ipb insurance

Carlow County Council Cavan County Council Clare County Council Cork County Council Donegal County Council Dun Laoghaire Rathdown County Council Fingal County Council Galway County Council Kerry County Council Kildare County Council Kilkenny County Council Laois County Council

Leitrim 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 Co Council Donegal ETB

Westmeath County Council Wexford County Council Wicklow County Council Cork City Council Dublin City Council Galway City Council Limerick City & County Council Waterford City & County Council Cavan and Monaghan ETB City of Dublin ETB Cork 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 Northern and Western Regional Assembly Southern Regional Assembly Eastern and Midland Regional Assembly The Health Service Executive

WORKING TOGETHER FOR BETTER OUTCOMES

Annual Report 2018

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

Your mutual had a mixed performance for 2018. A combination of macro-economic and geopolitical challenges contributed to a volatile climate for global markets, resulting in a negative investment outturn for the year of €15.7 million. On the positive side, we again delivered a solid underwriting performance of €7.4 million, partly mitigating investment losses incurred and contributing to the overall result of an €8.4 million loss for the year.

OVERALL, HOWEVER, I am pleased to report a solid operational performance for the year. Despite reporting a loss for the year, we have remained on track in achieving one of our key aims, namely to generate an underwriting profit consistently, at a modest but sustainable level.

As noted, overall financial performance was mainly due to the adverse effects of global adjustments in equity markets driving negative investment performance for the year and erasing gains achieved from our underwriting performance. As communicated to Members at various stakeholder engagement events, we cannot rely on investment performance to sustain the business. As an insurance company, we must ensure that we deliver a sustainable underwriting performance on an annual basis and we are committed to securing this for the mutual.

Government Challenges

Housing Crisis

For national and local government, the housing crisis remains an enormous challenge. However, completions in 2018 are estimated to have reached almost 19,000 units with a further 22,000 predicted for this year based on new data and other forward-looking indicators such as registrations and loans for new homes.[1] The estimates for the growth rate of new housing remain mostly unchanged for 2019 with residential construction investment expected to increase by 25%. Although these trends are encouraging, the position is still short of the levels required to address the current demand for social and affordable housing.

On the rental side, prices have continued to grow at a robust pace. According to the Daft.ie Report for 2018, the average asking price for rentals increased by 11% year-on-year with average rents recording an all-time high of €1,347 per unit. However, there are encouraging signs on the supply-side with the number of units available to rent up 11% compared to 2017. Rents remain stubbornly high, and in 2018 average rents rose by €160 per month, which is placing undue pressure on many sectors of our society as these inflationary challenges also affect our competitiveness to attract the necessary talent to fill growing job vacancies.[2]

While the number of properties listed for sale through 2018 were less than in recent years, the reported price growth of 5.5% and a national average house price of €254,000 are high compared to the national wage average. The ongoing concern is that price-to-rent and price-to-income ratios remain well above historical

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averages, driving house prices to levels that are now beginning to look over-valued.

Government Policy and the Land Development Agency

At Government level, we have seen a range of measures to address the national housing challenge in recent times. One measure in particular that will have a direct impact on our local authority Members is the creation of the Land Development Agency. The agency has been established as a commercial State-sponsored body acting under a Government policy framework and will create a national centre of expertise for State bodies and local authorities to aid the achievement of its targets.

A condition attached to the agency's remit is the provision that all public land disposals must deliver at least 40% social and affordable housing and our local authority Members will have an essential role in working with the agency as this body of work commences.

The Irish Economy

Following another strong performance last year, the underlying outlook for the economy remains favourable, subject to heightened levels of risk and uncertainty. There has been some lowering of the prospects for growth among our main trading partners and downside risks arising from uncertainty regarding Brexit. Growth in underlying domestic demand is forecast to slow from about 6% in 2018 to 4.1% this year, moderating further to 3.3% in 2020.[3]

This growth reflects the positive outlook for private consumption and investment spending. Consumer spending was weaker than expected last year; however, it is projected to increase in volume terms by 2.5% in 2019, underpinned by further growth in employment and earnings. Domestic consumption may be driven higher as wage inflation is predicted to grow by 7% over the next 24 months.

The strength and sustainability of the recovery in recent years is most evident in the performance of the labour market, which has seen employment growth averaging over 3% each year since 2012. Strong momentum in employment has softened as the economy reaches full employment with unemployment projected to average 4.8% this year.

Brexit

Given its unprecedented nature, quantifying the impact of a disorderly Brexit is highly uncertain as we approach deadline day. With a no-deal Brexit there will be significant trade frictions and associated costs not just from new trading arrangements, but from the removal of mechanisms that make trade possible. The many issues arising include regulatory and customs issues, border infrastructure issues and legal uncertainties together with short-term impact and disruption stemming from the removal of free-trade and free-movement arrangements.

The Irish Economy and Brexit

While the economic outlook remains robust, Brexit-related risk and specifically any escalation in trade frictions between the UK and the EU have the potential to damage living standards in Ireland materially. So far, the strong growth in the domestic economy coupled with favourable global economic conditions have allowed the Irish economy to absorb Brexit-related impacts. To date, these have been predominantly felt through weaker sterling impacting on the competitiveness of Irish exports to the UK, which remains a significant market for Irish goods and services.

Members and Brexit

Brexit presents a particular challenge for border-region local authority Members and IPB's activities in the area. Having entered the Northern Ireland market some years ago, and as the Brexit deadline approaches we decided to withdraw from underwriting new business in the market. It is important to note that our exposure to this market is limited and we are satisfied that we can comfortably manage related requirements notwithstanding the ongoing uncertainty over the future of the UK's relationship with the EU, and consequently Ireland.

Insurance Industry

Following a number of years of corrective rating action across the insurance sector, there are clear signs that the industry has reached an inflection point indicated by a softening in premium prices particularly in the personal lines segment. CSO consumer price index figures for insurance reported an overall reduction of 4.8% for the 12 months up to the end of November 2018.[4] The liability sector continues to lag the personal insurance market in this regard.

The recommendations of the Cost of Insurance Working Group received considerable attention during the year, and we are optimistic that the findings will lead to further progress in addressing insurance costs. The final report of the Personal Injuries Commission published by Justice Nicholas Kearns in September found that personal injury compensation payments for whiplash injuries in Ireland are typically 4.4 times higher than the amounts awarded in England and Wales. This finding validates our figures and has prompted much reflection on the scale of awards accepted as the norm in this jurisdiction. We continue to challenge suspect claimants through fraud detection and prevention, and we are making great strides in achieving results through focused and targeted actions in this respect. Our Members' continued support is critical to achieving this and eliminating the need for rating action in the future.

Member Engagement – Challenges and Opportunities

We continue to maintain a high level of engagement with Members as we deliver on our commitments to support you through increased protection, risk management and enhanced claims experience. The distribution of €98.6 million in retained earnings concluded in the first quarter of last year and is designed to support you in investing in insurance-related activity to mitigate your risk exposures.

Thanks to your support we have made progress on our collective objective regarding the transfer of Members' insurable risks to IPB and the maximisation of your insurance protection which this facilitates.

It is in our mutual interest to drive better results in managing risk and reducing claims, and we are determined to absorb your exposures and assist you in effectively managing your risks. I want to take this opportunity to acknowledge the support of all our Members in emphasising the importance of applying these funds to address Members' insurance needs and claims challenges.

Board Succession

IPB's Directors, in conjunction with the Central Bank of Ireland, are committed to ensuring the optimum composition of the Board to manage the delivery of IPB's strategic objectives. We continue to consult with our regulatory representatives in providing satisfaction with our board succession programme. By the end of the year three directors had retired from the Board – two Group Non-Executive Directors (GNEDs) and one Independent Non-Executive Director (INED). Dermot Gorman (INED) retired from the Board on 12 December, and GNEDs Michael McGreal and Michael Fitzgerald retired from the Board on 31 December.

Barbara Cotter was appointed as an INED on 13 December, with the requisite approvals secured in 2018 to support the appointment of Councillors John Hogan and John Clendennen to GNED positions on 1 January 2019. On behalf of the Board and Management of IPB, I would like to note our appreciation to Dermot Gorman, Michael McGreal and Michael Fitzgerald for their considerable contribution and commitment demonstrated in performing their roles throughout the period of their engagement and we wish our new appointees well with their roles.

As part of our ongoing programme of Board succession planning, we continue to conduct interviews with our nominees who have put themselves forward for consideration for participation as Board Observers in the context of our succession planning for GNED roles. The establishment of succession pools for GNED roles is pivotally important to the process of securing regulatory support for the Board's succession planning efforts, and we continue to develop our succession programme in this regard in tandem with succession planning for INED roles. I want to thank all the nominees who have participated in the process to date and look forward to progressing our engagement.

Culture and Risk

Getting the culture right is fundamental to the successful operation of any financial services organisation. An inappropriate culture can ultimately lead to acceptance of excessive risk, poor decision making, unfair treatment of customers and possible company losses. Such issues have materialised in the Irish financial services sector – mainly in the banking sector, but the insurance sector has also been affected. As a result, the Central Bank of Ireland has significantly increased its focus on this area with regulated organisations.

Culture is generally understood as "the way we do things around here". In an organisation it relates to people, performance, individual beliefs and leadership. It encompasses risk culture,

...We continue to maintain a high level of engagement with Members as **we deliver on our commitments to support you** through increased protection, risk management and enhanced claims experience...

...I am pleased to report that the **first year of the programme has now concluded successfully.** The fund generated much engagement from our local authority Members and their Local Enterprise Offices (LEOs) working with social enterprises around the country...

which addresses the articulation, communication, measurement and management of risk. It also considers conduct risk, which is the risk the firm poses to its customers through its direct interaction with them.

At IPB, we take culture very seriously. We have an established set of values and behaviours that we work to daily. These values include having our Members' interests at the centre of how we operate as your mutual insurer. As such, we will not accept risks or behaviours that are contrary to your interests and those of all our Members and stakeholders. The culture we have in IPB is well embedded, and we are very proud of it. That said, we are very aware of the need to continually reinforce a positive Member-focused culture. As such, the Board and I as Chair fully sponsor all initiatives undertaken in delivering on a productive workplace and risk management culture.

CSE – Social Enterprise Development Fund

Another area supporting our mutual values is our commitment to social engagement. We initially presented details of the Social Enterprise Development Fund to Members in October 2017. I am pleased to report that the first year of the programme has now concluded successfully. The fund generated much engagement from our local authority Members and their Local Enterprise Offices (LEOs) working with social enterprises around the country. The initiative launched earlier in the year with six roadshows nationwide, resulting in over 500 social enterprises registering their interest and generating over 100 applications from social enterprises across 30 local authority areas.

The fund is a partnership delivered through our local authority Members, whose input and support proved extremely important in making it a great success. In all, 23 funding and accelerator awardees from 15 local authority areas were announced at an awards event held at Cork County Hall in July. The conclusion of the first year of the fund was marked by a showcase of all awardees held in January of this year to highlight the individual social impacts made by all successful social enterprises.

The second year of the fund also launched in January this year and featured a broadened scope to include enhanced accelerator programme elements providing variable funding amounts. I am pleased to note that the fund received an increase of 84% in applications with all local authority Member areas represented this year.

Conclusion

In concluding, it is warranted to acknowledge the commitment of our local authority and ETB Members in working with us to reduce the frequency and severity of their claims. We are making steady progress on the ground with Members in delivering on our shared strategic objective of achieving better claims outcomes through investment in risk management and remediation. I am confident that through our mutual efforts and investment of retained earnings distributions we will see real benefits through reduced claims frequency and rating impacts.

Our collaborative approach with Members is achieving results.
We constantly strive to provide more insurance protection for our Members, and by listening, anticipating and responding to your needs we will ensure that we have your back when you need us.

George Jones
Chairman

1 Goodbody BER Housebuilding Tracker
2 DAFT.ie Q4 Report and 2018 Full Year Data
3 CBI Q1 Quarterly Bulletin January 2019
4 CSO commodity inflation

Chief Executive's Review

MICHAEL GARVEY

2018 was a year of two contrasting halves. Performance over the first six months of the year stayed largely on track across all key measures. However, in the second half of the year there was a significant reversal in investment performance, particularly in the last quarter. Consequently, our overall financial performance was impacted negatively, which resulted in a trading loss of €8.4m, the first loss in a decade.

IT IS IMPORTANT to note that the corrective action we have taken to address our underwriting result is delivering. We have outlined to Members in previous years that our focus must be on achieving underwriting profitability to underpin the long-term sustainability of your mutual.

Last year we returned to underwriting profitability for the first time since 2014. I am therefore particularly pleased to note that we have recorded our second consecutive year of underwriting profitability, achieving a €7.4m positive outturn for the year – an increase of €4.7m on 2017. This positive result is due to a combination of factors including rating action driven by modified community rating and, most notably, year-on-year improvement in claims frequency.

In 2018 your mutual generated Gross Written Premium (GWP) of €161.2m, resulting in premium growth of €20.1m or 14.2%. This growth was achieved from a combination of corrective rating action, increased premium due to Members transferring more of their risk to us through ground-up cover[1] and earning retro-rated premium[2] a year earlier than expected.

I am encouraged by the underwriting performance during the year. That said, we are still waiting to see if the key recommendations of the Cost of Insurance Working Group set up to address the cost of personal injury awards will be implemented.

The significant programme of risk remediation work Members embarked on in 2017 is beginning to show some positive trends in claims frequency although claims cost inflation continues to be a major concern, increasing by over 4% year-on-year. I am pleased to note that we are now seeing some positive signs of progress as a result of our claims management strategy.

Working with Members, we are beginning to see marginal improvements in the number of reported injury claims, particularly in remediated areas previously identified as accident blackspots. The number of claims notified increased by 1,371 to 8,143 in 2018 (2017: 6,772); however, this increase of 20.2% was due

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mainly to the impact of risk transfer as Members transfer more of their insurable risk to IPB.

The underlying performance and profitability of the insurance business as measured by net combined operating ratio (COR) remains our core focus. We have set ourselves a modest target COR of 95%, reflecting our mutual purpose. The COR for the year improved to 94.7% (2017: 97.7%). Meanwhile, operational efficiency improved significantly resulting in a net expense ratio of 12.7% (2017: 14.9%) due to a combination of higher earned premium and lower operating expenses.

Retained Earnings Distribution (RED)

Supporting Members in the management of their insurance risk has been a key focus throughout the year. We continue to work with Members to reduce risks through enhanced risk management and mitigation initiatives to address the adverse claims environment.

As reported last year, we committed to return €200m in retained earnings to Members over a 5-year period (subject to the appropriate approvals). It is very encouraging to see the commitment from Members as they invest these funds to enhance risk management, remediate accident blackspots, eliminate hazards and limit their exposure to claims.

Risk Remediation

I am encouraged by the scale of investment by our local authority Members in projects focused directly on mitigating the cost and frequency of public liability (PL) claims in high-frequency accident locations. This will greatly assist in stabilising and hopefully reducing the cost of Members insurance in the coming years.

Our Client Relationship Management (CRM) and Client Enterprise Risk Management (CERM) teams worked directly with Members throughout the year to identify and map accident blackspots. Our CERM engineers participated in more than 25 walked surveys of blackspot areas and in many cases works have either already completed or are well advanced to remediate hazards in our towns and cities around Ireland.

...The positive trend in 2017 continued in 2018, and on a like-for-like basis year-on-year there was a **3% reduction in claims notified** compared to the average figures in the previous three years...

IPB will continue to analyse PL claims data and we have recently commenced a review of remediated locations to ascertain the effect of works performed in terms of mitigating future claims and combatting the deterioration in PL claims frequency witnessed between 2012 and 2016.

Claims

Claims incurred net of reinsurance amounted to €112.7m (2017: €95m). The claims environment is showing some positive signs in terms of frequency although claims cost inflation continues to be a challenge, running at approximately 4% pa. The positive trend in 2017 continued in 2018, and on a like-for-like basis year-on-year there was a 3% reduction in claims notified compared to the average figures in the previous three years. This reduction clearly demonstrates that investing in risk remediation, better information sharing and focused action against insurance fraud are all having an impact.

It is important to state that this analysis isolates the impact of ground-up cover which, as expected, results in a significant increase in claim volumes given increased exposure.

Process Improvements

During the year, our dedicated fraud Special Investigations Unit (SIU) had notable successes resulting in savings for Members of €2.5m (2017: €1.7m). In line with our commitment to support Members we have added additional resources across Member relations, risk management, fraud detection and quality assurance.

Cost of Insurance Working Group (CIWG)

Ireland's insurance sector continues to see improvement in financial results as corrective rating action in recent years is returning the industry to underwriting profitability. Claims costs related to personal injuries remain high by European standards. Unless the key recommendations of the Cost of Insurance Working Group are implemented we will not see the necessary improvements to adequately address claims costs.

Although there have been some encouraging signs regarding the outputs of the Cost of Insurance Working Group over the past couple of years, the lack of implementation remains a cause for concern. The Personal Injuries Commission report published by Justice Nicholas Kearns last September found that personal injury compensation payments for whiplash injuries were more than four times higher than those awarded in England and Wales. The insurance industry has been calling for action in addressing this for many years.

A key recommendation of the report is the establishment of a Judicial Council. It has long been recognised that the absence of a Judicial Council in Ireland has meant that we are out of step with other countries that share our value system, including those countries with similar legal background and tradition. Judicial Councils are generally seen as having an important role to play in safeguarding the independence of the judiciary. They also provide a vehicle for addressing matters such as further education and training as well as matters pertaining to discipline.

In keeping with this approach, the Judicial Council Bill 2017 affirms the independence of the proposed Judicial Council and provides that one of its key functions will be to promote and maintain excellence in the exercise by judges of their judicial functions. If established, the Judicial Council should be requested by the Minister for Justice to compile guidelines for appropriate levels of damages for various types of personal injury. If implemented, these guidelines will deliver greater consistency in court awards and reduce claims costs.

It is also recommended that responsibility for the Book of Quantum be removed from the Injuries Board. If this happens, it is vitally important that the judicial guidelines on injury values are informed by the new National Claims Database, which will include non-litigated and non-Injuries Board cases settled by insurance companies.

The Commission has published other recommendations including: The endorsement of establishment of a Garda Insurance Fraud Investigation Unit and requesting the Law Reform Commission to explore the possibility of developing constitutionally sound legislation to cap the quantum of personal injury damages in certain claim categories. The commission has delivered on its remit and the next stage should see progress being made on its implementation.

Fraudulent activity within a claim can be difficult to detect and this situation is compounded by the fact that there is little or no possibility of prosecution of fraudulent claimants. The anticipated enactment of the Civil Liability and Courts (Amendment) Bill 2018, which is currently before the Dáil at the third stage, is encouraging. The Bill addresses circumstances in which a finding of insurance fraud made in the courts should result in the case being automatically referred to the Director of Public Prosecutions.

The Cost of Insurance Working Group report identified improvements in the reporting and investigation of suspected fraudulent claims. This Bill has the potential to help create a more effective deterrent to those who may make fraudulent or exaggerated insurance claims by better utilising existing legislative provisions that allow for a fine of up to €100,000, or imprisonment for up to ten years, or both. There must be deterrents, otherwise serial claimants will continue to claim with no consequences if their case is thrown out or withdrawn.

...Our Client Enterprise Risk Management team is **working closely with local authority Members** and the Land Use and Transportation Committee (LUTs)...

Unfortunately, in our experience the amended Book of Quantum has contributed to the increased 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 at 46%.[3]

A welcome development for the broader insurance 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 against insolvent insurers.

RMO and Purple Book

Early last year the Road Management Office (RMO) launched the national online road opening system, MapRoad Roadworks Licensing (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. This is now providing greater clarity as to the identity of works contractors and supports the process of securing indemnities and making recoveries. Our Client Enterprise Risk Management team is working closely with local authority Members and the Land Use and Transportation Committee (LUTs) to ensure that where our Members are not liable then the appropriate party is identified for indemnity and recovery of costs.

Capital Adequacy and Solvency II

As at 31 December 2018, IPB remains highly capitalised under the Solvency II regime. In October 2018, Standard & Poor's maintained IPB's credit rating at A- (Stable) and continues to note the capital and financial strength aspect of IPB's balance sheet as AAA rated, notwithstanding the distribution of €98.6 million in retained earnings to Members by year end. I am confident that we have the required capital to support Members' risk transfer and to provide new products

...The 2018 Investment result of -1.3% (-€15.7m) was a **solid result in the context of falling markets** and pointed to the benefits of a diverse portfolio of investment assets...

that underwrite the new and emerging risks our Members face.

Investments

2018 proved to be a difficult year for investment markets as almost all major asset classes delivered negative returns. In many ways 2018 was the mirror image of 2017 as global equity markets corrected lower by 7%, having risen by a similar amount in 2017. Stock market divergence was significant, with the US market outperforming through most of 2018 until the final quarter when global issues began to impact US growth.

Global growth slowed dramatically over the second half of 2018, as emerging markets in particular struggled to cope with higher US interest rates and a slowdown in China. The trade tariffs imposed on China by the US and further threats of a trade war did little to promote investment confidence in either China or Europe. In Europe the year was mired by political issues ranging from concerns around Turkey's currency fluctuations, Italian budget deficits, a hard Brexit and the Yellow Vests protests in France. We are taking a cautious view on 2019 until we have line of sight on a Brexit outcome, European elections in May and a resolution to the Italian fiscal challenges.

The 2018 Investment result of -1.3% (-€15.7m) was a solid result in the context of falling markets and pointed to the benefits of a diverse portfolio of investment assets. IPB carried out an asset allocation review in 2018 and decided to reduce equity allocations from 15% to 11% and proceeds will be reinvested in longer-term lower-risk assets. The reduction of risk to Irish equities proved a prescient decision as the ISEQ Index was the second-worst performing equity market in Europe in 2018, falling 22% as a result of Brexit concerns.

The reduction in risk assets also limited the extent of investment losses in 2018 and profits were taken in stocks that had reached all-time high levels. The diversification within the portfolio to sovereign bonds, defensive equities, property and cash deposits provided good insulation against severe downside losses. The investment loss of €15.7m must also be viewed in context of 2017's investment returns of €39.6m and €450m of cumulative investment gains since the 2008 global financial crisis. 2018 marked the first year of investment losses for IPB in ten years in what was also the most volatile year for investment markets since the crisis.

Looking forward, we note that many of the above geopolitical issues continue to impact the potential for immediate growth. To generate positive returns in 2019 we need to see evidence of stabilising global growth and no further increase in trade tensions. Some European economies are falling into recession and we are mindful of the potential impact of Brexit to the region and to Ireland in particular. A US recession is not expected in 2019 due to a less-restrictive interest rate policy, but the US is also susceptible to slowing global growth and weaker consumer confidence.

Listening to Members

By listening closely to our Members we have been able to respond to your needs as they arise by enhancing our product offering. The evolving risk profile of our Members requires continuous assessment to ensure that your mutual can provide insurance and risk management solutions that respond to new and emerging risks. We have introduced several new insurance products for Members, including cyber insurance in late 2017.

Cyber-attacks are a growing phenomenon for enterprises of all sizes and a cyber-related crisis can be one of the most complicated challenges for any organisation. Our new cyber product offers Members 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. We are working closely with Members to ensure they have the necessary cover in place against the growing global phenomenon of cyber-related crime.

Another cover that is generating great interest among our Members is Environmental Impairment Liability General Operations cover (EIL GO). This product 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.

Also 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 protecting 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

...In 2017 we set ourselves a key target of delivering a **combined operating ratio of 95% or lower by 2020.** We have achieved this ahead of schedule...

risks and seek to provide comprehensive insurance solutions that deliver peace of mind at competitive premiums.

During the year we commenced a review of limits of indemnity for our Members to ensure that they are adequately covered for catastrophic-type events. The outcome of this review resulted in recommendations to Members to increase their limits of indemnity for Public Liability, Employers Liability and Professional Indemnity policy covers.

Member Survey

Our annual Members' Satisfaction Survey is an important reference point for us in identifying any potential issues such as delivery on your expectations or concerns in terms of managing your insurable risks. I would like to thank our Members for their continued support in recording yet another year of very high participation levels with a response rate of 71.4%. Our Members continue to report high levels of approval, registering an overall satisfaction rate of 94% (2017: 96%). Overall there was a slight deterioration from last year's satisfaction metrics, which were the highest in the six-year history of the survey. In particular, I am encouraged to see our Members continue to give IPB a very high trust rating at 96%, a strong endorsement of our mutual model.

Culture, Values and Behaviour

We have continued to make solid progress in developing a workplace culture in line with our mutual ethos. Through our annual employee survey delivered by the Great Place to Work institute we have further strengthened our performance increasing our Great Place to Work score by 11% to achieve a very high score of 79%.

I would like to acknowledge the support and effort of our colleagues throughout the organisation, including the Board of Directors, management and all employees, for again securing Great Place to Work status. IPB is ranked in 12th position, up six places, and we maintain our status as one of the top medium-sized companies in Ireland in which to work. These awards recognise high-performance workplaces and the progress achieved over the past number of years is reflective of our wider ongoing efforts to deliver on our commitment to instil and work to the values and behaviours of our mutual ethos in the interest of our Members.

Conclusion

In 2017 we set ourselves a key target of delivering a combined operating ratio of 95% or lower by 2020. We have achieved this ahead of schedule due to a combination of prudent underwriting, modified community rating, a reduction in claims frequency through a partnership approach with Members to support their risk management and remediation, and through the cost savings accruing from a multi-faceted claims management strategy.

We price our insurance to deliver a modest profit. We have the lowest expense ratio in the Irish insurance market at 12.7%, compared to the industry average of 26%.[4]

Our balance sheet remains strong. However, the overall solvency margin is reduced due to the distribution of retained earnings and growth in insurance exposure arising from the transfer of risk from Members' balance sheets to ours.

As a mutual we have an obligation to protect our Members' insurable interests. We have adopted a strategy to reduce exposure to global market volatility through long-term lower risk assets. This has proven to be the correct decision as we manage our investments prudently in a low-interest environment.

We remain extremely strong in our chosen segments in the general insurance market and we see further opportunities for growth primarily within our existing Member base, but also across our non-Member portfolio with new business opportunities within our chosen sectors.

Over the past seven years we have paid €100m in commercial dividends, €98.6m in retained earnings and a further €13m in Social Dividends. We have also committed a further €101.4m in retained earnings distribution (subject to the necessary approvals) through to 2022 along with a commitment to return 40% of our annual after-tax surplus in commercial dividends. Our focus for the future will be to deliver all the benefits that being part of a mutual offers.

We are seeing solid progress in the implementation of our claims strategy and the risk management and remediation programme. These initiatives will deliver further improvements in overall claims performance in 2019. The claims environment is showing signs of stabilising, but it remains challenging. The high cost of claims continues to be a concern particularly regarding award levels for soft tissue and other minor injuries. The recommendations of the

Cost of Insurance Working Group along with recommendations of Justice Kearns in the Personal Injuries Commission Report are particularly pivotal to addressing these issues.

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 believe we have unequalled expertise in our chosen sectors and commit to offering the optimum levels of cover at competitive premiums for Members.

I am convinced that by continuing to work with Members our combined efforts will lead to savings for the sector through reduced claims resulting in lower insurance premiums. Thank you for your continued support.

Michael Garvey
Chief Executive Officer

1 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.

2 Retro-rated premium is 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.

3 PIAB Annual Report 2017

4 Insurance Ireland Factfile 2016

Management Analysis

A range of macro-economic challenges resulted in significant volatility in global investment markets during 2018. This volatility was the primary driver of the €8.4 million loss recorded for the year. Nevertheless, the mutual performed solidly across most key financial measures as we achieved underwriting profit for a second consecutive year.

KEY AREAS OF FOCUS

Investment markets continue to be challenging and have resulted in a negative investment performance for the year. Uncertainty over Brexit and global trade agreements represent some of the international threats contributing to ongoing volatility on global markets. At home, claims cost inflation still persists although there are encouraging signs that claims frequency may have peaked.

Number of New Claims

Indications are that claims frequency has stabilised although claims cost inflation still persists.

2016	2017	2018
6,440	6,772	8,143

Net Combined Ratio (NCR)

The NCR for the year improved to 94.7% due to improved underwriting performance.

2017: 97.7%

2018: 94.7%

95% STRATEGIC TARGET

We made further progress towards meeting our strategic objectives and strengthening the long-term sustainability of the mutual for our Members benefit. This year is the second consecutive year of underwriting profitability, following underwriting losses in 2015 and 2016. We remain focused on:

- **Building on the achievements** in the implementation of our multi-faceted claims strategy which aims to reduce the frequency and costs of claims through a focus on fraud identification, risk management and remediation of accident hotspots amongst other initiatives
- **Maximising protection** through the provision of appropriate insurance products to enable effective transfer of Members' insurable risks
- Maintaining **focus on value for money** for Members
- **Maintaining our industry-leading expense ratio** at or below 15%

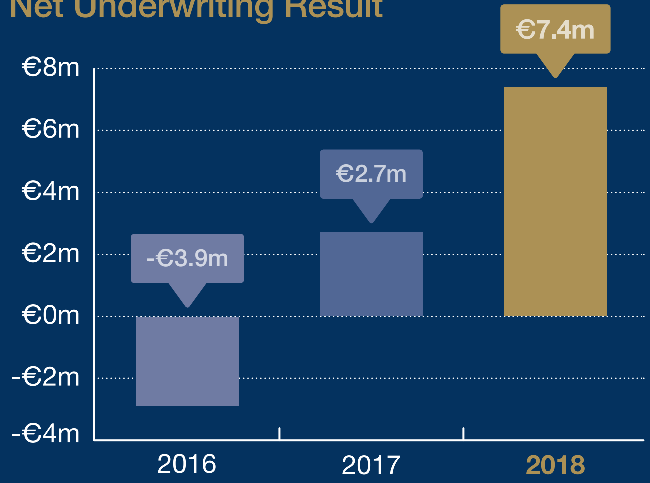
Net Expense Ratio

Our net expense ratio at 12.7% is well ahead of industry norms (26%).

12.7%

2017: 14.9%

Net Underwriting Result



RETURNING VALUE TO OUR MEMBERS

We continue to focus on risk management and remediation in partnership with our Members to reduce exposures and to eliminate hazards that result in claims. We continue to facilitate the transfer of Members' insurable risks to IPB and are constantly focused on providing insurance products and solutions that address the new and emerging risks Members face. A substantial retained earnings distribution of €200m has been committed to Members, with €98.6m returned by year end 2018. We have made solid progress in supporting Members in remediating risks and removing hazards that result in claims and we are committed to continuing our support for Members in this respect in the years ahead.

€300m
Returned or committed to Members since 2011

A- (STABLE)
Standard and Poor's rating maintained in 2018

We are committed to maintaining our strong capital position to deliver on our commitment to Members to transfer all of their available insurable risks to IPB.

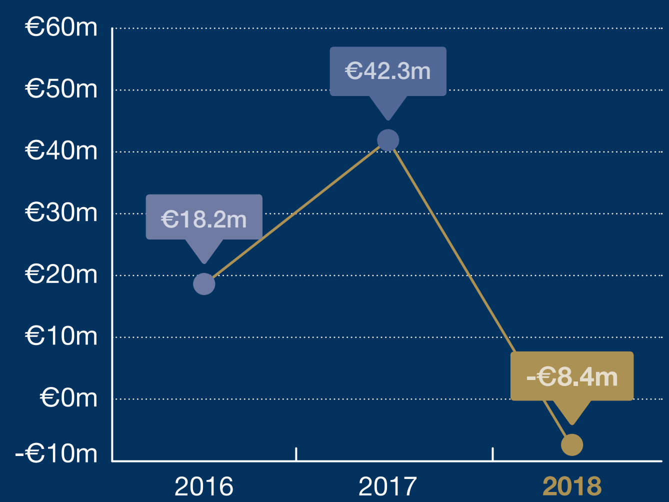
SOLVENCY **3.2** COVER RATIO

SUSTAINABLE PRICING

We are committed to providing value for money and returning retained earnings and dividends to Members where possible.

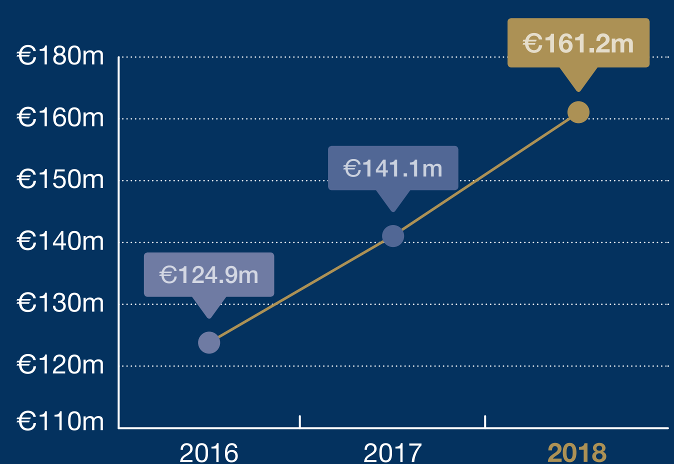
Surplus (Loss) Before Tax

A solid underwriting performance for the year was more than offset by the continuing adverse global market environment resulting in a loss for the year of €8.4m.



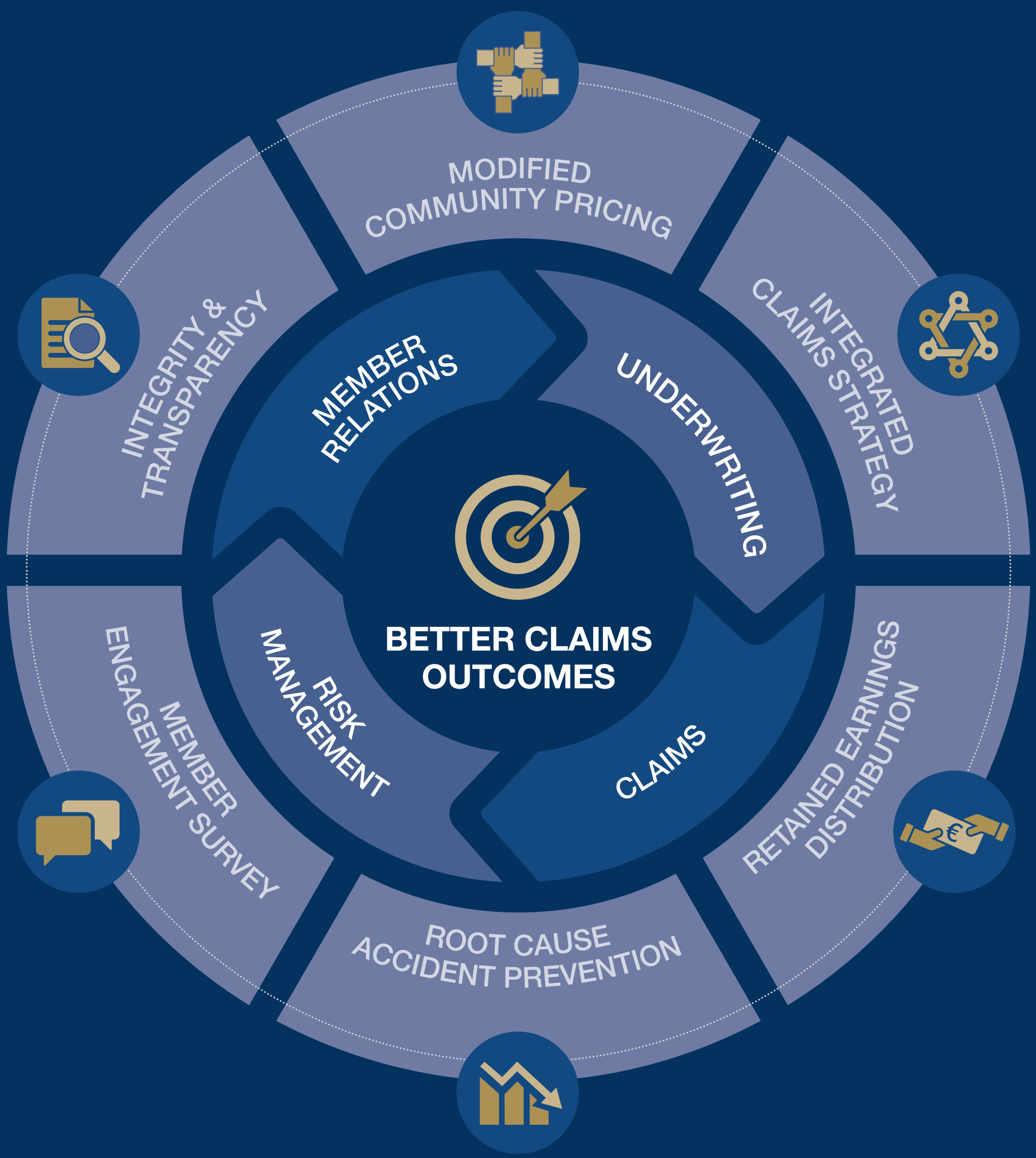
Gross Written Premium

Steady growth in premium levels is a result of a combination of factors including Members transferring risk, introduction of new products and higher than anticipated retro rated premium income.



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.



INTEGRATED CLAIMS STRATEGY

Our integrated claims strategy is based on a combination of tactical activities including fraud identification and investigation, litigation strategies, engineer engagement and a variety of process improvements.

RISK MANAGEMENT & REMEDIATION

We are working closely with Members to provide data to support targeted remediation of hazards and claims hotspots. Through increased Member awareness and the provison of data we are proactively supporting risk management and the elimination of hazards that would otherwise result in future claims. This will ultimately result in the reduction in Members' claims costs.

RETAINED EARNINGS DISTRIBUTION

By year end 2018, €98.6m in retained earnings had been distributed to our Members and we are committed to the release of a further €31.4m in retained earnings in 2019 subject to securing the appropriate approvals. These funds support our Members' objectives in relation to remediation of risks, transfer of insurable risks and support the aim of stabilising future premiums.

ENGAGING WITH MEMBERS

We continue to engage with Members on a regular basis to ensure that we are meeting their needs. The annual Members' satisfaction survey serves as a barometer to benchmark and measure against Members' expectations and to generate qualitative feedback on a range of areas of importance to Members.

Corporate Social Engagement (CSE)

Social Enterprise Development Fund

In November 2017 IPB embarked on a two-year partnership with Social Innovation Fund Ireland (SIFI) to support social enterprise development nationwide. The Social Enterprise Development Fund was created in partnership with our local authority Members and SIFI, and is co-funded by IPB and the Department of Rural and Community Development through the Dormant Accounts Fund.

Over 100 social enterprises took part in the first year by submitting applications to the fund, with 34 social enterprises going on to the interview stage. In all, 23 social enterprises were successful in securing places on the Accelerator Programme, with eight of these also receiving funding of €50,000 each to support their further development. The Accelerator Programme provides training from best-in-class experts across the private, non-profit and public sectors and is designed to equip social enterprises to expand their business skills and deepen their impact within their communities and across the country. The first year is now complete, culminating in a showcase event held in January of this year to highlight the achievements and progress made by all the successful applicants.

Now in its second year, the fund will give social enterprises a chance to secure cash grant amounts ranging from €10,000 up to €50,000. Sixteen successful applicants will each secure a cash investment and a place on Ireland's only national Accelerator Programme for social enterprises. In addition, this year the Accelerator Programme will include an accelerator fund, whereby each participant will have an opportunity to pitch for a share of an additional €100,000 in funding on completion of the six-month programme.

Late Night Leagues

During the year IPB renewed its support of the Late Night Leagues (LNL) programme for a further three years commencing in Q1 2019. The programme is run in partnership with An Garda Síochána and the FAI, and is facilitated through the Local Authorities' Sports Partnerships addressing Members' community development objectives.

LNL is a diversionary programme incorporating soccer leagues; it started in Dublin in 2008 and since then it has been rolled out nationally. There are now over 3,000 young people engaged in the leagues across the country. The LNL is aimed at encouraging 'at-risk' young people to participate in meaningful activities, thus reducing anti-social behaviour in disadvantaged areas. The LNLs are open to young people aged 13-21 and take place during prime anti-social hours such as Friday nights.

The LNL programme has now grown to operate in all 31 local authority areas as part of the objectives set out in IPB's agreement within the previous sponsorship programme. The renewed support for the LNL programme will see SIFI and IPB enter into a funding partnership, ensuring that additional funding will be made available from the Department of Rural and Community Development through the Dormant Accounts Fund.

Pictured at the Social Enterprise Development Showcase Event are Deirdre Mortell, CEO, Social Innovation Fund Ireland with Dean Kearns aged 7 from Naas, Co. Kildare and George Jones, Chairman, IPB Insurance.

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 material misstatement and/or loss.

IN LINE WITH the Central Bank of Ireland's 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. The Board discharges this responsibility via engagement of the following key internal control provisions:

- 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 and legal and regulatory compliance monitoring processes
- An Investment Committee with responsibility for reviewing and providing guidance on the asset allocation strategy and the investment activities of the business
- A Remuneration and Nomination Committee with responsibility for approving IPB's Remuneration Policy for recommendation to the Board and supporting an annual policy compliance assessment
- An internal audit function, the main role of which is to monitor and provide assurance over the adequacy of the internal control environment
- 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. This acts in tandem with a compliance function overseeing a compliance and regulatory governance framework, providing assurance that IPB operates in a transparent, compliant manner. The risk management function is supported by an actuarial function that advises IPB on actuarial matters, including technical provisions, technical pricing, risk management and capital calculations
- A comprehensive functional management control system that provides, amongst other things, financial controls incorporating budgeting and periodic variance analysis.

The above provisions are reinforced via clearly defined lines of responsibility and authority: our integrated assurance framework underpins the 'three lines of defence' risk management system with the first line comprising business operations, front-line operations and internal control, the second line comprising risk and compliance, and the third line comprising internal and external audit.

…The Board confirms the application of an **ongoing and regularly reviewed process** for identifying, evaluating and managing IPB's significant risks…

Corporate Governance Leadership Statement

IPB ensures compliance with Articles 44-51 (System of Governance) of the EU (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485 of 2015) and while not designated a high-impact institution per the Requirements, IPB is committed to applying best practice in 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 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 apply appropriate governance standards in 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 strategic direction. 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. Each Board member participates in a comprehensive training and development programme to ensure continual skills enhancement.

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

The duties of the Directors include acting in the best interests of the business and being 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 also features as part of the Business Code of Conduct and during 2018 the Directors have 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 reference point for the management of Board and Committee meetings, coordination of documentation and satisfaction of 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 they can 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 Committee chairperson roles. 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 role of Board Chairman is elected annually by the Board and, in line with the Requirements, each Director's role is reviewed and retired or renewed and re-elected as appropriate via the annual

...IPB is committed to **applying best practice in corporate governance standards.** This commitment is led by the Chairman and Board of IPB working together with all staff and is illustrated by adherence to IPB's obligations in 2018...

evaluation process. A further review is conducted every three years 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 and its committees meet regularly or as required to fulfil the responsibilities 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 and decision. The Board, in conjunction with the Remuneration and Nomination Committee, engages as appropriate in the process of appointing and removing key roles within the Board membership or Management. The Board provides the required oversight of the activity of the business and its adherence to the Board-approved risk appetite.

...An independent **review of the Board's effectiveness** was undertaken in 2015 in line with governance provisions, with a further review engaged in 2018...

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 nearly 40 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 is 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 in Ireland and a Certificate in Company Direction awarded by the Institute of Chartered Directors in the UK. Michael is a member of the National Oversight and Audit Commission at the Department of Housing, Planning, Community and Local Government and he has a long history of involvement in local government, having been associated with Roscommon County Council for over 30 years. Mr. McGreal retired from the Board effective from 31st December 2018.

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 over 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 represents it on the Governing Body of University College Cork. Mr. Fitzgerald retired from the Board effective from 31st December.

Barbara Cotter
Independent Non-Executive Director

Barbara is a chartered director and member of the Institute of Directors in Ireland, and is a solicitor. Formerly a senior partner with one of Ireland's leading law firms, she has extensive experience of the financial services industry having spent her executive career advising major Irish and international financial institutions on banking and finance law. Barbara has taken up her role with the Board effective from 13th December 2018 following Mr. Gorman's retirement.

Sean O'Grady
Group Non-Executive Director

Sean is a member of the Institute of Directors in 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 and is a former member of Killarney Town Council with over 40 years' experience, and he has served as 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 in the 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 a MSc in Business and Digital Innovation. She has extensive experience of the general insurance industry developed throughout her executive 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. She is a regular contributor at industry fora in relation to issues such as ethics and technology in insurance.

Meetings Attended

			BOARD 8 meetings in 2018*	AUDIT COMMITTTEE 4 meetings in 2018	INVESTMENT COMMITTEE 5 meetings in 2018	REMCO 6 meetings in 2018	RISK COMMITTEE 4 meetings in 2018
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	12.7	Chairman 8	Invitee 3	Invitee 3	Member 6	Invitee 3
Michael Garvey Chief Executive Officer & Executive Director	02 Sep 16	2.3	Member 8	Invitee 4	Member 5	Invitee 5	Invitee 4
Michael McGreal** Deputy Chairman & Group Non-Executive Director	26 May 05	13.7	Deputy Chairman 8	Member 4	Invitee 1	Chairman 6	Invitee 1
Enda Devine Finance Director & Executive Director	02 May 12	6.7	Member 8	Invitee 4	Member 5	Invitee 3	Invitee 4
Michael Fitzgerald** Group Non-Executive Director	31 May 07	11.7	Member 8	– –	– –	– –	Member 4
Dermot Gorman*** Independent Non-Executive Director	21 Jul 11	7.5	Member 2	Member 2	Member 2	Member 2	Chairman 2
Barbara Cotter*** Independent Non-Executive Director	13 Dec 18	0.1	Member 1	– –	– –	– –	– –
Sean O'Grady Group Non-Executive Director	29 May 08	10.7	Member 8	– –	Member 4	– –	Invitee 1
John Smyth Independent Non-Executive Director	21 Jul 11	7.5	Member 8	Chairman 4	Chairman 5	Member 6	Invitee 2
Caitríona Somers Independent Non-Executive Director	01 Jul 17	1.5	Member 8	Invitee 2	Invitee 2	Member 6	Chairwoman*** 4

* Including two Board strategy days
** Mr. McGreal & Mr. Fitzgerald retired on 31/12/2018
*** Ms. Somers effective as Interim Risk Committee Chairwoman from 27/07/2018 & Mr. Gorman retired on 12/12/2018 & Ms. Cotter appointed from 13/12/2018

The Board Committees

The Board has, taking into account the size and complexity of IPB as a business, delegated authority to an Audit Committee, a Risk Committee, an 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 2018, the Audit Committee was extensively engaged in reviewing IPB's approach to its claims and underwriting activities in the context of the conversion of Members' accounts to support the handling of insurance claims from a ground-up basis. This activity was undertaken in conjunction with the ongoing evaluation of IPB's approach to combatting fraud and the development of IPB's Brexit strategy insofar as it applies to IPB's underwriting and claims functions.

These exercises were managed in addition to the discharge of responsibilities specified in the Audit Committee's terms of reference which include, among other things, reviewing and monitoring the integrity of IPB's financial statements and the judgments 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 during 2018 and over the coming year as: *"continuing to oversee assurance in an enhanced control environment by encouraging a challenging and constructive interrogation of audit review outputs and corresponding control enhancement, and ensuring the ongoing effectiveness of audit functions and their interrelations with the integrated assurance aspects of the business. Progression of the activity undertaken within IPB in the context of supporting adherence to the GDPR was overseen by the Audit Committee in conjunction with the Board, and this subject will continue to be a feature of the reporting framework by which Management demonstrates adherence to governance requirements in respect of legislative and regulatory obligations applicable to the business.*

"The Committee members have actively engaged in discharging their responsibilities during 2018, and the internal audit services review exercise that was conducted in July 2018 and culminated in the re-engagement of the existing internal audit service provider is illustrative of IPB's continual commitment to best practice in the context of engagement of audit services and the Audit Committee's discharge of its role in supporting the Board in providing assurance to IPB's stakeholders."

The Risk Committee

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

2018 has seen the continued evolution of IPB's Risk Framework, particularly in relation to the review of risk appetite and risk monitoring in the context of referral to integrated assurance activity. In addition, the Risk Committee has progressed the approval process regarding IPB's pricing procedures and new product development processes, recognising the ever-evolving nature of the organisation's operating and regulatory environment. This insight has informed its contributions to IPB's Brexit strategy regarding risk considerations. The Interim Risk Committee Chairwoman has articulated the Committee's objectives over the coming year as: *"developing IPB's*

...2018 has seen the **continued evolution of IPB's risk framework,** particularly in relation to the articulation of risk appetite and risk monitoring...

commitment to a risk culture that engages stakeholders at all levels and provides assurance to the business regarding the appropriateness of the way in which it operates through the alignment of organisational behaviours and frameworks with mission and value principles."

...The Committee is also responsible for Board recommendation of IPB's **Remuneration Policy, non-executive director fee structures and the remuneration of executive directors...**

The Investment Committee

The Investment Committee's continuous review of IPB's investment portfolio performance continued in 2018 with an analysis of the implications of risk and regulatory requirements and enhancement opportunities. 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 this activity in 2018 in addition to contributing to IPB's Brexit strategy insofar as it applies to IPB's investment function and supporting responses to political developments associated with Brexit together with economic activity in the United States of America and the EU. In addition, the Investment Committee together with the Board participated in succession planning in respect of the investments function in order to ensure the satisfaction of all resourcing requirements. The Investment Committee Chairman has commented on its activities throughout the 2018 period and into 2019 as follows: *"The continual review of asset allocation approaches and the appropriateness of the risk appetite in facilitating responsiveness to market turbulence together with ongoing delivery of assurance for all stakeholders as to the application of strategic measures to optimum effect".*

The Remuneration and 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 individuals performing roles that may have a material impact on IPB's risk profile by annually reviewing their adherence to requisite standards. It is also responsible for Board recommendation of IPB's Remuneration Policy, non-executive Director fee structures and the remuneration of executive Directors and individuals performing roles that may have an impact on IPB's risk profile.

The Remuneration and Nomination Committee's performance of its role in 2018 included oversight of a review, in consultation with independent external advisors, 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. This exercise informed its involvement in resourcing activities in particular for the risk and compliance function, the claims function, the actuarial function and the investments function. The Chairman has commented on the engagement by the Committee in performing its duties throughout 2018 as follows: *"During 2018, the Remuneration and Nomination Committee's contribution to the Board's enhancement of the organisational strategy in terms of resourcing activity has been particularly positive in the circumstances of the continually competitive nature of the recruitment market. Coupled with external market activity engagement, it has participated in developing IPB's approach to recognising long service, which is reflective of the importance of commitment to our objectives as a mutual.*

"The Remuneration and Nomination Committee has progressed the Board's succession planning activities with the recruitment of an independent non-executive director to replace a retiree, and this exercise has been conducted in tandem with the securing of regulatory support for the appointment of two individuals performing board observer duties to group non-executive director roles effective from January 2019. These developments are supportive of the Board's endeavours in ensuring that the Board's skills, knowledge and experience are compatible with the ever-evolving nature of IPB's operating environment and this will see further progression throughout 2019 and thereafter."

Integrated Assurance Framework

IPB continues to embed its integrated assurance framework, which aims to promote effective cooperation between internal audit, compliance and risk as well as front-line activities. Ultimately, the goal of integrated assurance is to collectively identify, monitor, manage and provide assurance to the Board regarding the key risks to the business, as well as the adequacy of the controls mitigating these risks.

BUSINESS & FRONT-LINE OPERATIONS

Management has the responsibility for identifying and controlling risks

COMPLIANCE & RISK

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

INTERNAL & EXTERNAL AUDIT

Provides assurance in respect of the design and effectiveness of the first and second lines

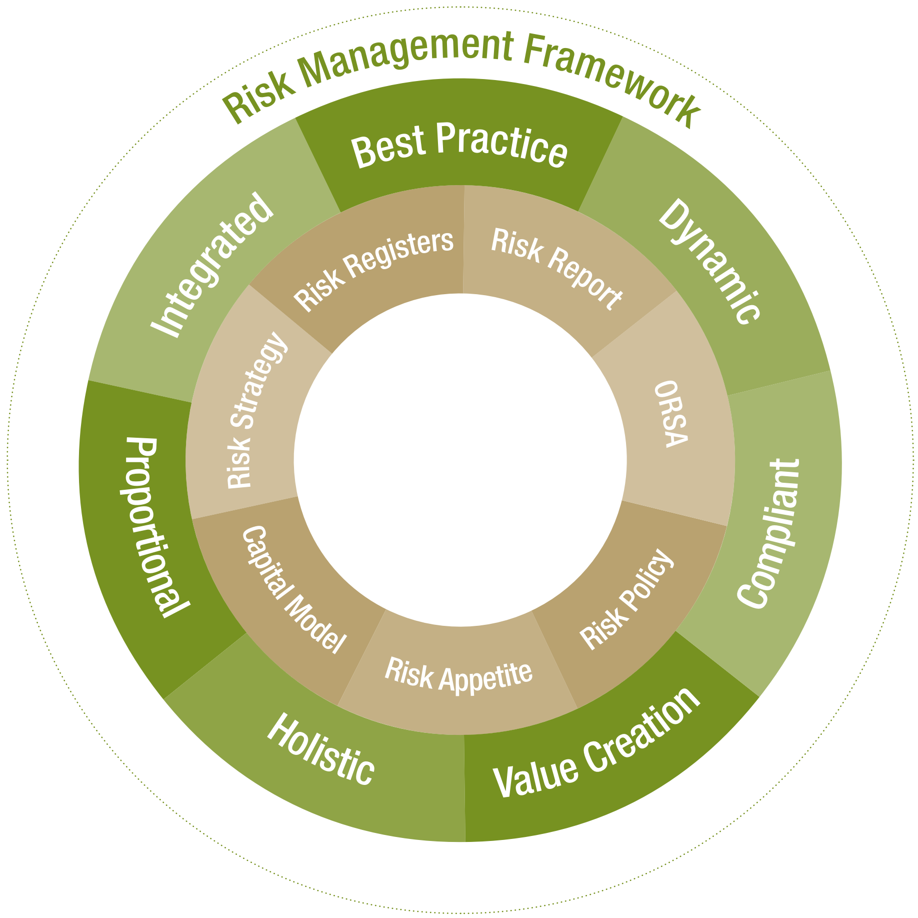
Risk Management

Risk Management Structure

Risk management is central to safeguarding the promise that IPB makes to its policyholders, and is essential in 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 matters relating *inter alia* to the areas of, underwriting, claims, investments, risk and compliance.

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



...The Risk Framework describes the company's system to **identify, measure, manage, monitor and report on risks** 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 Risk Framework

The Risk Framework describes the company's system to identify, measure, manage, monitor and report on risks 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 mitigating 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

...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…

adherence to operating limits be threatened.

Risk and other company policies define the formal risk management and risk control requirements of the company. 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 annually 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 the 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 function 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 a forward-looking assessment of the strategy of the business along with the risks attached to that strategy. 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 Head of Risk and Compliance, 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 entail, *inter alia,* the following:

- To identify, measure, manage, monitor and report on risks to the business
- To implement the company's Risk Framework and risk-related policies
- The overall coordination of the ORSA, including oversight of IPB's capital model
- To report on risk matters to the Board and the Risk Committee, including providing a comprehensive risk report for Board and Risk Committee meetings
- The promotion of a strong risk culture.

Compliance and Regulatory Framework

IPB is a company limited by guarantee that trades as IPB Insurance and 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 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.

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 and 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 in order 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 to the Board and the Audit Committee 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's other assurance functions such as internal audit and risk 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 and 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 national, EU and international levels including but not limited to the following:

- Consumer Protection Code 2012
- General Data Protection Regulation
- Solvency II
- Conduct of Business Requirements
- Corporate Governance Requirements for Insurance Undertakings 2015
- Minimum Competency Code 2017
- Fitness and Probity Standards
- Legislation and guidelines at EU and international levels.

Roles and Responsibilities of the Compliance Function

The role of the compliance function is to provide sufficient assurance to the Board in order to enable the discharge of its

...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 commerically competitive manner…

statutory duties to ensure adherence to relevant obligations. The key objectives of the compliance function are as follows:

- The provision of advice to Management and the Board on existing and emerging laws and regulations
- The provision of guidance and education of staff and Management on compliance matters, dealing with queries, and the review and implementation of compliance procedures within business areas
- The implementation of the compliance framework
- The identification, assessment and monitoring of compliance risk by performing compliance-monitoring activities
- The implementation of statutory responsibilities and liaison with regulatory and other statutory agencies
- The implementation of a compliance programme founded on a risk-based compliance plan of activities performed annually and reviewed on an ongoing basis according to time, resources and required coverage
- The undertaking of other activities driven by business requirements.

IPB 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 the 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 and 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 the receipt of gifts or hospitality from customers, suppliers or other third parties.

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. Internal control provides 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 the 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 that has been approved by the Board, as well as firmly established oversight procedures.

Internal Audit

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

The internal audit function, on an annual basis, implements a schedule of internal audits and reviews across all functions, including the Board as part of their remit. 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 the internal audit function is directly to the Chairman of the Audit Committee. The internal audit function may also report directly to the CEO, Audit Committee or the Board on findings in respect of the above or other material considerations that may come to light.

...The internal audit function **provides objective and independent assurance** to the Board, Management, Members and all other stakeholders that a robust internal control framework is in place…

We are proud to be Ireland's only indigenous mutual insurer with over 90 years' experience in underwriting major property and liability risks.

Management Analysis, Financial Statements & Other Information

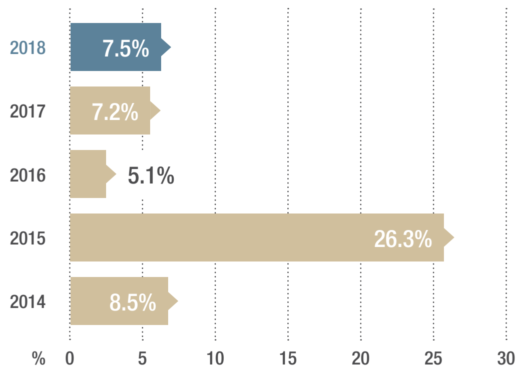
Management Analysis

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

7.5%
Represents an increase of 0.3% from 2017

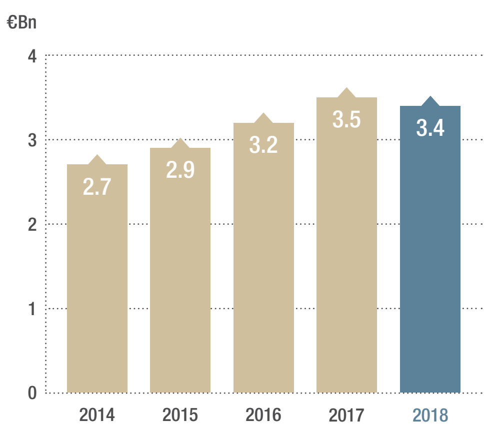


- There has been a strong economic recovery in Ireland over the past number of years.
- While headline national accounts data remain volatile (such as for 2015) and continue to be strongly influenced by the activities of multinational enterprises, the evidence from a broad range of domestic spending and activity indicators is that the domestic side of the economy grew robustly in 2018.

Source: Central Bank Quarterly Bulletin January 2019.

Industry
Irish Non-Life Insurance Market

€3.4bn
The estimated value of the Irish non-life insurance market in 2018

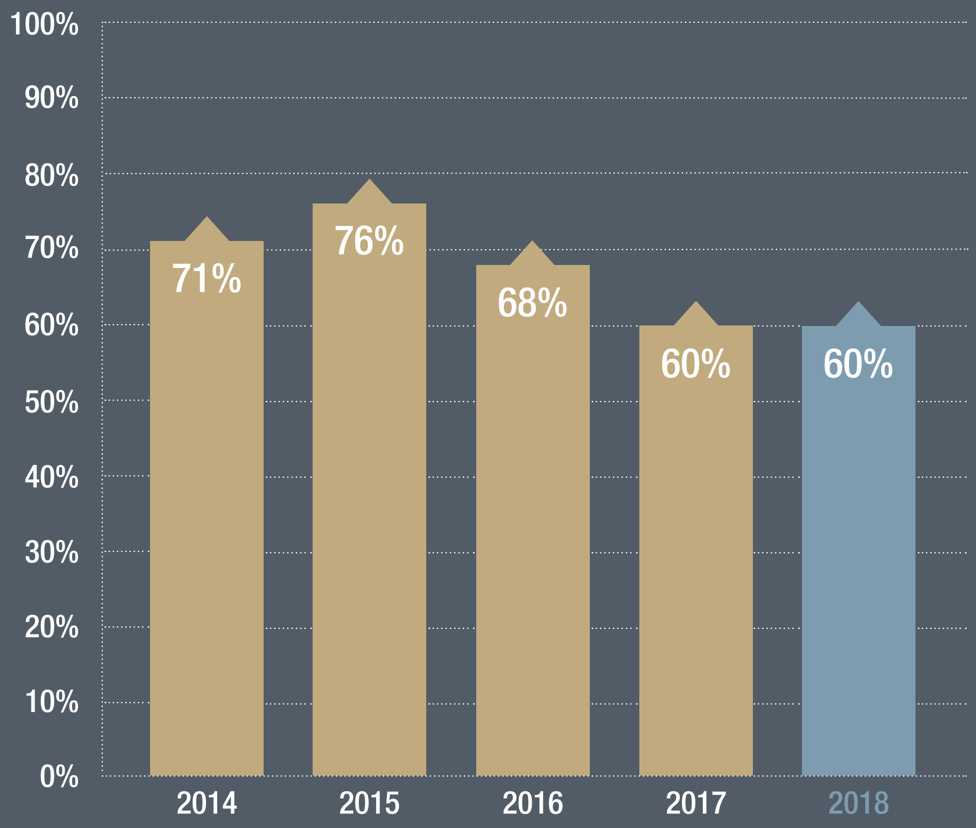


- The Irish non-life domestic insurance market decreased by an estimated €0.1bn in 2018.

Source: Insurance Ireland, GWP Q3 2018 plus estimate Q4 2018.

Market Context (continued)

Claims Environment
Market Gross Loss Ratio



60%
The estimated market gross loss ratio

- There has been a gradual decrease in the market gross loss ratio from 2015 to 2017 and we estimate that this ratio will be in the range of circa 60% for 2018 (market data for the full year is not available until later in 2019).

Note: Market Gross Loss Ratio % = Gross Claims Incurred/Gross Earned Premium %
Source: Insurance Ireland Data + estimates

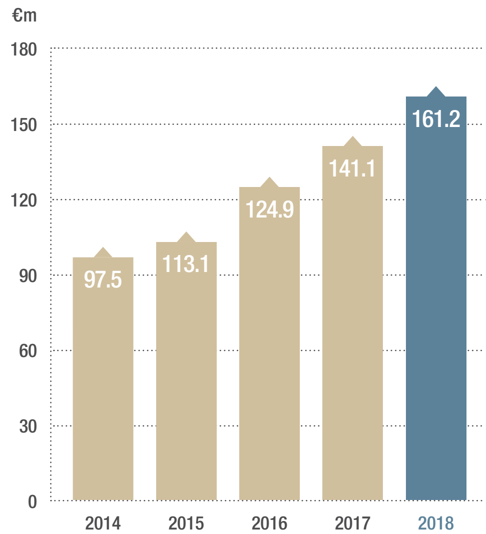
Financial Highlights

The company has increased its gross written premium and has returned to a positive net underwriting result.

Gross Written Premium

€161.2m

Gross written premium is €20.1m (14%) higher than in 2017

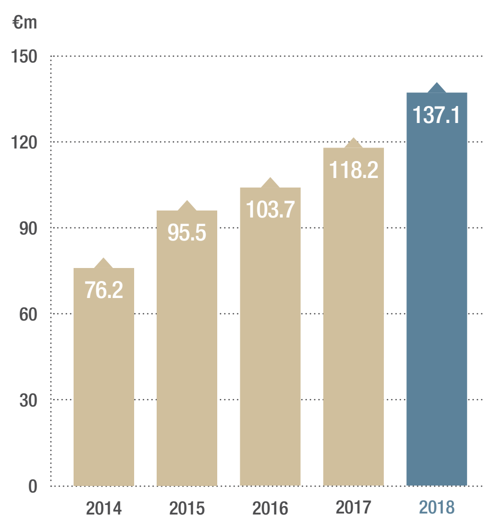


- Gross written premium grew by €20.1m in 2018 due to increased levels of insurance cover, pricing adjustments and new business secured.
- Retention rates are circa 100%.

Net Written Premium

€137.1m

Net written premium is €18.9m higher than 2017



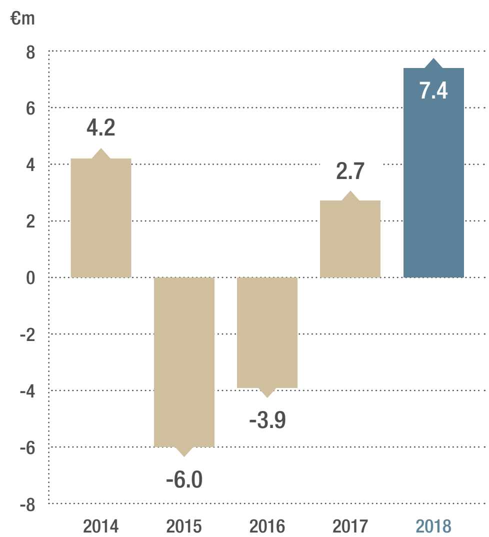
- Prudent reinsurance policy in place.
- Reinsurance profile largely unchanged year on year.

Financial Highlights (continued)

Net Underwriting Result

€7.4m

Net underwriting result has improved by €4.7m in 2018 to €7.4m

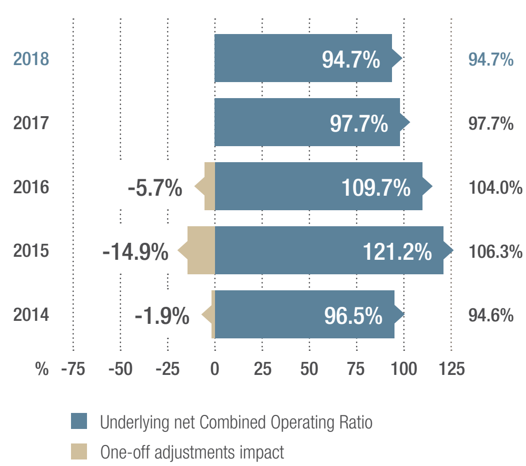


- The net underwriting result includes operating and underwriting expenses, and commission income.
- The improvement in the net underwriting result is due to pricing adjustments on existing business and the sourcing of new business.

Net Combined Operating Ratio

94.7%

Net Combined Operating Ratio (COR)



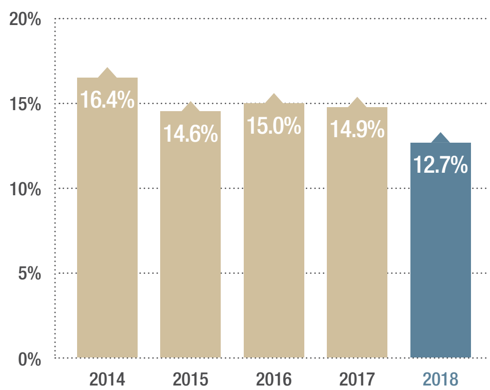
- The Net Combined Operating Ratio has improved to 94.7% from 97.7% in 2017 due to a positive net underwriting result.
- There are no once-off adjustments in 2018.
- A prudent reinsurance programme is maintained.
- The reserving policy is to create a 'best estimate' provision for claims and then add a margin for uncertainty.

Financial Highlights (continued)

Net Expense Ratio

12.7%

The net expense ratio reduced by 2.2% from 2017

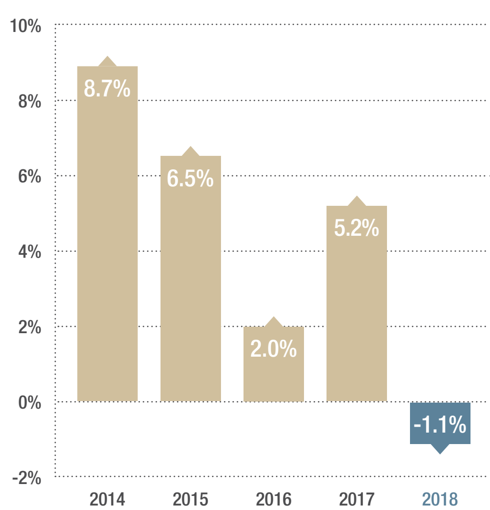


- The net expense ratio has reduced to 12.7% from 14.9% in 2017.
- Higher earned premium along with lower operating expenses have reduced the overall net expense ratio.

Return on Equity

-1.1%

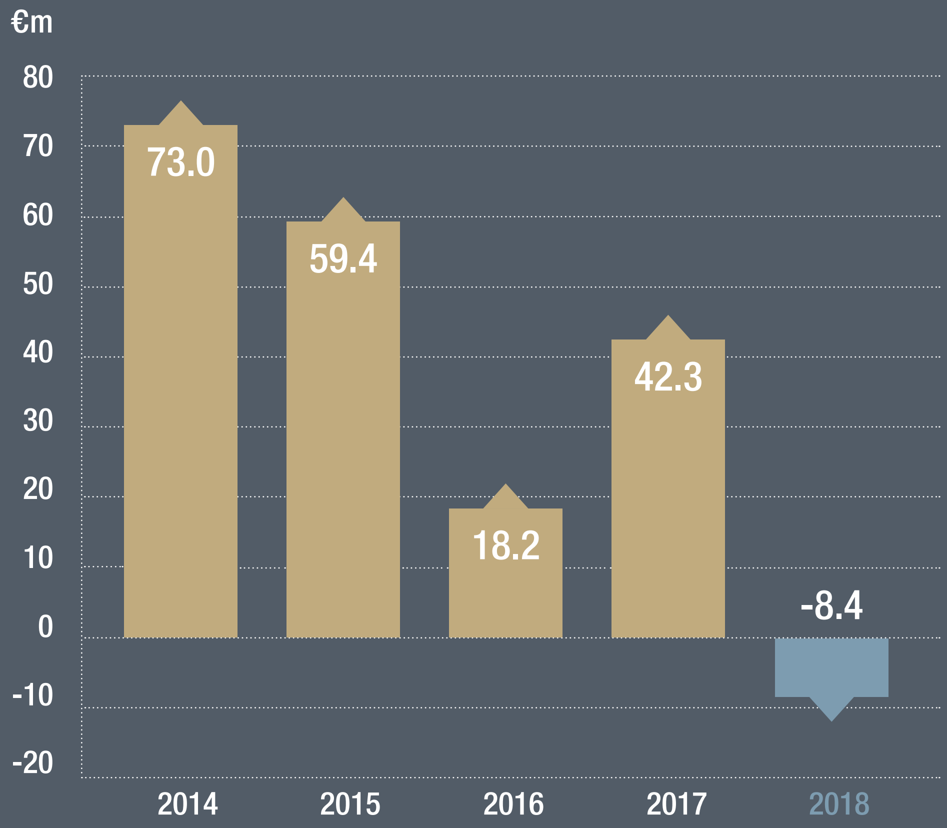
Return on equity in 2018



- Return on equity has reduced to -1.1% from 5.2% in 2017.
- The decrease is primarily due to challenging investment markets which resulted in a loss on investments.

Financial Highlights (continued)

Surplus/Loss Before Tax



-€8.4m
Loss before tax in 2018

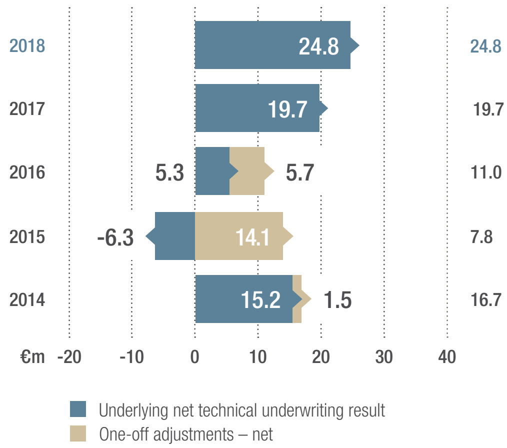
- Loss before tax is -€8.4m due to investment markets performing poorly in 2018.

Note: Surplus/Loss before tax = profit/loss before tax.

Financial Highlights (continued)

Technical Underwriting Result – Net

€24.8m
Underlying technical underwriting result – net in 2018



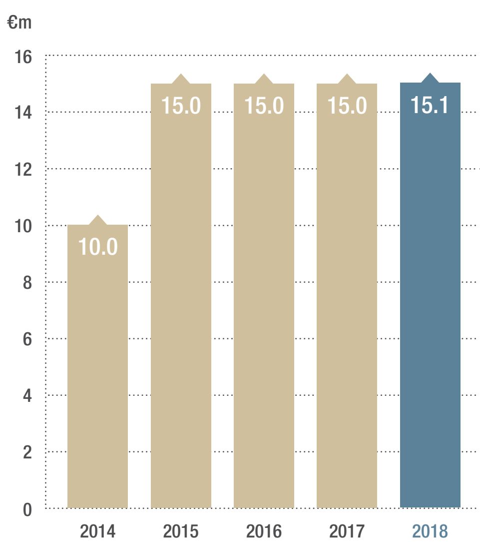
- An underlying technical underwriting profit of €24.8m was recorded.
- There were no once-off adjustments in 2018.
- The technical underwriting result excludes allocated investment income, operating costs and commission income.

Note: Once-off adjustments in prior years relate to movements in real yield provisions.

The solid financial position has allowed IPB to make a real difference to key stakeholders through its Members' Dividend, Members' Retained Earnings Distribution and Social Dividend Fund.

Members' Commercial Dividend

€15.1m
Members' Commercial Dividend paid out in 2018

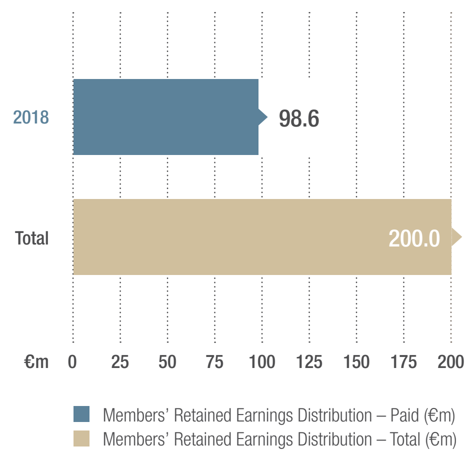


- The Members' Dividend underlines the company's commitment to Members.
- A change to the model has been introduced for 2018 and beyond whereby up to 40% of surplus after tax can be paid as Members' Commercial Dividend.

Financial Highlights (continued)

Members' Retained Earnings Distribution

€98.6m
Members' Retained Earnings Distribution paid out at the end of 2018



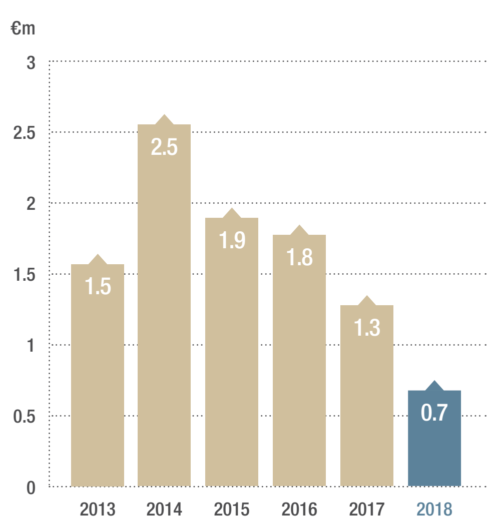
- A €200m Members' Retained Earnings Distribution was approved by Members at the 2018 AGM subject to annual review and confirmation of IPB's 'ability to pay' with reference to outstanding liabilities and wider market dynamics.
- As at the end of December 2018, €98.6m had been distributed with a further €31.4m due for distribution in 2019 and the balance of €70m to be paid over the next three years.

Social Dividend Fund

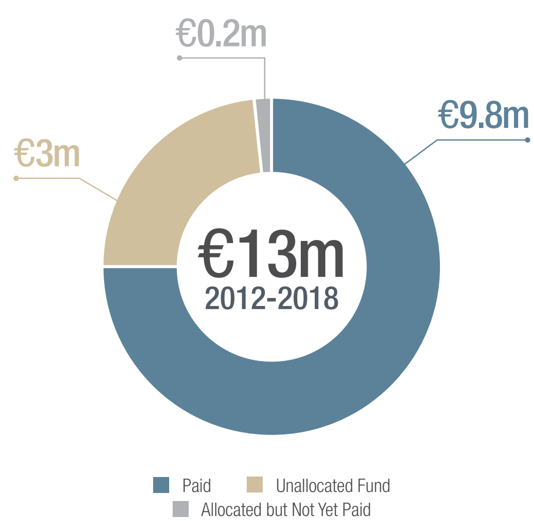
€13m
Contribution to Social Dividend Funds between 2012-2018

€9.8m
Social Dividend Funds paid out 2012-2018

Paid by Year (€m)



Total IPB CSE Fund

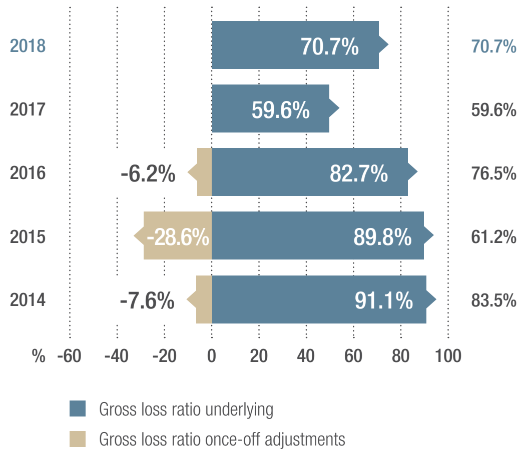


Claims and Losses

Gross Loss Ratio

70.7%

Underlying gross loss ratio up from 59.6% in 2017

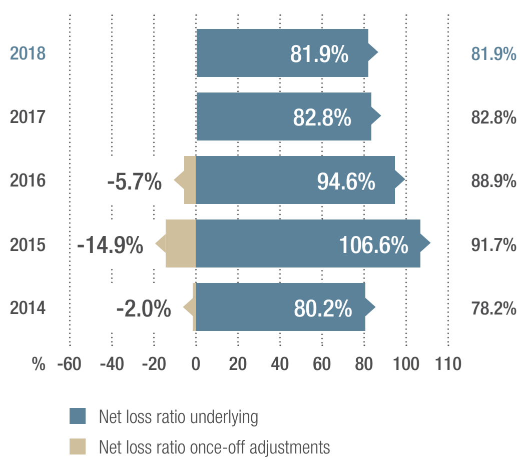


- The underlying gross loss ratio has increased from 59.6% in 2017 to 70.7% in 2018.
- The decrease in 2017 was due to a large third-party recovery on a particular claim. It only affected the gross loss ratio as the loss had been covered by reinsurers and therefore the recovery was passed on to the reinsurers.
- The profile of the book is significantly weighted towards long-term exposures.

Net Loss Ratio

81.9%

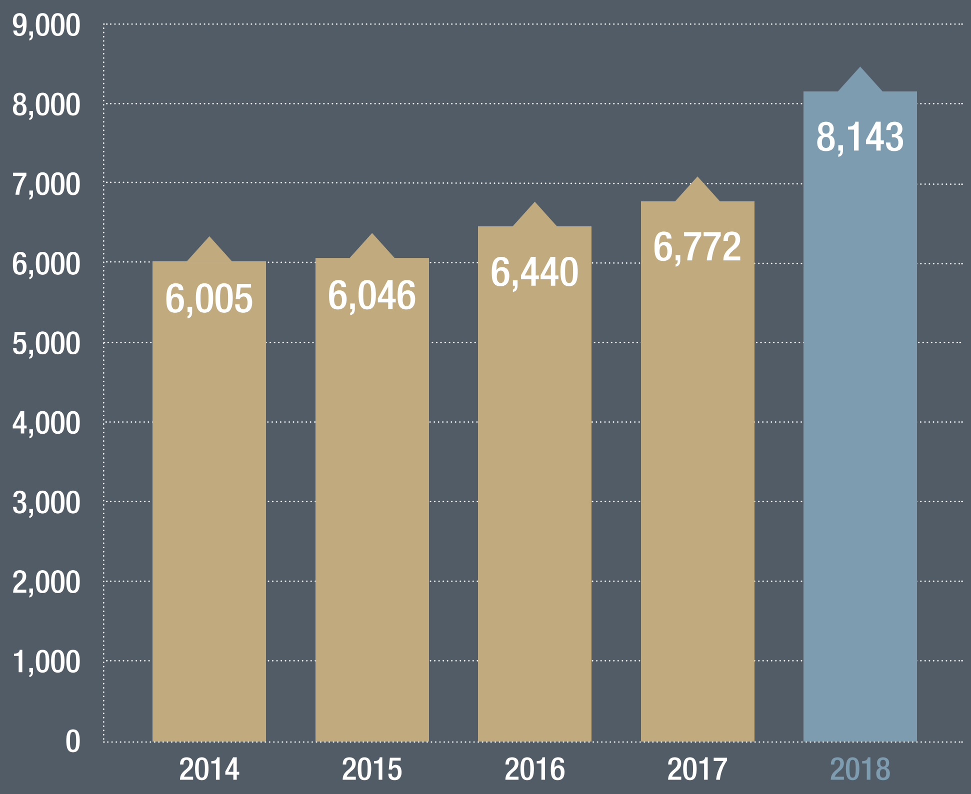
Underlying claims net loss ratio shows a decrease from 82.8% in 2017



- The underlying net loss ratio has decreased to 81.9% from 82.8% in 2017 due to higher earned premiums and improvements in claims experience (partly due to risk remediation) in 2018.

Claims and Losses (continued)

Number of New Claims



8,143
Claim numbers up 20.2% on 2017

- Claim numbers have risen by 1,371 (20.2%) to 8,143 in 2018.
- This increase is due to increased levels of new claims due to the provision of additional ground-up covers for Members.

Solvency

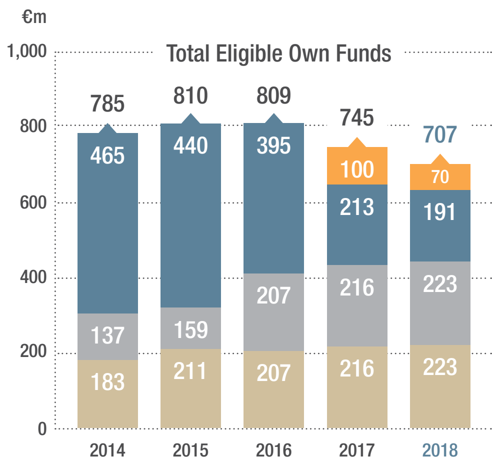
The company's Solvency Capital Requirement (SCR) is as defined under Solvency II and is calculated using the Solvency II standard formula. The capital available to the company is of very high quality, consisting entirely of retained earnings.

Solvency II
Solvency Overview (€m)

€191m

Capital to support product expansion and growth from risk transfer, reduced from €213m in 2017

- Future Retained Earning Distribution (to be paid)
- Capital to support product expansion and growth from risk transfer
- IPB Risk Appetite Statement capital buffer
- Solvency II: Solvency Capital Requirement

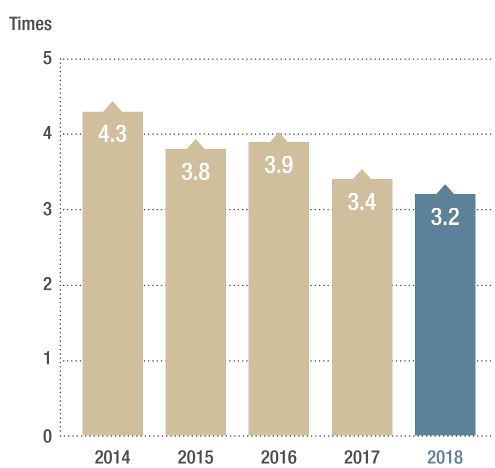


- The company holds significant regulatory and economic capital in addition to the SCR, as well as sufficient capital to:
  – Cover latent risks inherent in its business.
  – Deliver on its strategic objectives and to support product expansion and growth from risk transfer.
- The €707m Eligible Own Funds has been reduced to allow for the payment of phase 2 of the Retained Earnings Distribution (€30m -€2m paid in December 2018).
- Following phase 2 there will be a further €70m future Retained Earnings Distribution which is expected to be spread over the next three years.

Solvency II
Required Margin Cover

3.2

Times the capital required under Solvency II



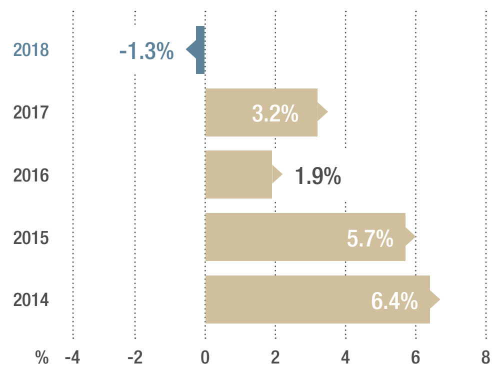
- The company's reinsurance programme enables it to minimise volatility in earnings from large losses and catastrophic events.
- The overall solvency margin continues to remain strong, with the cover representing 3.2 times the capital required under Solvency II.
- The company's credit rating from Standard & Poor's remains at A- with a stable outlook.
- The company has set the minimum credit rating for reinsurers with which it transacts business at A-.

Investments and Asset Allocation

Investment Returns

-1.3%

Investment return is lower than 2017 due to poor investment markets performance

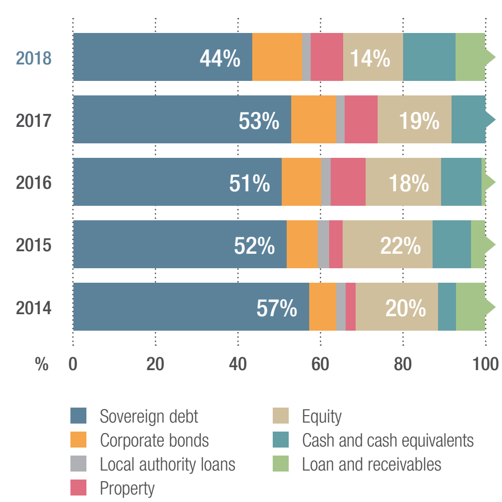


- An investment loss of -€15.7m arises from the performance of the wider investment markets in 2018.
- The investment return exceeds the weighted average of relevant benchmarks of -1.6% by 0.3%.

Analysis of the Investment Portfolio

44%

of the portfolio is invested in sovereign debt



- 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.

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 member and client relations, director of legal and 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 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 2018.

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 2018.

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, and
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 2018 and the Statement of Financial Position as at 31 December 2018 are set out in the Management Analysis and Financial Statements section of this report. The loss on ordinary activities before taxation amounted to -€8.4m (2017: profit of €42.3m). After a taxation credit of -€1.0m (2017: charge of €4.7m), a Members’ commercial dividend of €15.1m and the planned retained earnings distribution of €30m, the decrease in retained earnings is €52.4m (2017: €77.4m decrease).

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 ("The 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 2019 and forecasts for 2020 and 2021, 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 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 28 March 2019.

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 2018 and of the loss 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 2.

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 Auditing and Accounting Supervisory Authority (IAASA), 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 €533 million as at 31 December 2018. Refer to the accounting policy on page 60 to 62 and the disclosures in Notes 3, 4, 16 and 26 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 obtained an understanding of the claim handling process and considered any changes in claims handling processes from the prior year;
- We tested the key controls for the setting of an initial case 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 obtained an understanding of the actuarial process used to develop the claims outstanding estimates;
- We tested the key controls within the actuarial process used to calculate the total claims outstanding liability;
- We reconciled the data used by the Company's actuaries to source systems;
- With the assistance of our actuarial specialists, 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. These procedures included performing retrospective review of previous estimates and actual experience in the current period;
- 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; and
- Using our data analytics specialists, we performed analysis on case reserves to identify unusual patterns in case reserve developments and selected specific cases for testing against supporting claim information.

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 €30 million as at 31 December 2018. Refer to the accounting policy on page 62 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:

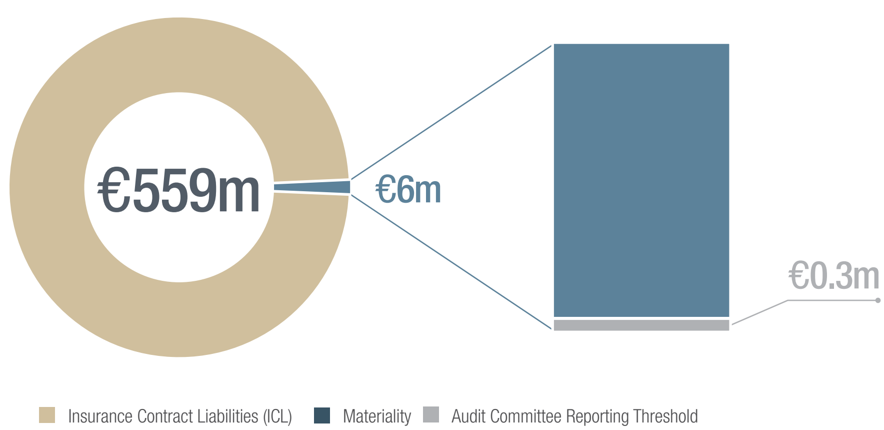
- We have tested the key controls over the process designed to record and monitor the retro rated premium asset.;
- We tested on a sample basis the accuracy and completeness of information used within the retro premium process; and
- We performed a re-calculation on a sample basis of retro premium, and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

For listed entities and public interest entities, the auditor also provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence, including the Ethical Standard for Auditors (Ireland) 2016, and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor’s independence, and where applicable, related safeguards.

Where the auditor is required to report on key audit matters, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor’s report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 six years, covering the years ending 2013 to 2018.

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
28 March 2019

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 28 March 2019

Directors

George Jones

Michael Garvey

Statement of Comprehensive Income

For the financial year ended 31 December 2018

	Note	2018 €'000	2017 €'000
Gross written premiums	4	161,214	141,095
Premiums ceded to reinsurers	4	(24,113)	(22,930)
Net written premiums		**137,101**	**118,165**
Change in the gross provision for unearned premiums	4	209	(3,471)
Change in the reinsurance provision for unearned premiums	4	247	–
Net earned premiums		**137,557**	**114,694**
Commission income	5	8,133	8,668
Net investment return	6	(15,703)	39,634
Other revenue		**(7,570)**	**48,302**
Total revenue		**129,987**	**162,996**
Gross claims paid	4	(80,792)	(71,655)
Claims recovered from reinsurers	4	4,828	905
Claims paid net of reinsurance		**(75,964)**	**(70,750)**
Gross change in contract liabilities	4	(33,407)	(10,390)
Change in contract liabilities ceded to reinsurers	4	(3,340)	(13,829)
Net claims incurred		**(112,711)**	**(94,969)**
Operating expenses	7	(22,232)	(23,921)
Underwriting expenses	4	(3,396)	(1,790)
Total claims and other expenses		**(138,339)**	**(120,680)**
(Loss)/Profit before tax		**(8,352)**	**42,316**
Tax credit/(charge)	8	1,025	(4,671)
(Loss)/Profit for the year		**(7,327)**	**37,645**
Total comprehensive income for the year		**(7,327)**	**37,645**
Profit attributable to:			
Members		(7,327)	37,645

Approved by the Board
on 28 March 2019

Directors

George Jones

Michael Garvey

Statement of Financial Position

As at 31 December 2018

	Note	2018 €'000	2017 €'000
Assets			
Intangible assets	10	572	475
Property, plant and equipment	11	250	515
Investment properties	12	96,720	92,750
Financial assets			
– Derivative financial instruments	13	375	531
– Financial assets at fair value through profit or loss	14	849,865	992,768
– Loans and receivables	14	83,382	30,464
Insurance assets	15	29,503	23,966
Provision for unearned premiums	16	247	–
Reinsurance assets – claims outstanding	16	29,144	32,484
Deferred tax assets	21	144	146
Current tax assets	8	4,274	3,981
Insurance receivables	17	13,543	24,728
Other receivables	18	89	123
Prepayments and accrued income	19	5,723	8,110
Cash and cash equivalents	20	156,194	123,169
Total assets		**1,270,025**	**1,334,210**
Equity			
Retained earnings		661,832	714,217
Total equity		**661,832**	**714,217**
Liabilities			
Insurance contract liabilities			
– Provision for unearned premiums	16	25,801	26,010
– Claims outstanding	16	532,762	499,355
Derivative financial instruments	13	218	501
Insurance payables	22	2,282	3,312
Trade and other payables	23	47,130	90,815
Total liabilities		**608,193**	**619,993**
Total equity and liabilities		**1,270,025**	**1,334,210**

Approved by the Board
on 28 March 2019

Directors

George Jones

Michael Garvey

Statement of Changes in Equity

As at 31 December 2018

	Note	Retained earnings €'000	Total equity €'000
At 1 January 2018		**714,217**	**714,217**
Loss for the year		(7,327)	(7,327)
Other comprehensive income		–	–
Total comprehensive income		**(7,327)**	**(7,327)**
Dividends payable/paid during the year	9	(45,058)	(45,058)
At 31 December 2018		**661,832**	**661,832**
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 paid during the year	9	(115,000)	(115,000)
At 31 December 2017		**714,217**	**714,217**

Statement of Cash Flows

For the financial year ended 31 December 2018

	Note	2018 €'000	2017 €'000
Operating activities			
Gross premiums received		164,606	142,652
Reinsurance premiums paid		(23,560)	(25,029)
Commission received on reinsurance premiums paid		8,161	8,360
Commission paid to insurance brokers		(1,754)	(1,696)
Claims paid gross		(81,622)	(71,278)
Claims reinsurance recoveries		6,634	(140)
Interest received		12,101	13,510
Dividends received		5,881	4,489
Operating and other expenses paid		(19,186)	(21,557)
Premiums placed with other insurers		(4)	(1,842)
Commission earned on premiums placed with other insurers		(28)	308
Cash generated from operating activities		**71,229**	**47,777**
Tax recovered/(paid)		740	(2,413)
Net cash flows from operating activities		**71,969**	**45,364**
Investing activities			
Loans repaid by local authorities		2,106	3,023
Purchase of investments designated at fair value through profit or loss		(349,692)	(198,317)
Proceeds from sale of investments designated at fair value through profit or loss		453,117	185,106
Purchase of investment property		(12)	(366)
Property rental income		5,117	5,440
(Increase)/decrease in loans and receivables on deposit with credit institutions		(54,983)	(10,000)
Purchase/disposal of property and equipment		(121)	(254)
Gain/(loss) on FX currency contracts		(1,330)	3,406
Purchase of intangible assets		(439)	(276)
Net cash flows from/(used in) investing activities		**53,763**	**(12,238)**
Financing activities			
Dividends paid		(92,707)	(35,937)
Net cash flows used in financing activities		**(92,707)**	**(35,937)**
Net increase/(decrease) in cash and cash equivalents		33,025	(2,811)
Cash and cash equivalents at 1 January	20	123,169	125,980
Cash and cash equivalents at 31 December	**20**	**156,194**	**123,169**

Approved by the Board
on 28 March 2019

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 28 March 2019.

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.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(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 must 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.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(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 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.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 17% is included on insurance contract liabilities. This has been reduced from 18% as at the end of 2018.

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.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

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.

(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.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 cost, then revalued 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 (EIR) method.

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.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

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 have 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.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

Investment property

Investment property, comprising freehold and leasehold land and buildings, is held for long-term rental yields and capital appreciation. It 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.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

(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.

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 enough 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.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

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.

(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 2018. 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 2018. 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.

Notes to the Financial Statements

2. Summary of Significant Accounting Policies (continued)

Listing of accounting standards that have amendments that are not yet effective	Mandatory for accounting periods starting on or after	Likely impact
Amendments to IAS 28 (12 October 2017)	TBC – pending EU adoption	Not applicable as the company does not have associates or joint ventures.
IFRS 16 (13 October 2016)	1 January 2019	Limited impact on the company.
IFRS 9	1 January 2018	Impact on the company is outlined below.
Amendments to IFRS 9	1 January 2019	Limited impact on the company.
IFRS 17 (18 May 2017)	1 January 2021 (proposed extension to 1 January 2022)	Impact on the company is outlined below.
Amendments to IFRS 3 and IFRS 11	TBC – pending EU adoption	Not applicable as the company does not have associates or joint ventures.
Amendments to IAS 12	TBC – pending EU adoption	Limited impact on the company.
Amendments to IAS 23	TBC – pending EU adoption	Limited impact on the company.
Amendments to IAS 1 and IAS 8	1 January 2019	Limited impact on the company.
Amendments to IAS 19	TBC – pending EU adoption	Limited impact on the company.
IFRIC 23 (7 June 2017)	1 January 2019	Limited impact on the company.

IFRS 9 – Financial instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The Company has deferred the adoption of IFRS 9 until 1 January 2022 by applying the temporary exemption as permitted by IFRS 4 – Insurance Contracts (IFRS 4) (see below). This standard has been endorsed for use in the EU.

Amendments to IFRS 4 – Applying IFRS 9 financial instruments with IFRS 4 insurance contracts

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17). The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 for annual periods beginning before 1 January 2022 at the latest. An entity may apply the temporary exemption from IFRS 9 if:

(i) It has not previously applied any version of IFRS 9 before; and
(ii) Its activities are predominantly connected with insurance on its annual reporting date that immediately precedes 1 April 2016.

The Company has not previously applied any version of IFRS 9. The Company performed an assessment as per the amendments to IFRS 4 and concluded that as at 31 December 2015, the Company's activities were predominantly connected with insurance business.

The Company has applied the temporary exemption in its reporting period starting on 1 January 2018. The Amendments to IFRS 4 has been endorsed for use in the EU.

IFRS 17

IFRS 17 replaces IFRS 4 'Insurance Contracts' and establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

Scope

An entity shall apply IFRS 17 insurance contracts provisions IFRS 17:3 to:

- Insurance contracts, including reinsurance contracts, that it issues;
- Reinsurance contracts it holds; and
- Investment contracts with discretionary participation features that it issues, provided the entity also issues insurance contracts.

Some contracts meet the definition of an insurance contract but have as their primary purpose the provision of services for a fixed fee. Such issued contracts are in the scope of the standard, unless an entity chooses to apply to them IFRS 15 (Revenue from Contracts with Customers) and provided the following conditions are met IFRS 17:8

(a) the entity does not reflect an assessment of the risk associated with an individual customer in setting the price of the contract with that customer;

(b) the contract compensates the customer by providing a service, rather than by making cash payments to the customer; and

(c) the insurance risk transferred by the contract arises primarily from the customer's use of services rather than from uncertainty over the cost of those services.

Notes to the Financial Statements

3. Change in Accounting Estimate

3. Change in Accounting Estimate

An Accounting Estimate – Margin for Uncertainty %

Following a review of market factors and claims trends it was decided to decrease the margin for uncertainty from 18% to 17%. The impact of this change in 2018 was:

Analysis of the margin for uncertainty provision change on the statement of comprehensive income	2018 €'000
Gross of reinsurance – increase to unearned premium	(221)
Gross of reinsurance – increase to claims incurred	(4,316)
Net of reinsurance – increase to net claims incurred	(4,062)

Analysis of the margin for uncertainty provision change on the statement of financial position	2018 €'000
Gross of reinsurance – increase to unearned premium	221
Gross of reinsurance – increased gross claim provisions	4,316
Net of reinsurance – increased net claim provisions	4,062
Total provision gross of reinsurance – margin for uncertainty	**81,159**
Total provision net of reinsurance – margin for uncertainty	**76,924**

The amount of the effect in future periods is not reported because estimating it is impractical due to the lack of available market evidence.

During 2018 a margin for uncertainty of 17% was also included for retro rated premium receivable. The impact of this change in 2018 was:

Analysis of the margin for uncertainty provision change on the statement of comprehensive income	2018 €'000
Gross of reinsurance – decrease to retro rated premium	363

Analysis of the margin for uncertainty provision change on the statement of financial position	2018 €'000
Gross of reinsurance – decrease to retro rated premium	(363)
Total retro rated premium provision gross of reinsurance	**36,293**

The amount of the effect in future periods is not reported because estimating it is impractical due to the lack of available market evidence.

Notes to the Financial Statements

4. Analysis of Underwriting Result

4. Analysis of Underwriting Result

Analysis of underwriting result by product 2018	Third party liability €'000	Fire and other damage to property €'000	Motor €'000	Other €'000	Total €'000
Gross written premiums	112,846	27,252	10,014	11,102	161,214
Premium ceded to reinsurers	(6,616)	(16,220)	(676)	(601)	(24,113)
Change in the gross provision for unearned premiums	1,191	(383)	89	(688)	209
Change in the reinsurance provision for unearned premiums	–	–	–	247	247
Net earned premiums	**107,421**	**10,649**	**9,427**	**10,060**	**137,557**
Gross claims paid	(64,657)	(7,515)	(6,662)	(1,958)	(80,792)
Claims recovered from reinsurers	1,271	3,364	193	–	4,828
Gross change in contract liabilities	(38,913)	2,497	2,088	921	(33,407)
Change in contract liabilities recovered from reinsurers	(2,120)	(2,144)	960	(36)	(3,340)
Net claims incurred	**(104,419)**	**(3,798)**	**(3,421)**	**(1,073)**	**(112,711)**
Technical underwriting result – net	**3,002**	**6,851**	**6,006**	**8,987**	**24,846**
Commission income	418	7,632	46	37	8,133
Operating expenses	(15,562)	(3,758)	(1,381)	(1,531)	(22,232)
Underwriting expenses	(1,123)	(536)	(56)	(1,681)	(3,396)
Underwriting result	**(13,265)**	**10,189**	**4,615**	**5,812**	**7,351**
Net investment return	(10,993)	(2,654)	(975)	(1,081)	(15,703)
Profit before taxation	**(24,258)**	**7,535**	**3,640**	**4,731**	**(8,352)**
Net insurance liabilities	**484,360**	**12,303**	**20,731**	**11,778**	**529,172**

Underwriting expenses relate to commission payable to brokers and surveyor report costs. The allocation of net investment return and operating expenses 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.

Notes to the Financial Statements

4. Analysis of Underwriting Result (continued)

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)
Change in the reinsurance provision for unearned premiums	–	–	–	–	–
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
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**

Notes to the Financial Statements

4. Analysis of Underwriting Result (continued)

Analysis of underwriting result by location	2018 Republic of Ireland €'000	2018 Northern Ireland €'000	2018 Total €'000	2017 Republic of Ireland €'000	2017 Northern Ireland €'000	2017 Total €'000
Gross written premiums	160,092	1,122	161,214	139,272	1,823	141,095
Premium ceded to reinsurers	(24,041)	(72)	(24,113)	(22,813)	(117)	(22,930)
Change in the gross provision for unearned premiums	(24)	233	209	(3,546)	75	(3,471)
Change in the reinsurance provision for unearned premiums	246	1	247	–	–	–
Net earned premiums	**136,273**	**1,284**	**137,557**	**112,913**	**1,781**	**114,694**
Gross claims paid	(79,927)	(865)	(80,792)	(70,937)	(718)	(71,655)
Claims recovered from reinsurers	4,657	171	4,828	819	86	905
Gross change in contract liabilities	(34,957)	1,550	(33,407)	(9,871)	(519)	(10,390)
Change in contract liabilities recovered from reinsurers	(2,108)	(1,232)	(3,340)	(13,601)	(228)	(13,829)
Net claims incurred	**(112,335)**	**(376)**	**(112,711)**	**(93,590)**	**(1,379)**	**(94,969)**
Technical underwriting result – net	**23,938**	**908**	**24,846**	**19,323**	**402**	**19,725**
Commission income	8,124	9	8,133	8,653	15	8,668
Operating expenses	(22,000)	(232)	(22,232)	(23,612)	(309)	(23,921)
Underwriting expenses	(3,395)	(1)	(3,396)	(1,784)	(6)	(1,790)
Underwriting result	**6,667**	**684**	**7,351**	**2,580**	**102**	**2,682**
Net investment return	(15,723)	20	(15,703)	39,122	512	39,634
Profit before taxation	**(9,056)**	**704**	**(8,352)**	**41,702**	**614**	**42,316**
Net insurance liabilities	**525,494**	**3,678**	**529,172**	**488,639**	**4,242**	**492,881**

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

5. Commission Income

Analysis of commission income	2018 €'000	2017 €'000
Commission income	(28)	308
Reinsurance commission income	8,161	8,360
Total commission income	**8,133**	**8,668**

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 2018	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	5,279	–	3,958	–	–	9,237
At fair value through profit or loss						
– Debt securities	11,331	1,261	(9,696)	(47)	–	2,849
– Equity securities	5,076	14,935	(45,705)	644	–	(25,050)
Loans and receivables						
– Loans to local authorities	98	–	–	–	–	98
– Deposits with credit institutions	74	–	–	–	–	74
Cash and cash equivalents	(567)	–	–	(169)	–	(736)
Derivatives	–	–	–	(1,203)	–	(1,203)
FX gain/(loss) on insurance business	–	–	–	(101)	–	(101)
Investment expenses	–	–	–	–	(871)	(871)
Total net investment return	**21,291**	**16,196**	**(51,443)**	**(876)**	**(871)**	**(15,703)**

Notes to the Financial Statements

6. Net Investment Return (continued)

7. Total Operating Expenses

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**

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	2018 €'000	2017 €'000
Directors' remuneration (Note 7(b))	1,414	1,196
Employee benefits expense (Note 7(c))	13,689	13,780
Amortisation on intangibles (Note 10)	342	367
Depreciation on property, plant and equipment (Note 11)	379	413
Auditors' remuneration (Note 7(d))	205	160
Legal and professional fees	778	746
Marketing	622	579
Stakeholder engagement – risk management	35	231
Other expenses	4,768	6,449
Total operating expenses	**22,232**	**23,921**

Notes to the Financial Statements

7. Total Operating Expenses (continued)

7(b) Directors' Remuneration

Analysis of Directors' remuneration	2018 €'000	2017 €'000
Directors' remuneration – salaries, benefits and fees	1,268	1,098
Directors' remuneration – PRSI	81	75
Directors' remuneration – pensions	65	23
Total Directors' remuneration	**1,414**	**1,196**

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

7(c) Employee Benefits Expense

Analysis of employee benefits expense	2018 €'000	2017 €'000
Staff costs – salaries and benefits	11,684	11,935
Staff costs – PRSI	1,031	1,039
Staff costs – pensions (Note 24)	974	806
Total employee benefits expense	**13,689**	**13,780**

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

Employee numbers	2018	2017
Permanent staff	136	126
Total	**136**	**126**

The actual number of full-time equivalents employed by the business at 31 December 2018 was 138.9 (2017: 131).

Notes to the Financial Statements

7(d) Auditors’ Remuneration

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

Analysis of auditors’ remuneration	2018 €’000	2017 €’000
Fees and expenses paid to our statutory auditors are analysed as follows:		
– Audit of the financial statements	155	96
– Other assurance services	50	64
Total auditors' remuneration	**205**	**160**

Auditors’ remuneration (excluding value added tax) in 2018 for audit services is €0.155m (2017: €0.096m) and for other assurance services fees is €0.050m (2017: €0.064m). 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 Credit/(Charge) on Loss/Profit on Ordinary Activities

8(a) Current Tax Year Credit/(Charge)

Tax credit/(charge) on profit on ordinary activities	2018 €’000	2017 €’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	1,046	(4,675)
– In respect of prior years	(19)	–
Total current tax credit/(charge)	**1,027**	**(4,675)**
Deferred tax		
– Origination and reversal of temporary differences	(2)	4
Total deferred tax credit/(charge)	**(2)**	**4**
Total income tax credit/expense recognised in the current year relating to continuing operations	**1,025**	**(4,671)**

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

Notes to the Financial Statements

8. Tax Charge on Profit on Ordinary Activities (continued)

9. Dividends Paid and Proposed

8(b) Tax Credit/(Charge) on Loss/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 credit/(charge) on loss/profit on ordinary activities analysis	2018 €'000	2017 €'000
Profit on ordinary activities before tax	(8,352)	42,316
Profit on ordinary activities multiplied by standard rate of corporation tax of 12.5%	(1,044)	5,290
Effect of		
– Expenses not deductible for tax purposes	–	107
– Adjustment in respect of prior years	18	–
– Income taxed at higher rate (25%)	12	14
– Income not subject to tax	–	(737)
– Temporary tax differences	(11)	(3)
– Income tax withheld	–	–
Tax credit/(charge)	**(1,025)**	**4,671**

The total tax credit/(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 €4.274m (2017: €3.981m) relates to withholding tax amounts that are refundable to the company of €0.191m (2017: €0.184m) and a corporation tax refund of €4.083m (2017: €3.797m) that is due to the company.

9. Dividends Paid/Proposed

Dividend paid and proposed	2018 €'000	2017 €'000
Declared and payable during the year		
– Retained earnings distribution	30,000	100,000
– Interim dividend	15,058	15,000
Total dividends paid/proposed in the year	**45,058**	**115,000**

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.

10. Intangible Assets

Intangible assets 2018 & 2017	IT software €'000
Cost	
Balance at 1 January 2017	1,833
Additions	277
Balance at 1 January 2018	2,110
Additions during the year	439
Balance at 31 December 2018	**2,549**
Amortisation	
Balance at 1 January 2017	(1,268)
Amortisation for the year	(367)
Balance at 1 January 2018	(1,635)
Amortisation for the year	(342)
Balance at 31 December 2018	**(1,977)**
Carrying amounts	
Balance at 31 December 2017	475
Balance at 31 December 2018	**572**

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**

11. Property, Plant and Equipment

Property, plant and equipment 2018 & 2017	Fixtures & fittings €'000	Leasehold improvements €'000	IT hardware €'000	Motor vehicles €'000	Total €'000
Cost					
Balance at 1 January 2017	240	1,497	456	153	2,346
Additions	–	8	105	–	113
Disposals	–	–	(1)	(153)	(154)
Balance at 1 January 2018	240	1,505	560	–	2,305
Additions	30	34	50	–	114
Disposals	–	–	–	–	–
Balance at 31 December 2018	**270**	**1,539**	**610**	**–**	**2,419**
Depreciation					
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 1 January 2018	(238)	(1,153)	(398)	–	(1,789)
Depreciation for the year	(10)	(276)	(93)	–	(379)
Depreciation on disposal	–	–	–	–	–
Balance at 31 December 2018	**(248)**	**(1,429)**	**(491)**	**–**	**(2,168)**
Carrying amounts					
Balance at 31 December 2017	2	352	160	–	515
Balance at 31 December 2018	**22**	**110**	**118**	**–**	**250**

Notes to the Financial Statements

Property, plant and equipment 2017 & 2016	Fixtures & fittings €'000	Leasehold improvements €'000	IT hardware €'000	Motor vehicles €'000	Total €'000
Cost					
Balance at 1 January 2016	266	1,497	344	153	2,260
Additions	–	–	124	–	124
Disposals	(26)	–	(12)	–	(38)
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**

12. Investment Properties

Investment properties	2018 €'000	2017 €'000
Balance at 1 January	92,750	92,575
Additions	12	366
Disposals	–	–
Movement in fair value	3,958	(191)
Balance at 31 December	**96,720**	**92,750**
Rental income derived from investment properties	5,279	5,291
Income for the period	**5,279**	**5,291**

Notes to the Financial Statements

13. Derivative Financial Instruments

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, 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 2018			
Forward foreign exchange contracts – NOK	175	44	NOK 85,000
Forward foreign exchange contracts – GBP	165	7	GBP 21,000
Forward foreign exchange contracts – USD	31	86	USD 17,000
Forward foreign exchange contracts – SEK	–	19	SEK 8,000
Forward foreign exchange contracts – CHF	–	62	CHF 5,000
Forward foreign exchange contracts – DKK	5	–	DKK 80,000
Total financial instruments held for trading	**375**	**218**	
Balance at 31 December 2017			
Forward foreign exchange contracts – NOK	102	–	NOK 40,000
Forward foreign exchange contracts – GBP	70	489	GBP 54,000
Forward foreign exchange contracts – USD	113	–	USD 12,000
Forward foreign exchange contracts – SEK	–	12	SEK 8,000
Forward foreign exchange contracts – CHF	238	–	CHF 6,000
Forward foreign exchange contracts – DKK	8	–	DKK 80,000
Total financial instruments held for trading	**531**	**501**	

14. Other Financial Assets and Liabilities

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

Other financial assets	2018 €'000	2017 €'000
Designated at fair value through profit or loss		
– Debt securities	679,779	771,533
– Equity securities	170,086	221,235
Total financial assets designated at fair value through profit or loss	**849,865**	**992,768**
Loans and receivables		
– Loans to local authorities	18,323	20,429
– Deposits with credit institutions	65,059	10,035
Total loans and receivables at amortised cost	**83,382**	**30,464**
Total other financial assets	**933,247**	**1,023,232**

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.

Notes to the Financial Statements

14. Other Financial Assets and Liabilities (continued)

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 2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total fair value €'000
Derivative financial assets	–	375	–	375
Financial assets designated at fair value through profit or loss				
– Debt securities	646,705	32,658	416	679,779
– Equity securities	136,180	33,905	1	170,086
Loans and receivables				
– Loans to local authorities	–	–	18,323	18,323
– Deposits with credit institutions	–	–	65,059	65,059
Total assets	**782,885**	**66,938**	**83,799**	**933,622**
Derivative financial liabilities	–	218	–	218
Total liabilities	**–**	**218**	**–**	**218**

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**

Notes to the Financial Statements

14. Other Financial Assets and Liabilities (continued)

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	2018 €'000	2017 €'000
Balance at 1 January	31,753	24,741
Movement in loans and receivables	62,953	7,012
Movement in fair value	(10,907)	–
Balance at 31 December	**83,799**	**31,753**

The movement in Level 3 financial instruments is comprised of the repayment of legacy loans to local authorities along with transfers to new longer-term deposits with a credit institution (€55m).

There has been one transfer on the 28th of December 2018 between level 2 and level 1 due to a stock now being listed on a stock exchange.

Transfers from Level 2 to Level 1	2018 €'000	2017 €'000
Financial assets designated at fair value through profit or loss		
– Equity securities	2,630	–

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:

	2018		2017	
Sensitivity of Level 3 financial instruments measured at fair value to changes in key assumptions	Carrying amount €'000	Effect of reasonable possible alternative assumptions (+/-)	Carrying amount €'000	Effect of reasonable possible alternative assumptions (+/-)
Financial assets designated at fair value through profit or loss				
– Debt securities	416	–	1,288	–
– Equity securities	1	(1)	1	(1)
– Loans and receivables	83,382	–	30,464	–
Balance at 31 December	**83,799**	**(1)**	**31,753**	**(1)**

Notes to the Financial Statements

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	2018 €'000	2017 €'000
Insurance assets – retro-rated premiums	29,503	23,966

16. Insurance Contract Liabilities and Reinsurance Assets

(a) Analysis of the Insurance Contract Liabilities

	2018			2017		
Contract liabilities	Insurance contract liabilities €'000	Reinsurance assets €'000	Net €'000	Insurance contract liabilities €'000	Reinsurance assets €'000	Net €'000
Projected outstanding case reserves	449,043	23,853	425,190	426,172	26,900	399,272
Projected IBNR	(20,430)	93	(20,523)	(28,052)	(253)	(27,799)
Projected future unallocated loss adjustment expenses	23,739	–	23,739	22,062	–	22,062
Provision for reinsurance bad debts	–	(537)	537	–	(618)	618
Provision for adverse development						
– Margin for uncertainty	77,410	4,235	73,175	76,173	4,955	71,218
– Expected value of binary event provision	3,000	1,500	1,500	3,000	1,500	1,500
Outstanding claims provision	**532,762**	**29,144**	**503,618**	**499,355**	**32,484**	**466,871**
Provision for unearned premiums	22,052	247	21,805	22,042	–	22,042
Unexpired risk reserves	–	–	–	–	–	–
Provision for adverse development						
– Margin for uncertainty	3,749	–	3,749	3,968	–	3,968
Unearned premium reserve	**25,801**	**247**	**25,554**	**26,010**	**–**	**26,010**
Total contract liabilities	558,563	29,391	529,172	525,365	32,484	492,881

Notes to the Financial Statements

16. Insurance Contract Liabilities and Reinsurance Assets (continued)

(b) Movement in the Gross and Reinsurance Claims Provision

Movements in gross outstanding claims provision	2018 €'000	2017 €'000
Carrying amount at 1 January	**499,355**	**488,965**
Claim losses and expenses incurred in the current year	140,503	128,294
Decrease in estimated claim losses and expenses incurred in prior years	(26,304)	(41,866)
Change in binary yield provision	–	(4,383)
Incurred claims losses and expenses	**114,199**	**82,045**
Less		
Payments made on claims incurred in the current year	(5,456)	(5,492)
Payments made on claims incurred in prior years	(75,336)	(66,163)
Claims payments made in the year	**(80,792)**	**(71,655)**
Carrying amount at 31 December	**532,762**	**499,355**

Movements in outstanding reinsurance claims provision	2018 €'000	2017 €'000
Carrying amount at 1 January	**32,484**	**46,313**
Claim losses and expenses incurred in the current year	5,078	5,260
(Decrease)/increase in estimated claim losses and expenses incurred in prior years	(3,590)	(15,422)
Change in binary yield provision	–	(2,762)
Incurred claims losses and expenses	**1,488**	**(12,924)**
Less		
Recoveries received on claims incurred in the current year	(1,689)	(928)
Recoveries received on claims incurred in prior years	(3,139)	23
Recoveries on claim payments	**(4,828)**	**(905)**
Carrying amount at 31 December	**29,144**	**32,484**

Notes to the Financial Statements

(c) Provision for Unearned Premiums

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

Provision for unearned premiums	2018 €'000	2017 €'000
Carrying amount at 1 January	**26,010**	**22,538**
Gross premium written during the year	161,214	141,095
Gross premium earned during the year	(161,423)	(137,623)
Changes in unearned premium recognised as income/(expense)	**(209)**	**3,472**
Carrying amount at 31 December	**25,801**	**26,010**

(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	2018 €'000	2017 €'000
Due from policyholders	11,147	20,159
Due from reinsurers	2,396	4,569
Total current receivables	**13,543**	**24,728**

18. Other Receivables

Other receivables	2018 €'000	2017 €'000
Other receivables	89	123
Investments trade in transit	–	–
Total	**89**	**123**

19. Prepayments and Accrued Income

Prepayments and accrued income	2018 €'000	2017 €'000
Retrospective premium receivable	619	1,050
Interest on debt securities	3,411	4,866
Interest on cash and cash equivalents	(45)	(17)
Accrued property rental income	25	2
Dividends receivable	54	865
Accrued Income – real estate funds	277	–
Other accrued income	961	831
Prepayments	421	513
Total	**5,723**	**8,110**

20. Cash and Cash Equivalents

Cash and cash equivalents	2018 €'000	2017 €'000
Cash at banks and on hand	67,083	28,767
Short-term deposits	89,111	94,402
Total	**156,194**	**123,169**

Movement in cash and cash equivalents	2018 €'000	2017 €'000
Balance at beginning of reporting year	123,169	125,980
Balance at end of reporting year	156,194	123,169
Increase/(decrease) in cash and cash equivalents	**33,025**	**(2,811)**

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.

Notes to the Financial Statements

21. Deferred Tax Assets/Liabilities

Deferred taxation (assets)/liabilities	2018 €'000	2017 €'000
Balance at 1 January	(146)	(142)
Income statement (Note 8)	2	(4)
Balance at 31 December	**(144)**	**(146)**
Temporary differences on property, plant and equipment	(144)	(146)
Balance at 31 December	**(144)**	**(146)**

22. Insurance Payables

Insurance payables	2018 €'000	2017 €'000
Due to policyholders	1,187	2,400
Due to reinsurers	1,104	917
Due to insurance brokers	(9)	(5)
Total	**2,282**	**3,312**

23. Trade and Other Payables

Trade and other payables	2018 €'000	2017 €'000
Trade creditors	3,562	3,927
Prepayment – property rental income	770	907
Dividend payable	31,414	79,063
Social Dividend payable	3,223	3,822
Short-term employee benefits	2,367	2,476
Member escrow balances	5,289	–
Accruals	505	620
Total	**47,130**	**90,815**
Tax and social welfare included in accruals		
– PAYE	352	434
– PRSI	145	174
– VAT	8	12
Total	**505**	**620**

Notes to the Financial Statements

24. Pension Costs

The company participates in defined contribution pension schemes.

2018 employers' contributions for the employees' defined contribution pension schemes amounted to €0.974m (2017: €0.806m). There were no outstanding contributions as at 31 December 2018 (2017: €0.003m).

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 2018 the company paid a commercial dividend to its Members of €15.1m (2017: €15m) and paid €77.6m of a retained earnings distribution. The total retained earnings distribution now paid is €98.6m of €200m. A further €31.4m is scheduled for payment in 2019. The balance of €70m will be paid to Members over the following 3 years (2020–2022).

Notes to the Financial Statements

25. Capital Management (continued)

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.

Notes to the Financial Statements

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 and assurance 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 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	2018 €'000	Total €'000
At end of underwriting year		105,682	87,868	88,526	94,457	95,706	126,215	127,895	128,294	140,503	
One year later		97,518	85,313	79,462	93,603	93,057	118,924	109,532	115,880		
Two years later		95,077	75,842	81,719	85,311	95,242	113,653	110,201			
Three years later		84,027	88,753	72,673	79,293	96,996	110,005				
Four years later		77,195	78,138	68,222	78,843	95,918					
Five years later		75,101	77,733	68,199	78,368						
Six years later		68,732	72,669	67,440							
Seven years later		61,056	71,816								
Eight years later		59,755									
Ultimate claims losses incurred	**1,053,050**	**59,755**	**71,816**	**67,440**	**78,368**	**95,918**	**110,005**	**110,201**	**115,880**	**140,503**	**1,902,936**
At end of underwriting year		(8,577)	(4,875)	(3,891)	(5,073)	(5,236)	(6,251)	(6,767)	(5,492)	(7,145)	
One year later		(24,301)	(13,396)	(12,008)	(15,599)	(15,729)	(19,410)	(16,917)	(15,311)		
Two years later		(32,435)	(22,552)	(20,736)	(25,709)	(25,227)	(30,128)	(28,983)			
Three years later		(41,213)	(31,856)	(30,948)	(34,242)	(36,626)	(42,167)				
Four years later		(47,073)	(39,578)	(38,343)	(44,352)	(51,804)					
Five years later		(51,501)	(45,787)	(45,601)	(52,847)						
Six years later		(54,574)	(50,232)	(49,844)							
Seven years later		(51,286)	(53,541)								
Eight years later		(52,275)									
Cumulative payments to date	**(1,016,257)**	**(52,275)**	**(53,541)**	**(49,844)**	**(52,847)**	**(51,804)**	**(42,167)**	**(28,983)**	**(15,311)**	**(7,145)**	**(1,370,174)**
Total gross non-life insurance outstanding claims provisions per the Statement of Financial Position	**36,793**	**7,479**	**18,275**	**17,596**	**25,522**	**44,114**	**67,838**	**81,218**	**100,569**	**133,358**	**532,762**

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	2018 €'000	Total €'000
At end of underwriting year		92,272	85,939	84,120	88,553	85,647	118,742	119,022	123,034	135,426	
One year later		78,939	83,745	73,965	87,827	89,712	108,159	103,006	112,856		
Two years later		78,204	71,266	75,233	82,695	91,429	104,216	103,544			
Three years later		65,020	77,436	68,227	76,669	93,306	101,053				
Four years later		60,158	69,885	63,451	76,461	91,549					
Five years later		58,244	67,583	63,537	76,055						
Six years later		51,658	62,339	62,890							
Seven years later		51,949	61,619								
Eight years later		50,871									
Ultimate claims losses incurred	**885,093**	**50,871**	**61,619**	**62,890**	**76,055**	**91,549**	**101,053**	**103,544**	**112,856**	**135,426**	**1,680,956**
At end of underwriting year		(5,095)	(2,433)	(3,515)	(4,352)	(4,234)	(5,587)	(4,767)	(4,564)	(5,456)	
One year later		(12,659)	(9,796)	(10,883)	(13,780)	(14,066)	(16,299)	(13,240)	(13,578)		
Two years later		(19,340)	(20,625)	(19,048)	(23,723)	(23,029)	(26,706)	(24,505)			
Three years later		(28,169)	(29,864)	(28,818)	(32,252)	(34,437)	(38,623)				
Four years later		(33,355)	(37,562)	(35,872)	(42,365)	(49,422)					
Five years later		(37,770)	(43,770)	(42,366)	(50,860)						
Six years later		(40,842)	(48,214)	(46,438)							
Seven years later		(42,810)	(51,524)								
Eight years later		(43,896)									
Cumulative recoveries to date	**(853,039)**	**(43,896)**	**(51,524)**	**(46,438)**	**(50,860)**	**(49,422)**	**(38,623)**	**(24,505)**	**(13,578)**	**(5,456)**	**(1,177,338)**
Total net non-life insurance outstanding claims provisions per the Statement of Financial Position	**32,057**	**6,975**	**10,095**	**16,452**	**25,195**	**42,127**	**62,430**	**79,039**	**99,278**	**129,970**	**503,618**

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

Notes to the Financial Statements

26. Risk Management (continued)

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.

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 2018	Foreign currency gross €'000	Foreign currency derivatives €'000	Net €'000
British Pounds (GBP)	23,978	23,537	441
Norwegian Krone (NOK)	12,590	8,700	3,890
Danish Krone (DKK)	17,815	10,728	7,087
Swedish Krona (SEK)	955	771	184
Swiss Francs (CHF)	6,286	4,376	1,910
US Dollars (USD)	11,328	14,708	(3,380)
Total	**72,952**	**62,820**	**10,132**

Notes to the Financial Statements

26. Risk Management (continued)

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**

The net foreign exchange exposure after currency hedges is €10.1m (2017: €29.3m).

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	2018 €'000	2017 €'000
Debt securities		
– Irish Government fixed-interest bonds	101,327	143,685
– Other government fixed-interest bonds – eurozone	364,776	384,663
– Other government fixed-interest bonds – non-eurozone	53,461	103,393
– Corporate bonds	96,372	78,225
Total	**615,936**	**709,966**

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.

Notes to the Financial Statements

26. Risk Management (continued)

Investments analysis	2018 Market value €'000	2018 Weighted average interest rate %	2017 Market value €'000	2017 Weighted average interest rate %
In one year or less	43,773	0.98	220,055	2.15
In more than one year, but less than two years	103,595	2.53	59,804	0.87
In more than two years, but less than three years	78,855	0.94	101,479	2.68
In more than three years, but less than four years	116,917	0.78	12,980	2.81
In more than four years, but less than five years	128,020	0.53	61,815	1.06
More than five years	144,776	5.21	253,833	3.08
Total	**615,936**	**2.10%**	**709,966**	**2.37%**

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 2017 to 2018	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								
2018	188,614	207,995	213,278	4,412	–	–	65,480	679,779
2017	234,560	259,419	171,741	–	24,653	–	81,160	771,533

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 are 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)

2018	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	679,779	–	–	–	–	679,779
Other investments	170,086	–	–	–	–	170,086
Reinsurance assets (outstanding claims and receivables)	31,481	–	–	–	59	31,540
Loans and receivables	83,382	–	–	–	–	83,382
Insurance receivables	4,405	1,093	319	19	5,311	11,147
	969,133	**1,093**	**319**	**19**	**5,370**	**975,934**

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**

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. The provision for other debtors has increased to reflect possible doubtful debts based on premium renewal amounts that have arisen during 2018 and which continue to be carefully managed. 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	2018 €'000	2017 €'000
Reinsurance debtors	537	618
Other debtors	466	137
Total	**1,003**	**755**

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 2018	AAA €'000	AA €'000	A €'000	BBB €'000	BB €'000	B €'000	CCC €'000	Not rated €'000	Total €'000
Derivative financial instruments	–	–	331	44	–	–	–	–	375
Equity securities	–	–	–	–	–	–	–	170,086	170,086
Investment property	–	–	–	–	–	–	–	96,720	96,720
Reinsurance assets (outstanding claims and receivables)	–	18,631	12,909	–	–	–	–	–	31,540
Loans and receivables	–	–	30,000	34,983	–	–	–	18,399	83,382
Insurance receivables	–	–	–	–	–	–	–	11,147	11,147
Cash and cash equivalents	–	–	108,063	25,131	23,000	–	–	–	156,194
Total	**–**	**18,631**	**151,303**	**60,158**	**23,000**	**–**	**–**	**296,352**	**549,444**

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	–	–	–	–	–	–	–	221,234	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	**–**	**10,985**	**103,480**	**54,659**	**–**	**–**	**–**	**356,236**	**525,360**

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.

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.

Notes to the Financial Statements

26. Risk Management (continued)

The company has mitigated much of its liquidity risk through holding liquid assets such as cash and sovereign bonds as well as 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 2018 in the case of index-linked bonds. Amortising bonds are stated at their nominal value as at 31 December 2018 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) 2018	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	375	375	–	–	–	375
Financial assets at fair value through profit or loss						
– Debt securities	679,779	53,416	417,141	135,568	10,215	616,340
– Equity securities	170,086	–	–	–	170,086	170,086
Loans and receivables						
– Loans to local authorities	18,323	1,712	8,662	7,781	–	18,155
– Deposits with credit institutions	65,059	65,059	–	–	–	65,059
Insurance assets	29,503	6,609	16,964	5,930	–	29,503
Reinsurance assets						
– Claims outstanding	29,144	6,965	16,583	5,596	–	29,144
Insurance receivables	13,543	13,543	–	–	–	13,543
Other receivables	89	89	–	–	–	89
Cash and cash equivalents	156,194	156,149	–	–	–	156,149
Total	**1,162,095**	**303,917**	**459,350**	**154,875**	**180,301**	**1,098,443**
Financial liabilities						
Insurance contract liabilities						
– Claims outstanding	532,762	227,488	278,635	26,638	–	532,761
Derivative financial instruments	218	501	–	–	–	501
Insurance payables	2,282	2,282	–	–	–	2,282
Trade and other payables	47,130	47,084	–	–	–	47,084
Total	**582,392**	**277,355**	**278,635**	**26,638**	**–**	**582,628**

Notes to the Financial Statements

26. Risk Management (continued)

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**

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.

Notes to the Financial Statements

26. Risk Management (continued)

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 the company's outsourcing policy as well as service level agreements. Service providers are required to adhere to company policy. Service providers are subject to detailed reporting requirements.

Cyber risk is a risk that continues to emerge as a significant threat to insurance companies. The Company has a responsibility to ensure that it has made every effort to secure the data on its network and to ensure that the systems it utilises are secure and reliable so that it may best serve its Members and clients. IPB has in place an established Information Security Framework which details the roles, responsibilities and governance structure put in place by the Company to support its information security objectives as well as the policies, procedures and standards which are in force in the Company.

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.
- Brexit – Overall, the operational and strategic impact of Brexit is deemed to be relatively low given that IPB is predominantly a domestic insurance company with very limited insurance, operational or investment exposure to the UK. Nevertheless, IPB has considered the impact of Brexit across several key headings establishing contingency plans as well as taking decisive action where necessary. One such action was to cease writing business in Northern Ireland given the likely loss of UK passporting writes under the Brexit scenario.

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 2018.
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		2018 €'000	2017 €'000
Underwriting risk	5.00%	(6,878)	(5,735)
Currency risk	10.00%	1,013	2,926
Currency risk	-10.00%	(1,013)	(2,926)
Interest rate risk	1.00%	(16,194)	(20,579)
Interest rate risk	-0.25%	4,606	5,846
Equity risk	10.00%	17,009	22,124
Equity risk	-10.00%	(17,009)	(22,124)

Sensitivity analysis Impact on equity		2018 €'000	2017 €'000
Underwriting risk	5.00%	(6,018)	(5,018)
Currency risk	10.00%	887	2,560
Currency risk	-10.00%	(887)	(2,560)
Interest rates	1.00%	(14,170)	(18,007)
Interest rates	-0.25%	4,030	5,115
Equity risk	10.00%	14,883	19,358
Equity risk	-10.00%	(14,883)	(19,358)

In addition, the impact of changes in the assumptions used to calculate general insurance liabilities and sensitivities is 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.

Notes to the Financial Statements

26. Risk Management (continued)

Sensitivity analysis 2018	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%	(2,753)	(2,202)	2,202	1,927
Motor	10.00%	663	530	(530)	(464)
Fire and other damage to property	10.00%	16	13	(13)	(11)
Total		**(2,074)**	**(1,659)**	**1,659**	**1,452**

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**

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.

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 2018 and 2017 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 €2.1m (2017: €3.1m). Loan balances outstanding at year end amounted to €18.3m (2017: €20.4m).

All loans were issued unsecured and with interest rates at normal commercial terms. During the period interest income on these loans totalled €0.1m (2017: €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 2018 or 2017.

Members

The percentage of total gross premiums written with Members in 2018 was 80% (2017: 78%).
Please refer to page 114 for details of our Members.

Notes to the Financial Statements

29. Social Dividend

During 2018 the company did not make any additional contributions to the Social Dividend Fund as part of its corporate social engagement (CSE) framework; 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 28 March 2019.

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.

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 2018

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

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.

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.

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.

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.

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

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

Our People

35+ YEARS
Edel Burke
Lorraine Scanlan
Caroline Young

25+ YEARS
Paul Doyle
Jacinta Gill
Yvonne Loughran
David Malone
Niamh Corrigan
Paddy Moran
Margaret O'Connor
Marian Weston

15+ YEARS
Fiona Carey
Maria Carroll
Ann Feely
Brendan Mahady
Caroline Quinn
Anne Rice
Rosemary Ryan
Gerard Ryan
Rory Walsh

10+ YEARS
Frank Cunneen
Peter Doyle
Alison Farrelly
Joanna Fracz
John Sheridan
Barry Wallace

UP TO 10 YEARS
Claire Babington
Katie Bell
Natasha Brady
Diane Broderick
Colm Bryson
Alan Burke
Kevin Byrne
Darragh Callaghan
Oisin Cannon
Neil Carmody
Fergus Carolan
John Caulfield
Emily Chambers
Conn Cleary
Fiona Coloe
Maeve Condon
Louise Conlon
David Connolly
Mairead Conway
Sarah Coughlan
Richard Counihan
Greg Creevey
Nicola Cummins
Aoife Dennedy
Gerry Denvir
Darren Devereux
Enda Devine
Lesley Doyle
David Dunne
Niamh Ebbs
Michelle Fahy
Gerard Fallon
Cathy Farragher
Maria Fingleton
Colin Flood
Niall Foley
Joyce Foley
Alan Foster
Tim Fozzard
Yusuf Frih
Majella Fuller
Michael Garvey
Stephen Geary
Eileen Griffin
Clara Hannon
Mark Hardy
Catherine Hayes
Ivor Heavey
Peter Hegarty
Shauna Kavanagh
Tom Keane
JJ Keane
Paul Kearns
David Kearns
Aoife Keenan
Brian Kelleher
Dean Kelly
Nicola Kelly
Liam Kilmartin
Alex Kitching
Quetili Lamperth
Eugene Lehane
Adrian Leonard
Kamila Litwinowicz
Robert Love
Helen Lynch
Vincent Lyons
Sean Maguire
Conor Mahon
Fiona McAleenan
Kevin McClean
Conor McCourt
Paul McCrory
Dermot McInerney
John McNabola
Ann-Marie McPartlin
Edward Meaney
Evan Millar
Maeve Moore
Robert Moore
Megan Mullarkey
Gerard Mulvaney
Lindsey Murphy
Fiona Murtagh
Lyndsey Noonan
Ellen O'Carroll
Martha O'Connor
Wendy O'Dwyer
Nicola O'Neill
Graham Orr
Steven O'Sullivan
Brian Owens
Mihaela Pavisic
Philomena Phelan
Mark Price
Lindsay Pulsford
Matt Rafferty
Donna Rave
Tracey Reale
Donagh Regan
Niamh Reilly
Colm Reilly
Michelle Rice
Matt Rickard
Deborah Royal
Anne-Marie Sheridan
James Smith
Laura Smith
Lizanne Sorohan
Adam Sykes
Christopher Taaffe
Anthony Thorpe
Jonny Walshe
Christine Waters
Brendan Watson
Michael Whelehan
Barry Whitelaw
Fiona Wolfe
David Woodward
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Ireland and subject to limited regulation by the Financial Conduct Authority.