risk	10.00%	22,124	23,247
Equity risk	-10.00%	(22,124)	(23,247)

Sensitivity analysis Impact on equity		2017 €'000	2016 €'000
Underwriting risk	5.00%	(5,018)	(4,370)
Currency risk	10.00%	2,560	1,526
Currency risk	-10.00%	(2,560)	(1,526)
Interest rate risk	1.00%	(18,007)	(20,267)
Interest rate risk	-0.25%	5,115	4,404
Equity risk	10.00%	19,358	20,341
Equity risk	-10.00%	(19,358)	(20,341)

In addition, the impact of changes in the assumptions used to calculate general insurance liabilities and sensitivities are indicated in the following table. The gross impact in the following table is calculated by multiplying the gross Incurred But Not Reported (IBNR) reserve and real yield provision by 10%, while the net impact is estimated at 80% of the gross figure.

Sensitivity analysis 2017	Change in assumptions (note 26)	Increase in gross technical reserves €'000	Estimated increase in net technical reserves €'000	Impact on profit before tax €'000	Reduction in equity €'000
Third-party liability and other	10.00%	(3,693)	(2,954)	2,954	2,585
Motor	10.00%	688	550	(550)	(481)
Fire and other damage to property	10.00%	49	39	(39)	(34)
Total		**(2,956)**	**(2,365)**	**2,365**	**2,070**

Sensitivity analysis 2016	Change in assumptions (note 26)	Increase in gross technical reserves €'000	Estimated increase in net technical reserves €'000	Impact on profit before tax €'000	Reduction in equity €'000
Third-party liability and other	10.00%	(3,199)	(2,559)	2,559	2,239
Motor	10.00%	634	507	(507)	(444)
Fire and other damage to property	10.00%	(65)	(52)	52	46
Total		**(2,630)**	**(2,104)**	**2,104**	**1,841**

It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. Reserve projections are subject to a substantial degree of uncertainty and should be viewed as only part of a wider range of possible values produced by alternative assumptions. Particular areas of uncertainty in the projections include:

- The possibility of a future reduction in the level of real yields underlying the determination of Irish bodily injury awards as outlined in note 2 on judgements, estimates and assumptions.
- The extent to which any adverse trends in respect of Irish bodily injury awards will be maintained or deteriorate in the future.
- The possible emergence of new types of latent claims that are not allowed for in the projections.
- The potential for stress claims to arise significantly more frequently in the current economic climate than past data would suggest.
- Projections in respect of cerebral palsy claims.
- Projections in respect of abuse claims.

The methods used for deriving sensitivity information did not change from the previous period.

Notes to the Financial Statements

Limitations of sensitivity analysis

The tables in this section demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results. The sensitivity analysis does not take into consideration that the company's assets and liabilities are actively managed.

Other limitations in the above sensitivity analysis include the use of hypothetical market movements to demonstrate potential risks that only represent the company's view of possible near-term market changes that cannot be predicted with any certainty, and the assumption that all interest rates move in an identical fashion.

27. Contingencies and Regulations

27(a) Capital Commitments

The company has no capital commitments at the reporting date.

27(b) Legal Proceedings and Regulations

The company is not involved in any material legal proceedings other than proceedings that relate to the settlement of claims.

The company is subject to insurance regulation in Ireland and has complied with these regulations. There are no contingencies associated with the company's compliance or lack of compliance with such regulations.

28. Related Party Disclosures

The company enters into transactions with related parties in the normal course of business. Transactions with related parties are at normal market prices. Details of significant transactions carried out during the year with related parties are outlined below.

Key Management Personnel

For the purpose of the disclosure requirements the term 'Key Management Personnel' (i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the company, directly or indirectly) comprises the Board of Directors and includes the leadership team who manage the business and affairs of the company. Disclosure in relation to the 2017 and 2016 compensation entitlements of the Board of Directors is provided in note 7(b). There were no loans outstanding between the company and its Directors at any time during the financial year nor is it the policy of the company to engage in such transactions.

Loans to Local Authorities

The company formerly issued a number of loans to local authorities for the purpose of developing local community initiatives (including local authority premises, roads and amenities). The company ceased providing these loans with effect from 2009; therefore there were no loan advances made to local authorities during the year. Loan capital repayments and interest payments made by local authorities during the year amounted to €3.1m (2016: €2.5m). Loan balances outstanding at year end amounted to €20.4m (2016: €23.5m).

All loans were issued unsecured and with interest rates at normal commercial terms. During the period interest income on these loans totalled €0.1m (2016: €0.1m) and is treated as non-trading investment income and recognised in the Statement of Comprehensive Income. Interest is payable by the authorities on a bi-annual basis. The loans are reviewed for impairment at each reporting date and the Directors do not recommend any impairment provisions as of 31 December 2017 or 2016.

Members

The percentage of total gross premiums written with Members in 2017 was 78% (2016: 71%). Please refer to page 110 for details of our Members.

29. Social Dividend

During 2017 the company did not make any additional contributions to the Social Dividend Fund as part of its corporate social engagement (CSE) framework (2016: €1m); however, the company did continue to make payments from the fund to appropriate recipients. To guide the development, implementation and management of the CSE framework a CSE Committee has been formed, reporting to the Board of Directors.

30. Approval of Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2018.

OTHER INFORMATION

Our Members

Our Members

For the purpose of registration the number of Members of the company is declared not to exceed 250 (two hundred and fifty), but an increase in the number of Members may be subsequently registered. "Local authority" has the meaning assigned to it by the Local Authorities (Mutual Assurance) Acts, 1926 to 1935.

The company's Members must all be local authorities (as defined by the 1926 to 1935 Local Authorities (Mutual Assurance) Acts) and no local authority shall be capable of becoming a Member unless insured, or about to be insured, either against fire risk or employers' liability risk or in respect of any other risk normally insured against by the company and the act of insuring against any such risk is deemed to constitute Membership. If a local authority ceases to be insured against fire risk or employers' liability risk or in respect of any other risk normally insured against so that it is no longer insured with the company against any of such risks, it shall ipso facto immediately cease to be a Member. This also applies to the Regional Assemblies, Education and Training Boards and HSE legal entities.

Legal Status of the Company

The company is limited by guarantee and does not have any share capital. This guarantee is provided by its Members. However, the Members' guarantee is limited based on the following rule:

"Every Member of the company undertakes to contribute to the assets of the company in the event of its being wound up while he is a Member, or within one year afterwards, for payment of the debts and liabilities of the company contracted before he ceases to be a Member, and of the costs, charges and expenses of winding-up, and for adjustment of the rights of the contributories among themselves, such amount as may be required not exceeding Twelve Euro and Seventy Cents (€12.70)."

Source: IPB Insurance Company Limited by Guarantee Constitution, 29 April 2016

List of Members at the Year Ended 31 December 2017

County Councils

- Carlow County Council
- Cavan County Council
- Clare County Council
- Cork City Council
- Cork County Council
- Donegal County Council
- Dublin City Council
- Dún Laoghaire Rathdown County Council
- Fingal County Council
- Galway City Council
- Galway County Council
- Kerry County Council
- Kildare County Council
- Kilkenny County Council
- Laois County Council
- Leitrim County Council
- Limerick City & County Council
- Longford County Council
- Louth County Council
- Mayo County Council
- Meath County Council
- Monaghan County Council
- Offaly County Council
- Roscommon County Council
- Sligo County Council
- South Dublin County Council
- Tipperary County Council
- Waterford City & County Council
- Westmeath County Council
- Wexford County Council
- Wicklow County Council

ETBs

- Cavan and Monaghan ETB
- City of Dublin ETB
- Cork ETB
- Donegal ETB
- Dublin and Dún Laoghaire ETB
- Galway and Roscommon ETB
- Kerry ETB
- Kildare and Wicklow ETB
- Kilkenny and Carlow ETB
- Laois and Offaly ETB
- Limerick and Clare ETB
- Longford and Westmeath ETB
- Louth and Meath ETB
- Mayo, Sligo and Leitrim ETB
- Tipperary ETB
- Waterford and Wexford ETB

Other

- Northern & Western Regional Assembly
- Southern Regional Assembly
- Eastern & Midland Regional Assembly
- The Health Service Executive

Other Information

Glossary

Glossary

Below is a simple explanation of some of the key technical terms used within this report and in the industry generally.

Term	Definition
Capacity	Largest amount of insurance available from a company. Can also refer to the largest amount of insurance or reinsurance available in the marketplace.
Capital	The money invested in the company. This includes the money invested by Members and profits retained within the company.
Claims Frequency	Average number of claims per policy over the year.
Claims Handling Expenses	The administrative cost of processing a claim (costs of running claims centres, etc. and allocated shares of the costs of head office units). Not the cost of the claim itself.
Claims Reserve (Provision for Losses and Loss Adjustment Expenses)	Reserve established by the company to reflect the estimated cost of claims payments and related expenses that is estimated will ultimately be required to pay.
Claims Severity	Average cost of claims incurred over the period.
Gross Combined Operating Ratio %	Calculated as: Gross Incurred Claims + Operating Expenses (including acquisition commissions) (excludes Social Dividend) ——————————————— Gross Earned Premiums
Net Combined Operating Ratio %	Calculated as: Net Incurred Claims + Operating Expenses (including acquisition commissions and less reinsurance commissions received) (excludes Social Dividend) ——————————————— Net Earned Premiums
Commission	An amount payable/receivable to/from an intermediary such as a broker for generating business.
Commission Ratio	Ratio of net commission costs to net earned premiums.
Central Bank of Ireland (Central Bank)	The regulatory authority for Ireland's insurance industry.
Current Year Result on Underwriting	The underwriting profit or loss earned from business for which protection has been provided in the current financial period.
Deferred Tax Assets/Liabilities	The calculation of deferred tax is based on tax loss carry forwards, tax credit carry forwards and temporary differences between the carrying amounts of assets or liabilities in the published financial position and their tax base. The tax rates used for the calculation are local rates. Changes to tax rates already adopted at the reporting date are taken into account.

Other Information

Glossary (continued)

Term	Definition
Defined Contribution Plans	Defined contribution plans are funded through independent pension funds or similar organisations. Contributions fixed in advance (e. g. based on salary) are paid to these institutions and the beneficiary's right to benefits exists against the pension fund. The employer has no obligation beyond payment of the contributions and is not participating in the investment success of the contributions.
Discount Rate	The interest rate used in discounted cash flow analysis to determine the present value of future cash flows. The discount rate takes into account the time value of money (the idea that money available now is worth more than the same amount of money available in the future because it could be earning interest) and the risk or uncertainty of the anticipated future cash flows (which might be less than expected).
Earned Premium	The portion of an insurance premium for which the company already provided protection.
Economic Capital	The company's assessment of the capital the company must hold to have a high confidence of meeting its obligations.
Exposure	A measurement of risk the company is exposed to through the premiums it has written. For example, in motor insurance one vehicle insured for one year is one unit of exposure.
Gross Written Premium (GWP)	Total premium written or processed in the period, irrespective of whether it has been paid, gross of reinsurance.
Gross/Net	In insurance terminology the terms gross and net mean before and after deduction of reinsurance, respectively. In the investment terminology the term "net" is used where the relevant expenses (e. g. gross dividends less funds charges) have already been deducted.
IAS	International Accounting Standards.
IFRS	International Financial Reporting Standards. Since 2002, the designation IFRS applies to the overall framework of all standards approved by the International Accounting Standards Board. Already-approved standards will continue to be cited as International Accounting Standards (IAS).
IBNR (Incurred but Not Reported)	A reserve for claims that have occurred but which have not yet been reported to the company.
Incurred Loss Ratio (gross and net)	Proportionate relationship of incurred losses to earned premiums expressed as a percentage. The company uses the gross loss ratio as a measure of the overall underwriting profitability of the insurance business the company writes and to assess the adequacy of its pricing. The net loss ratio is meaningful in evaluating the financial results, which are net of ceded reinsurance, as reflected in the financial statements.
Members' Dividend	This term relates to the share of the surplus or profits (normally post tax surplus or profits) paid to the Members of a mutual company. The Members' Dividend is usually allocated based on the level of Member business conducted with the mutual.

Other Information

Glossary (continued)

Term	Definition
Net Asset Value (NAV)	The value of the company calculated by subtracting the company's total liabilities from the company's total assets.
Net Claims Ratio (Loss Ratio)	The Net Claims Ratio for any period of time is the ratio of net losses plus loss adjustment expenses incurred during such period to net premium earned for such period.
Net Earned Premium (NEP)	The portion of net premiums for which the company has already provided protection. This is included as income in the period.
Net Expense Ratio	The percentage of net earned premiums which is paid out in operating expenses, e.g. salaries, premises costs, etc. The ratio does not include claims-related expenses but can include commission costs.
Net Incurred Claims (NIC)	The total claims cost incurred in the period less any share to be paid by reinsurers. It includes both claims payments and movements in claims reserves in the period.
Net Written Premium (NWP)	Net written premium is premium written or processed in the period, irrespective of whether it has been paid, less the amount payable in reinsurance premiums.
Net Underwriting Result	This is a measure of how well the company has done excluding its investment performance and is calculated as: NEP – net claims (including claims handling expenses) – expenses (including commissions).
Operating Profit	The profit generated by the ordinary activities of the company including both insurance and investment activity.
Portfolio Management	Management of a group of similar risks; these are usually grouped by line of business.
Premium Rate	The price of a unit of insurance based on a standard risk for one year. Actual premium charged to the customer may differ from the rate due to individual risk characteristics and marketing discounts.
Prior Year Result on Claims	Profit or loss generated by settling claims incurred in a previous year at a better or worse level than the previous estimated cost.
Property General Insurance	Property insurance covers loss or damage through fire, theft, floods, storms and other specified risks.
Real Yield	The return from an investment adjusted for the effects of inflation.
Reinsurance	The practice whereby the company transfers part or all of the risk it has accepted to another insurer (the reinsurer).
Retained Earnings Distribution	A Retained Earnings Distribution is a distribution of Members' or shareholders' equity which has been accumulated net of taxation in prior periods and reported in the equity section of the balance sheet.

Other Information

Glossary (continued)

Term	Definition
Retro	Refers to retro-rated premium whereby policyholders' premiums are calculated for liability insurance retrospectively based on the insured's actual claims experience during the policy term. As the lifespan of a claim can span a number of years, the claims experience or losses may result in retro premium balances accruing over time. Elimination of these historic balances and this basis of rating provides greater certainty regarding the insured's annual insurance costs, aiding their budgeting process.
Return on Equity (ROE)	A measure of the profits the company earns relative to funds attributable to ordinary shareholders or Members.
Social Dividend	IPB's Social Dividend is a process for distributing some surplus generated by IPB's profits in a systematic way through IPB's Corporate Social Engagement Framework. It provides our stakeholders and ultimately society with a share of the profits generated by IPB.
Solvency II	Capital adequacy regime for the European insurance industry. Establishes a revised set of EU-wide capital requirements and risk management standards. It came into force on 1 January 2016.
Solvency Capital Requirement (SCR)	This is the amount of funds that the company is required to hold based on a standard calculation defined by the Central Bank under the EU Solvency II directive.
Total Equity Return	A measure of performance based on the overall value to equity holders of their investment in the company over a period of time. Includes the movement in the share price and dividends paid, expressed as a percentage of the share price at the beginning of the period.
Technical Underwriting Result – Net	Net premiums earned less net claims incurred. Excludes operating costs and commissions paid or earned.
Unearned Premium	The portion of premium that relates to future periods, for which protection has not yet been provided, irrespective of whether the premium has been paid or not.
Yield	Rate of return on an investment in percentage terms. The dividend payable on a share expressed as a percentage of the market price.

Other Information

Company Information

Main Banker
Allied Irish Banks plc
7/12 Dame Street
Dublin 2

Solicitors
Arthur Cox
Solicitors
Earlsfort Centre
Earlsfort Terrace
Dublin 2

Independent Auditors
Deloitte
Chartered Accountants
& Statutory Audit Firm
Deloitte & Touche House
Earlsfort Terrace
Dublin 2

Company Registration Number
7532

Peer Review Actuary
Mazars
Harcourt Centre
Block 3
Harcourt Road
Dublin 2

Registered Office
1 Grand Canal Square
Grand Canal Harbour
Dublin D02 P820

OUR PEOPLE

35+ YEARS' SERVICE

Edel Burke
Lorraine Scanlan
Ita Thornton
Caroline Young

25+ YEARS' SERVICE

Paul Doyle
Niamh Corrigan
Jacinta Gill
Yvonne Loughran
Gerry McAuliffe
Pat McGinley
David Malone
Paddy Moran
Margaret O'Connor
Marian Weston

15+ YEARS' SERVICE

Fiona Carey
Maria Carroll
Rita Kenny
Brendan Mahady
Anne Rice
Gerard Ryan
Rosemary Ryan
Caroline Quinn
Rory Walsh

UP TO 15 YEARS' SERVICE

Claire Babington
Katie Bell
Natasha Brady
Emma Bradley
Diane Broderick
Colm Bryson
Alan Burke
Kevin Byrne
Oisin Cannon
Fergus Carolan
John Caulfield
Emily Chambers
Conn Cleary
Fiona Coloe
Louise Conlon
David Connolly
Mairead Conway
Sarah Coughlan
Richard Counihan
Greg Creevey
Nicola Cummins
Frank Cunneen
Gerry Denvir
Enda Devine
Peter Doyle
David Dunne
Niamh Ebbs
Gerard Fallon
Cathy Farragher
Alison Farrelly
Eleanor Farren
Ann Feely
Nicola Fewer
Maria Fingleton
Jennifer Fitzpatrick
Joyce Foley
Niall Foley
Alan Foster
Tim Fozzard
Joanna Fracz
Yusuf Frih
Majella Fuller
Killian Gargan
Michael Garvey
Stephen Geary
Eileen Griffin
Clara Hannon
Mark Hardy
Catherine Hayes
Ivor Heavey
Peter Hegarty
Shauna Kavanagh
Tom Keane
Paul Kearns
David Kearns
Aoife Keenan
Brian Kelleher
Dean Kelly
Nicola Kelly
Ann-Marie Kennedy
Alex Kitching
Andrew Larrigan
Eugene Lehane
Adrian Leonard
Kamila Litwinowicz
Sheamus Loughran
Robert Love
Helen Lynch
Sean Maguire
Conor Mahon
Fiona McAleenan
Kevin McClean
Conor McCourt
Paul McCrory
Audrey McGinley
Dermot McInerney
John McNabola
Ann-Marie McPartlin
Edward Meaney
Patricia Meehan
Ken Menton
Evan Millar
Maeve Moore
Robert Moore
Gerard Mulvaney
Lindsey Murphy
Fiona Murtagh
Lyndsey Noonan
Ellen O'Carroll
Martha O'Connor
Wendy O'Dwyer
Nicola O'Neill
Graham Orr
Brian Owens
Mihaela Pavisic
Philomena Phelan
Mark Price
Lindsay Pulsford
Matt Rafferty
Donna Rave
Tracey Reale
Donagh Regan
Niamh Reilly
Michelle Rice
John Sheridan
Anne-Marie Sheridan
Lizanne Sorohan
Adam Sykes
Christopher Taaffe
Anthony Thorpe
Magdel Van Schaik
Ian Veltom
Barry Wallace
Christine Waters
Brendan Watson
Michael Whelehan
Barry Whitelaw
Kathy Williams
Fiona Wolfe

IPB Insurance
1 Grand Canal Square, Grand Canal Harbour
Dublin DO2 P820, Ireland
www.ipb.ie