NEW IRELAND ASSURANCE

Directors' Report and Financial Statements 2017

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ASSURANCE

Directors' Report and Financial Statements

Year Ended 31 December 2017

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Directors and Other Information

CHAIRMAN
Pat Healy

DIRECTORS
Tom Barry
Sean Crowe
Des Crowley
Eilish Finan
Ashok Gupta
Denis Kelleher *(resigned 20 June 2017)*
Liam McLoughlin *(resigned 31 January 2018)*
Michael Murphy *(Managing Director appointed 3 July 2017)*
Tony O'Riordan *(appointed 9 January 2017)*
David Roberts *(resigned 6 October 2017)*
Mick Sweeney *(resigned 3 July 2017)*

SECRETARY
Peter Gray *(resigned 7 April 2017)*
Hill Wilson Secretarial Limited *(appointed 7 April 2017)*

REGISTERED OFFICE
11-12 Dawson Street
Dublin 2.
Company Number: 7336

HEAD OF ACTUARIAL FUNCTION
Shane Fahey FSAI

INDEPENDENT AUDITORS
PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
One Spencer Dock
North Wall Quay
Dublin 1.

BANKERS
Bank of Ireland
2 College Green
Dublin 2.

SOLICITOR
A&L Goodbody
International Financial Services Centre
North Wall Quay
Dublin 1.

Directors' Report

The Directors are pleased to submit their Annual Report and audited financial statements of New Ireland Assurance Company plc (the 'Company') for the year ended 31 December 2017.

Principal activities

The principal activity of the Company is the transaction of life assurance and pension business in the Republic of Ireland.

Review of the Business

Established one hundred years ago on the 5th January 1918, the Company was the first wholly Irish owned life assurance company to transact business in Ireland. Over the last 100 years, customer security and protection has been a core priority of the Company.

The purpose of the Company is to enable customers, colleagues and communities to thrive by protecting families, investing their money and securing their future. As at 31 December 2017 the Company has over 500,000 customer contracts and funds under management of €16.7 billion. In 1997 the Company became part of the Bank of Ireland Group. Bank of Ireland is a diversified financial services group with total assets on its balance sheet of €123 billion.

The Company sells a broad range of protection, investment and pension products to individual and corporate customers in the Republic of Ireland. Its liabilities are predominantly unit linked and it has a multi-channel distribution strategy selling products through the Bank of Ireland branch network, the independent broker market and a tied agent channel (financial advisors). The Company is a market leading life and pension provider and has circa 19% share of the new business market. The Company has a strategic plan for the next three to five years that includes significant investment during 2018 to 2020. This investment will help the Company to continually develop the business to meet the demands of a rapidly changing market and to enable it to be the financial services partner of choice for our customers.

The strategic priorities are

- Being the financial services partner of choice for its customers
- Delivering sustainable profit growth for the business
- Delivering excellent customer value and shareholder returns through cost and capital efficiency
- One team relentlessly delivering for customers, colleagues and communities

The Company performed well in 2017 in a competitive and challenging environment for the Irish life insurance industry.

Features of the Company and its business are as follows:

- The Company has a strong distribution network across three core channels made up of the Bank of Ireland Group's branch network, independent financial brokers and its tied agent financial advisors.
- It provides a range of protection, investment and pension products offering customers access to a wide range of investment markets and fund managers across its fund platform.
- The Company has a competitive product range particularly in the protection market with the Life Choice contract and with its suite of investment and pension funds, including its iFunds. Through its strong relationship with some of the world's leading investment managers, the Company offers a wide array of investment funds that cater for the needs of the many different types of investor.
- The growing labour market, the ageing population and reducing levels of state and employer led pension provision in Ireland mean that the underlying individual investment and protection needs of the working population will continue to grow. The Company, with 19% market share, is well positioned to benefit from the growing investment and pension market.
- New business levels were 10% higher than the previous year, €263 million (2016: €240 million) in Annual Premium Equivalent (APE) terms, benefiting from strong pension and group risk sales.
- New sales in the year ended 31 December 2017 consisted of €1,232 million (2016: €1,154 million) of new single premium business and €140 million (2016: €124 million) of new regular premium business.
- The Company continued to invest in its people and infrastructure. There are a number of infrastructure improvement programmes underway to enhance and improve the customer offering.
- The harmonised EU-wide regulatory capital framework for insurance companies, known as Solvency II, came into force with effect from 1 January 2016. Under Solvency II, the Company is required to value its liabilities using best estimate assumptions as to future experience. It is also required to hold an additional risk margin and a risk-based Solvency Capital Requirement (SCR) which is calculated by considering the impact of a number of stress scenarios on the Company's capital At the end of 2017, the Company's total eligible own funds under Solvency II are €896 million. This was 1.54 times or €313 million above the SCR of €583 million.
- In 2017 the Company changed its accounting policy for the valuation of insurance contract liabilities. The Audit Committee considered management's rationale for the change and it was satisfied that the revised policy was more relevant and no less reliable, and was consistent with current market practice and requirements. The comparative period has been restated to reflect this change in accounting policy.

Financial Review

Embedded Value Performance

Embedded value is widely used within the life assurance industry and the Company uses a market consistent embedded value methodology in measuring its performance. Under this approach, which is set out below, the operating profit for the twelve month period ended 31 December 2017 was €74 million (2016 restated: €79 million).

New business profits at €11 million (2016: €9 million) were 22% higher than previous year. New business levels were 10% higher in 2017 with €263 million in APE terms, benefiting from strong Pension and Group Risk sales.

The persistency variance was positive in 2017 though lower than 2016 while the trend in improving mortality experience has continued.

The expected return on the existing book of business is lower which is primarily due to the impact of a pension credit to operating expenses in 2016 and the more positive impact in 2016 of changes in assumptions relating to future experience in business variables.

Description	31 December 2017 €m	Restated[1] 31 December 2016 €m
New business profits	11	9
Existing business portfolio		
- Planned profit	47	60
- Experience variance mortality	11	10
- Experience variance persistency	6	10
- Actuarial basis changes	(1)	(10)
	63	**70**
Operating profit	**74**	**79**

Statutory performance

The financial statements as prepared in accordance with accounting standards generally accepted in Ireland show a decrease in the technical accounting profit for the year to €70 million (2016 restated: €95 million) which is primarily due to the impact of a pension credit to operating expenses in 2016 and the more positive impact in 2016 of changes in assumptions relating to future experience in business variables.

Movements in the key financial metrics are as follows:

- Total premiums received in the year of €1.8 billion were 7% higher than in 2016 (€1.7 billion) due to higher pension and group risk sales. Premiums accounted for as insurance contracts were 8% higher at €1.4 billion (2016: €1.3 billion) also due to higher pension and group risk sales.
- Total investment return was €0.9 billion (2016: €0.9 billion) reflecting positive investment market growth across all asset classes. 2017 was a successful year for most of the world's stock markets. Solid economic data enabled some of the major central banks to raise interest rates and taper asset purchases. Markets largely shrugged off concerns regarding German Federal elections and continuing Brexit negotiations in Europe and in general, risk assets pushed higher. There was strong Irish and European property market performance which was partially offset by falls in value of the UK portfolio due to the impact of adverse exchange rate movements.
- Total balance sheet assets grew by 3% to €17.7 billion (2016: €17.2 billion).
- Gross claims paid increased by 10% to €1.8 billion (2016: €1.7 billion). Gross claims accounted for as insurance contracts increased by 27% to €1.3 billion (2016: €1.0 billion).
- Net technical provisions increased by €0.8 billion (2016 restated: increase €1.0 billion), due mainly to the increase in value of policyholders' investments.
- Core operating expenses (excluding commissions, cost of sales, depreciation and non-core costs) were €89 million in the year (2016: €75 million). This increase is primarily due to the impact of a pension credit of €16 million in operating expenses in 2016.

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

Summary income statement

The profit and loss account – technical statement in the financial statements is presented in accordance with the required accounting classification with some of the items listed in the table below being split between insurance and investment contracts according to their accounting classification.

The table below summarises the profit and loss account into its various constituent components (premiums, claims, investment income, expenses and policyholder liabilities) before the split for accounting classification.

Description	31 December 2017 €m	Restated[1] 31 December 2016 €m
Premium income	1,791	1,671
Reinsurers' share of premiums	(86)	(80)
Claims paid	(1,837)	(1,671)
Reinsurers' share of claims	94	89
Investment return	898	865
Net operating expenses	(191)	(177)
Change in deferred income liability	4	4
Investment charges	(11)	(13)
Interest on loans and borrowings	(5)	(5)
	657	**683**
Movement in linked liabilities	(580)	(506)
Net movement in non linked liabilities	16	(51)
Tax charge attributable to the life assurance business	(23)	(31)
Profit for the financial year	**70**	**95**

Actuarial valuations

The Company's assurance liabilities at 31 December 2017 are valued in Notes 18, 19 and 20.

The value of the unit linked financial liabilities is determined using current unit prices multiplied by the number of units attributed to the contract holders at the balance sheet date.

Non-unit linked insurance liabilities are calculated on the basis of recognised actuarial methods, with due regard to the applicable actuarial principles recognised in the European framework for the prudential and financial monitoring of direct life assurance business.

For its Solvency II regulatory balance sheet the Company's technical provisions have been calculated under the principles and methodologies as laid out in the Solvency II Directive, the Delegated Regulations, and the additional guidelines and technical information provided by the European Insurance and Occupational Pensions Authority (EIOPA).

There are a number of differences in the bases, methods and assumptions used in the valuation of technical provisions under the Solvency II basis, and in financial statements. The main differences are set out below. Note 25 of the financial statements reconciles total shareholders' equity with the Solvency Capital Requirement (SCR) under Solvency II.

Minimum reserves

The minimum reserve for any individual policy is zero in the financial statements. However, negative reserves are permitted under Solvency II and will arise where the expected future premiums exceed expected future claims and expenses. In addition, for unit-linked business, there is a negative Best Estimate Liability (BEL), representing the future profits on these contracts. Therefore the total technical provisions under Solvency II are less than the surrender value of the contracts. This is not allowed in the basis for the financial statements.

Risk margin

Only insurance contracts are included in the risk margin calculation for the financial statements, whereas under Solvency II both insurance and investment contracts are captured. Investment contracts in the financial statements are measured under IAS 39 and therefore there is no cost assumed to transfer the investment obligations to a third party.

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

Distributable profits for the year

Description	31 December 2017 €m	Restated[1] 31 December 2016 €m
Profit on ordinary activities before tax	80	108
Tax on profit on ordinary activities	(10)	(13)
Profit on ordinary activities after tax	70	95
Other comprehensive income	4	22
Transfer from non-distributable reserves	62	1
Distributable profit for the year	**136**	**118**

The distributable profit represents a transfer of €136 million (2016 restated: €118 million) from the policyholders' funds to the shareholders' funds. A transfer represents a movement of the own funds within the Company from the life assurance fund to the distributable reserve. The transfer of funds from the life assurance fund is not an indicator of profitability or dividend capacity, but a formal movement of surplus. Dividends can only be paid out of distributable profits, subject to board approval and a satisfactory solvency position.

Capital movements and dividends

Shareholders' funds fell by €46 million (2016 restated: increase €2 million) in the year due to profits after tax of €70 million and a change in the pension fund deficit of €4 million less a dividend payment of €120 million.

In 2017 the Directors authorised the payment of a dividend of €120 million (2016: €115 million) to Bank of Ireland Life Holdings Limited.

Holding company

The Company is a wholly-owned subsidiary of Bank of Ireland Life Holdings Limited which is incorporated in the Republic of Ireland. The ultimate parent company is the Bank of Ireland Group plc which is also incorporated in the Republic of Ireland.

Subsidiaries

The information required by Section 314 of the Companies Act, 2014 is contained in the information provided in note 33 to the financial statements.

In 2011 a receiver was appointed to BSQ Limited, a subsidiary of the Company. BSQ Limited is a special purpose vehicle created to purchase on behalf of policyholders a development known as Beacon South Quarter in Sandyford, Dublin. The acquisition was financed by way of a limited recourse loan from Bank of Ireland. The value of this development has fallen significantly below the loan value and the current income from the development is insufficient to meet interest repayments. As the loan is limited recourse we anticipate, in accordance with the Loan Agreement (subject to formal notification from the Bank), that the assets of BSQ Limited will be liquidated and the proceeds will be retained by the Bank in final discharge of the loan. There has been no change in the status of BSQ Limited during 2017.

Directors and Secretary

The names of persons who were directors at any time since the previous reporting period are set out on page 2. Unless otherwise stated, the Directors served for the entire period. Mick Sweeney resigned from his position of interim Managing Director on 3 July 2017 and Michael Murphy was appointed to the position of Managing Director on 3 July 2017.

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

Directors' and Secretary's interest in shares

The Directors and Secretary of the Company hold no disclosable interests in accordance with section 260 (f) of the Companies Act 2014 and no disclosure is required under section 329 of the Act.

Governance

The Company is subject to requirements of the Central Bank of Ireland's Corporate Governance Requirements for Insurance Undertakings 2015, including the additional requirements for major institutions, as the Company has been so designated by the Central Bank of Ireland. This code imposes minimum core standards upon all insurance undertakings licensed or authorised by the Central Bank of Ireland and additional requirements upon 'High Impact' institutions, so as to ensure that an appropriate and robust corporate governance framework is in place and implemented to reflect the risk and scale of the undertaking. The Company has been designated as a 'High Impact' institution by the Central Bank of Ireland.

Governance structure

The Board has primary responsibility for the system of governance within the Company. The Board has approved a Board Charter and a schedule of matters for which authority is reserved by the Board.

The Board operates the following committees:

- Audit
- Risk
- Investment
- Nomination and Governance
- Remuneration.

Each committee of the Board is subject to Board-approved terms of reference which details the authority delegated to the committee, how it should be exercised and the means by which the committee reports to the Board. The Board delegates executive management of the Company to the Managing Director. The Managing Director's key objective is to manage the business to achieve, and report against, the agreed strategic and business plans subject to the approved Risk Appetite Statement and key policies of the Company.

Working with the senior management team, the Managing Director is responsible to ensure that the objectives of the Company are clear and consistent with the strategic plans through personal objectives and key priorities, and that the appropriate resources and skills are available and applied.

Board of Directors

The Company's Board has primary responsibility for the corporate, management, risk and other governance structures and processes within the Company. The manner in which the Board's business is conducted is set out in the Board Charter, the Memorandum & Articles of Association of the Company, and in the Directors' general duties. Authority is reserved by the Board for certain matters which may not be delegated. Board governance documents are reviewed at a minimum annually.

As noted above, the Company is subject to the requirements of the Central Bank of Ireland's Corporate Governance Requirements for Insurance Undertakings 2015, including those additional requirements for 'High Impact' institutions as the Company has been designated by the Central Bank of Ireland.

This code imposes minimum standards on all insurance undertakings authorised by the Central Bank of Ireland and additional requirements on 'High Impact' institutions so as to ensure that an appropriate and robust corporate governance framework is in place and implemented to reflect the nature of the undertaking's business and its risk profile.

Key responsibilities of the Board members include determining the Company's objectives and strategy, delegating in accordance with relevant corporate governance standards, whilst retaining ultimate responsibility, with clearly defined and documented responsibilities and authorities. The Board is responsible for establishing and maintaining a framework of risk management and internal controls, strategies, policies and procedures that enables the strategic, financial and other risks of the Company to be identified, assessed, measured and reported.

The following table notes the Directors' names, titles and their membership of the Board committees. Details are correct as at 31 December 2017.

Board of Directors (continued)

Director	Category of Director	Date of Appointment	Committee memberships
Pat Healy	Independent Non-executive and Chairman	April 2010 (Appointed Chairman April 2014)	Nomination and Governance, Remuneration
Michael Murphy	Executive Director and Managing Director	July 2017	Investment, Risk
Tony O'Riordan	Executive Director and Chief Financial Officer	January 2017	Investment, Risk
Ashok Gupta	Independent Non-executive	January 2013	Risk (Chair), Audit
Tom Barry	Independent Non-executive	April 2014	Nomination and Governance (Chair), Remuneration (Chair), Audit (Chair), Risk
Éilish Finan	Independent Non-executive	November 2014	Investment (Chair), Audit
Des Crowley	Group Non-executive	November 2009	-
Liam McLoughlin	Group Non-executive	February 2011	Audit, Nomination and Governance, Remuneration
Sean Crowe	Group Non-executive	July 2014	Investment, Risk

Audit committee

The committee has responsibilities relating to the integrity and disclosure of financial and related information, oversight of the effectiveness of internal controls and the Company's relationship with, and expectations of, internal and external auditors. It monitors and reviews the effectiveness of the Company's internal audit function and ensures that it operates in an independent manner. As at 31 December 2017 it also oversaw the compliance function; however this responsibility has subsequently been transferred to the Risk Committee. It monitors the external auditors' independence and objectivity and the effectiveness of the audit process and of the Company's disclosure and reporting policy and processes.

Risk committee

The committee has responsibility for oversight and the provision of advice to the Board on matters including the effectiveness of the Company's systems of risk management in identifying, measuring, aggregating, monitoring, controlling and reporting on its risk profile, taking into account the nature, scale and complexity of the operation of the Company. It has oversight of risk governance, risk appetite, tolerances and limits for current and future risks, risk strategy and material risk exposures and the Own Risk and Solvency Assessment (ORSA) process.

Investment committee

The committee has responsibility for oversight and the provision of advice to the Board on matters including governance in respect of the Company's investments, monitoring of the investments of the Main Fund and the Unit Linked funds, the overall level of investment risk, and the consistency of relevant investments with policyholders' reasonable expectations. It is responsible for the appointment and oversight of investment managers and custodians, in line with the Board's outsourcing policy, and for reviewing investment activity, performance and strategy.

Remuneration committee

The committee has responsibility for oversight and the provision of advice to the Board on matters including the consideration and making of recommendations in respect of remuneration policy for directors, senior management and other employees and framing remuneration policies, giving full consideration to the principles and provisions of the relevant regulatory and corporate governance codes.

Notes:
Following 31 December 2017 the following changes have occurred:
- Liam McLoughlin resigned as a Non-executive Director on 31 January 2018.
- Des Crowley was appointed as a member of the Nomination and Governance and Remuneration Committees on 16 February 2018.

Board of Directors (continued)

Nomination and governance committee

The committee has the responsibility for oversight and provision of advice to the Board for consideration and for making recommendations in respect of nominations to the Board, Board committees and key management positions. It monitors developments in corporate governance, assessing the implications for the Company and advising the Board accordingly. It prepares reports on the effectiveness and performance of the Board.

Fitness and probity

The Central Bank of Ireland's fitness and probity standards apply to all Directors and a number of other key roles within the Company, including those relating to the control functions and specific roles which are designated as Pre-approved Controlled Functions (PCF) and require the advance approval of the Central Bank of Ireland.

Minimum standards of fitness and probity apply to all persons performing the functions covered by the fitness and probity standards, including those requiring the pre-approval of the Central Bank of Ireland in the areas of competence and capability, acting honestly, ethically and with integrity and being financially sound.

The Company has in place a procedure for assessing the fitness and probity of those persons who come within the scope of the Central Bank of Ireland standards. These include the assessment of qualifications, experience, financial soundness, references and a range of due diligence and validation checks.

Those in scope include all persons who effectively run the organisation, including Board members, or who hold key functions in it, and will be applied to any person prior to an appointment to such position. Once appointed, an annual assessment of continuing fitness and probity is carried out.

The Company is also subject to the Central Bank of Ireland's Minimum Competency Code 2011 which covers all employees who are acting in certain specified roles. The code requirements include ongoing continuing professional development requirements. All personnel who fall within the code are also subject to the Company's fitness and probity policy.

Risk management

The Company's risk management framework sets out its approach to understanding and managing the risks to which the Company is subject and to ensuring that all material classes of risk are taken into consideration in the context of the Company's overall strategic objectives and goals.

The Company's core strategic objectives include the protection of its capital and reputation. The acceptance of risk, through the products and services it provides to its customers and the management of the risks to which the Company is subject, are the methods by which the Company achieves its overall objectives and goals.

The objectives of risk management are to enable the Board and management to appropriately identify, assess, measure and report risks as determined by its strategic objectives and goals and subject to any regulatory obligations that apply.

The risk management framework sets out the core elements and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management practices and activities across the Company. It provides a context within which business and risk strategies are considered and developed.

The risk management framework is enabled by people, processes and technology, underpinned by a prudent and balanced risk management culture as articulated through the Risk Appetite Framework and Statement which are approved by the Board.

Risk management function

The risk management function is responsible for maintaining and monitoring the effectiveness of the Company's overall risk management system and for its ongoing development. Its key activities include the following:

- Design of key risk management frameworks and related policies, including processes to identify measure, monitor, manage and report on the entity-wide risks to which the Company is subject.
- Co-ordination of the Company's ORSA process.

Risk management function (continued)

- Preparation and review of the Company's Risk Appetite Framework and Statement.
- Monitoring of the risk management system including oversight and challenge with regard to the effectiveness of its operation.
- Preparation of an annual plan for submission to the Board Risk Committee.

The function is managed by the Chief Risk Officer (CRO) who is a member of the senior management team and reports to the Managing Director. The CRO has right of access to the Board and attends at all Board committee meetings. The CRO also has responsibility for the compliance and legal functions within the Company.

Risk management system

The Board is responsible for the overall risk management system of the Company. It has delegated a number of risk activities to the Board Risk Committee, which in turn has a number of management risk committees reporting into it.

In support of its overall risk strategy, the Company operates a risk governance system based on the three lines of defence model, which provides oversight and assurance to the Board with coverage across the independent control functions.

These control functions, across risk management, compliance, actuarial function and internal audit, have specific responsibilities as part of the overall risk management system.

1st line of defence

The first line of defence consists of front line business functions such as customer service, sales and distribution, product management, information technology, marketing and human resources. Primary responsibility and accountability for risk management lies with these functions. They are responsible for the identification and management of risks that affect the Company at business unit level and to implement appropriate controls and reporting consistent with the Company's risk management framework.

2nd line of defence

The second line of defence consists of the control functions of compliance, risk management and the actuarial function. These functions formulate risk frameworks and policy and provide oversight, monitoring and challenge to the operation of the risk framework within the Company.

3rd line of defence

The third line of defence consists of an independent internal audit function that provides independent, reasonable assurance to key stakeholders on the effectiveness of the Company's risk management and internal control framework. Internal audit carries out risk-based assignments covering the Company's business and functions (including outsourcing providers). Findings are communicated to senior management and other key stakeholders, with remediation plans monitored for progress against agreed completion dates.

The management structures and related committees support the overall risk management system with clear reporting lines for the risk management and control functions.

Risk Strategy and Appetite

The overall risk strategy of the Company is to ensure that all material risks, both current and on a forward-looking basis, are considered in arriving at and maintaining the strategic commercial objectives of the Company and that these objectives are consistent with the approved Risk Appetite Statement of the Company.

The Company is committed to providing a high quality and efficient service and product proposition to its customers and ensuring that the Company keeps to its commitments, while also seeking to protect the interests of its shareholder. The Company pursues an appropriate return for the risks taken and operates within the stated Risk Appetite Statement. In doing so, the Company seeks to be fair to its customers, both new and existing, and to operate a strong risk management framework and risk culture.

The Company has a preference for risks that it understands well and is in a position to manage appropriately and it pursues an appropriate return for the risks taken within the approved Risk Appetite Statement of the Company. It seeks to engender a prudent and balanced risk management approach across the Company and to ensure that its risk management structures are appropriate to the nature, scale and complexity of its business.

Risk Strategy and Appetite (continued)

The Risk Appetite Statement of the Company defines the amount and nature of the risks that the Company is prepared to accept in pursuit of its strategic objectives. In addition, it notes the risks that are accepted in the course of the Company's business activities but which the Company seeks to mitigate, and those risks that the Company seeks to avoid or transfer.

The Risk Appetite Statement of the Company is agreed by the Board in respect of the key risk dimensions that are important for the Company. Risk Appetite is defined in qualitative and quantitative terms within a framework that facilitates monitoring and appropriate action at Board and management levels.

The Risk Appetite Statement of the Company is reviewed at least annually on the advice of the Company's risk management function.

Internal controls

The Company's system of internal control encompasses processes and structures which are intended to provide reasonable assurance to the Board, regarding the achievement of objectives which relate to the following areas:

- Operational effectiveness and efficiency of the company's operations, including operational and financial performance goals and safeguarding assets against loss.
- Financial reporting - availability, timeliness and reliability of financial and non-financial information, and any other requirements or standards to which the company is subject.
- Compliance - adherence to applicable laws and regulations to which the Company is subject.

The system of internal control is an integral part of the overall risk management framework of the company. The risk management framework is broader than internal control and focuses on the identification and management of the full spectrum of risks impacting the Company.

The principal elements of the internal control system are the following:

Governance structures and policies: This encompasses the overall governance structures of the Company through the Board, management and committee structures and as outlined above. It also includes the policies and procedures which set out the manner in which certain risks are managed within the Company.

Risk Assessments: The Company undertakes processes for identifying and assessing risks and their associated controls. This also encompasses the impact of changes to the external environment and within its own business model that may render internal control partially or completely ineffective.

Control activities and functions: The Company has put in place policies and procedures which are designed to help mitigate the identified risks. These encompass activities such as authorisations, reconciliations, management reviews and independent validations. Segregation of duties is built into the selection and development of control activities. The oversight of the internal control system is undertaken by the four key control functions, and further detail on these control functions is set out below.

Reporting: This is the process of providing timely, quality and relevant information to support the components of the internal control system.

Monitoring activities: This is the process of ongoing evaluation to ascertain that the components of the internal control system are present and functioning. Ongoing evaluations are built into business processes in order to provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency. Deficiencies are communicated to management and the Board, as appropriate.

Internal control is overseen across the four key control functions, namely:

- Risk Management function
- Compliance function
- Actuarial function
- Internal Audit function.

The system of internal control is intended to support the Company in achieving its strategic and business objectives, whilst operating within the requirements set out in its key policies and within the laws and regulations which apply. A robust internal control environment enables the Company to deal effectively with changes to the external environment, the needs of key stakeholders including customers, shareholders and regulators and within an evolving business and regulatory landscape.

Statement of Directors' responsibilities

The Directors are responsible for preparing the directors' report and the financial statements in accordance with Irish law. Irish law requires the directors to prepare financial statements for each financial year giving a true and fair view of the Company's assets, liabilities and financial position at the end of the financial year and the profit or loss of the company for the financial year. Under that law the directors have prepared the financial statements in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101, Reduced Disclosure Framework, and promulgated by the Institute of Chartered Accountants in Ireland and Irish law). Under Irish law, the directors shall not approve the financial statements unless they are satisfied that they give a true and fair view of the Company's assets, liabilities and financial position as at the end of the financial year and the profit or loss of the Company for the financial year.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies 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 applicable accounting standards and identify the standards in question, subject to any material departures from those standards being disclosed and explained in the notes to the financial statements;
- notify the company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to:

- correctly record and explain 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; and
- enable the directors to ensure that the financial statements comply with the Companies Act 2014 and enable those financial statements to be audited.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors 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.

Future developments

The Company will continue to monitor market and regulatory developments to ensure that it is sufficiently well placed to meet likely future demands.

Directors' compliance statement

As required by Section 225 of the Companies Act 2014 of Ireland, the directors acknowledge that they are responsible for securing the Company's compliance with its "relevant obligations" (as defined in that legislation). The Directors further confirm that a compliance policy statement has been drawn up, and that appropriate arrangements and structures have been put in place that are, in the Directors' opinion, designed to secure material compliance with the relevant obligations. A review of these arrangements and structures has been conducted in the financial year to which this report relates.

Principal risks and uncertainties

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. Note 25 outlines the range of financial risks facing the Company and the principal techniques the Company uses to mitigate these risks.

Accounting records

The measures taken by the Directors to secure compliance with the Company's obligation to keep adequate accounting records are the use of appropriate systems and procedures and employment of competent persons. The accounting records are kept at 11/12 Dawson Street, Dublin 2.

Political donations

The Directors, on enquiry, have satisfied themselves that there were no political donations made during the year ended 31 December 2017.

Subsequent events

No significant events, affecting the Company or any of its subsidiary undertakings, have occurred since the balance sheet date

Relevant audit information

The Directors in office at the date of this report have each confirmed that, as far as they are aware, there is no relevant audit information of which the Group's auditor is unaware; and they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Independent Auditors

The appointment of KPMG as the company's external auditor will be recommended for approval at a board meeting of the company, subject to which KPMG will conduct the company's audit for the year ended 31 December 2018.

Michael Murphy Director	Tony O'Riordan Director

Date: 24 April 2018

Independent Auditor's Report

Independent auditors' report to the members of New Ireland Assurance Company plc

Report on the financial statements

Our opinion

In our opinion, New Ireland Assurance Company plc's financial statements (the "financial statements"):

- give a true and fair view of the company's assets, liabilities and financial position as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland (accounting standards issued by the Financial Reporting Council of the UK, including Financial Reporting Standard 101, "Reduced Disclosure Framework", and promulgated by the Institute of Chartered Accountants in Ireland and Irish law); and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

We have audited the financial statements, included within the directors' report and financial statements, which comprise:

- the balance sheet as at 31 December 2017;
- the profit and loss account for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) ("ISAs (Ireland)") and applicable law.

Our responsibilities under ISAs (Ireland) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Ireland, which includes IAASA's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by IAASA's Ethical Standard were not provided to the company.

Other than those disclosed in the directors' report and financial statements, we have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

Materiality

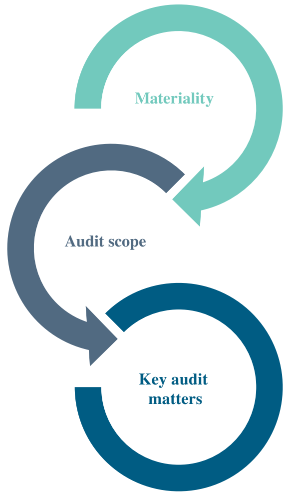
- €5,057,000,000 (2016: €6,200,000) – Based on 5% of profit before tax (5-year average)

Audit scope

- We performed a full scope audit of the company's financial statements, based on materiality levels

Key audit matters

- Appropriateness of the methodologies and assumptions applied in the valuation of the life assurance business provision
- Reasonableness of the model, data and assumptions applied in the determination of the pension deficit
- Existence and valuation of investments



The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, 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, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Appropriateness of the methodologies and assumptions applied in the valuation of the life assurance business provision *Refer to note 1 (page 28), note 20 (pages 42 and 43) and note 25 (pages 50 and 51) to the financial statements* The life assurance business provision is an estimate of the non-linked liabilities payable to policyholders and amounts to €1,973.0 million at 31 December 2017. The life assurance business provision is determined using standard actuarial methodologies and assumptions regarding future mortality, expenses, fund growth and interest rates. We focused on this balance as its calculation basis is complex and involves the use of detailed methodologies, multiple assumptions and significant judgements, which in 2017 included a change in accounting policy.	We evaluated, with the assistance of actuarial specialists, the processes and controls surrounding the selection and determination of the methodologies applied, assumptions used and judgements reached. We assessed and challenged the bases used to set the underlying assumptions (the key assumptions being mortality, expense inflation, fund growth and interest rates) with reference to the business experience, standard industry mortality tables and wider market practice. We assessed the design and operating effectiveness of controls operated by management to first, ensure that actuarial models used to life assurance business provision were reasonable and appropriate, and, second, to determine that authorised changes to the models had been properly applied to them. We assessed the calculations underpinning life assurance business provision which are performed on management's actuarial models by: • checking that the data and the assumptions input into the actuarial models were in agreement with those that we had evaluated; • assessing the reasonableness of the methodologies and assumptions used; and • assessing the output of the calculations including comparison and understanding of how they compare with experience. No matters were noted as a result of these procedures.
Reasonableness of the model, data and assumptions applied in the determination of the retirement benefit obligation *Refer to note 1 (pages 30 and 31) and note 24 (pages 45 to 48) of the financial statements* The company operates a defined benefit pension scheme which has deficit of €60.0 million at 31 December 2017. We focused on this area because the valuation of the pension deficit is complex and requires judgement in choosing appropriate actuarial assumptions. These assumptions can have a material impact on the calculation of the liability.	We considered the reasonableness of the key actuarial assumptions used to determine the defined benefit obligation with the assistance of our pension specialists. We challenged management in relation to the assumptions and methodology applied including benchmarking to external data as appropriate. Because the setting of the assumptions and the calculations relied to a significant extent on the advice of the company's external actuarial experts, we considered their independence and the reports prepared by them for management. We considered the appropriateness of the methodologies and assumptions underlying the pension surplus valuation with the assistance of our pension specialists with particular focus on the discount rate used and the inflation assumptions. We also reconciled the underlying membership and payroll data used to the company's records. We concluded that the methodologies and assumptions adopted were appropriate and that the defined benefit obligation was calculated in accordance with these.

Key audit matter	How our audit addressed the key audit matter
Existence and valuation of investments *Refer to note 1 (pages 28 to 30) and notes 11, 12 and 13 (pages 37 to 39) of the financial statements* Investments amounting to €16,607.0 million included in the balance sheet are held in the company's name at 31 December 2017 and are valued at fair value in line with FRS 101. We focused on this area because it represents the principal element of the financial statements.	We gained an understanding of management's processes and controls relating to financial assets custody and valuation. We tested the effectiveness of management's controls over daily financial asset pricing. We tested the effectiveness of management's custody reconciliation control. We obtained independent confirmation from the custodians of nominal assets holdings at 31 December 2017, agreeing the amounts held to the accounting records. We tested the valuation of the investment portfolio by independently agreeing the valuation of investments to third party vendor sources. No matters were noted as a result of performing these procedures.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality

EUR5,057,000 (2016: EUR6,200,000).

How we determined it

We determined our materiality for the audit of the financial statements using quantitative and qualitative factors. Based on these factors we have selected a 5 year average of profit before tax as an appropriate benchmark for measuring materiality. We applied a 5% rule of thumb.

Rationale for benchmark applied

We have selected this benchmark as, in our view, profit before tax is most appropriate benchmark given the circumstances and the nature of the company's business and is a generally accepted benchmark. In selecting the benchmark we have also given consideration to the key users of the financial statements.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above 5% of overall materiality or EUR252,850 (2016: EUR310,000), as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

In accordance with guidance on the audit of insurers issued by the Financial Reporting Council which is generally accepted in Ireland, we have applied a higher materiality threshold of EUR148.5 million (2016: EUR142.5 million) solely for the purpose of identifying and evaluating the effect of misstatements that are likely only to lead to a reclassification between line items within assets and liabilities.

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 the 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 twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the directors' report and financial statements other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the directors' report, we also considered whether the disclosures required by the Companies Act 2014 have been included.
Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (Ireland) and the Companies Act 2014 require us to also report certain opinions and matters as described below.

In our opinion, based on the work undertaken in the course of the audit, the information given in the directors' report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

Based on our knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities set out on pages 13 and 14, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

A further description of our responsibilities for the audit of the financial statements is located on the Irish Auditing and Accounting Supervisory Authority website at: https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsibilities_for_audit.pdf. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with section 391 of the Companies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

REPORTING ON OTHER INFORMATION

Companies Act 2014 opinions on other matters

- 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.

Companies Act 2014 exception reporting

Directors' remuneration and transactions

Under the Companies Act 2014 we are required to report to you if, in our opinion, the disclosures of directors' remuneration and transactions specified by sections 305 to 312 of that Act have not been made. We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 13 July 1997 to audit the financial statements for the year ended 31 December 1997 and subsequent financial periods. The period of total uninterrupted engagement is 21 years, covering the years ended 31 December 1997 to 31 December 2017.

Paraic Joyce
for and on behalf of PricewaterhouseCoopers
Chartered Accountants and Statutory Audit Firm
Dublin

24 April 2018

Profit and Loss Account

Profit And Loss Account – Technical Account Life Assurance Business
Financial Year Ended 31 December 2017

	Note	31 December 2017 €m	Restated[1] 31 December 2016 €m
Earned premiums, net of reinsurance			
Gross premiums written	2	1,424	1,299
Outward reinsurance premiums		(86)	(80)
		1,338	**1,219**
Income and realised gains on investments	4	905	657
Unrealised (losses) / gains on investments	4	(7)	208
Other technical income, net of reinsurance	5	66	137
Total technical income		**2,302**	**2,221**
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		(1,268)	(1,000)
- reinsurers' share		92	92
		(1,176)	**(908)**
Change in the provision for claims			
- gross amount	19	(22)	(17)
- reinsurers' share	19	2	(3)
		(20)	**(20)**
		(1,196)	**(928)**
Change in technical provisions, net of reinsurance			
Life assurance business provision, net of reinsurance			
- gross amount	19	40	(39)
- reinsurers' share	19	(24)	(12)
		16	(51)
Technical provisions for linked liabilities	18	(822)	(921)
		(806)	**(972)**
Net operating expenses	6	(191)	(177)
Investment charges	4	(11)	(13)
Interest on loans and borrowings	28	(5)	(5)
Tax charge attributable to the life assurance business	9	(23)	(31)
		(230)	**(226)**
Balance on the technical account - life assurance business		**70**	**95**

All the above amounts relate to continuing activities. The notes on pages 25 to 64 form an integral part of these financial statements.

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

Profit And Loss Account – Non-Technical Account
Financial Year Ended 31 December 2017

	Note	31 December 2017 €m	Restated[1] 31 December 2016 €m
Balance on the technical account - life assurance business		70	95
Tax attributable to shareholders' profit		10	13
Profit on ordinary activities before tax		**80**	**108**
Tax on profit on ordinary activities	9	(10)	(13)
Profit for the financial year		**70**	**95**

Statement of Comprehensive Income
Financial Year Ended 31 December 2017

	Note	31 December 2017 €m	Restated[1] 31 December 2016 €m
Profit for the financial year		70	95
Other comprehensive income:			
Items that will not be classified to profit and loss			
Remeasurement of post-employment benefit obligations	24	4	25
Deferred tax related to these items	23	-	(3)
Total comprehensive income for the financial year		**74**	**117**

All the above amounts relate to continuing activities. The notes on pages 25 to 64 form an integral part of these financial statements.

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

Balance Sheet

Assets	Note	As at 31 December 2017 €m	Restated[1] As at 31 December 2016 €m	As at 31 December 2015 €m
Investments				
Land and buildings	11	2	25	22
Assets classified as held for sale		28	-	-
Other financial investments	12	1,729	1,762	1,842
		1,759	**1,787**	**1,864**
Investments for the benefit of life assurance policyholders who bear the investment risk	**13**	**14,848**	**14,251**	**13,702**
Reinsurers' share of technical provisions				
Life assurance business provision	19	740	764	776
Claims outstanding	19	16	14	17
		756	**778**	**793**
Debtors				
Debtors arising out of direct insurance operations				
- policyholders and intermediaries	14	76	60	55
Due from fellow subsidiaries	14	-	2	1
Other debtors	14	7	3	5
		83	**65**	**61**
Other assets				
Tangible assets	15	11	10	5
Deferred taxation	23	8	8	13
Cash at bank		22	11	5
		41	**29**	**23**
Prepayments and accrued income				
Accrued interest		28	33	36
Other prepayments and accrued income		1	1	1
Deferred acquisition costs	16	181	192	206
		210	**226**	**243**
Total assets		**17,697**	**17,136**	**16,686**

All the above amounts relate to continuing activities. The notes on pages 25 to 64 form an integral part of these financial statements.

Michael Murphy
Director

Tony O'Riordan
Director

Date: 24 April 2018

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

Liabilities	Note	As at 31 December 2017 €m	Restated[1] As at 31 December 2016 €m	Restated[1] As at 31 December 2015 €m
Capital and reserves				
Called up share capital - presented as equity	21	23	23	23
Share premium account	21	26	26	26
Capital reserve	21	43	43	43
Non - distributable reserve	21	244	306	307
Profit and loss account	21	89	73	70
Shareholders' funds - equity interests		**425**	**471**	**469**
Technical provisions				
Life assurance business provision	19	1,973	2,013	1,974
Claims outstanding	19	175	153	136
		2,148	**2,166**	**2,110**
Technical provisions for life assurance policies where the investment risk is borne by the policyholders	18	**14,657**	**14,077**	**13,571**
Accruals and deferred income		29	37	49
Deferred taxation	23	5	10	10
Creditors - Amounts falling due within one year				
Creditors arising out of direct insurance operations	17	97	85	74
Due to fellow subsidiaries	17	11	14	13
Bank overdraft	17	28	26	24
Other creditors including tax and social security	17	51	44	59
		187	**169**	**170**
Creditors - Amounts falling due after one year				
Loans and borrowings	28	186	142	203
Total equity and liabilities before pension deficit		17,637	17,072	16,582
Pension deficit	24	60	64	104
Total equity and liabilities		**17,697**	**17,136**	**16,686**

All the above amounts relate to continuing activities. The notes on pages 25 to 64 form an integral part of these financial statements.

Michael Murphy
Director

Tony O'Riordan
Director

Date: 24 April 2018

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

Statement of Changes in Equity

Financial Year Ended 31 December 2017

	Share capital €m	Share premium €m	Capital reserve €m	Non-distribuable reserve €m	Profit and loss account €m	Shareholder's funds €m
Restated[1] balance at 1 January 2016	**23**	**26**	**43**	**307**	**70**	**469**
Retained profit for the financial year	-	-	-	-	95	95
Other comprehensive income for the year	-	-	-	-	22	22
Transfer from non-distributable reserve	-	-	-	(1)	1	-
Dividends paid	-	-	-	-	(115)	(115)
Restated balance at 31 December 2016	**23**	**26**	**43**	**306**	**73**	**471**
Retained profit for the financial year	-	-	-	-	70	70
Other comprehensive income for the year	-	-	-	-	4	4
Transfer from non-distributable reserve	-	-	-	(62)	62	-
Dividends paid	-	-	-	-	(120)	(120)
Balance at 31 December 2017	**23**	**26**	**43**	**244**	**89**	**425**

All the above amounts relate to continuing activities. The notes on pages 25 to 64 form an integral part of these financial statements.

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

Notes to the Financial Statements

1. Accounting policies

Basis of presentation

The financial statements have been prepared on the going concern basis and in accordance with Irish GAAP (accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland and the Companies Act 2014). The financial statements comply with Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101), and the Companies Acts 2014 ('the Act').

The financial statements have been prepared on the historical cost basis, as modified to include the revaluation of land and buildings other financial investments and assets held to cover linked liabilities.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 20.

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in FRS 101 which addresses the financial reporting requirements and disclosure exemptions in the financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101. Note 30 gives details of the Company's parent and from where its consolidated financial statements, prepared in accordance with EU-adopted IFRS, may be obtained.

The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions availed of by the Company in these financial statements.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a cash flow statement and related notes;
- disclosures in respect of transactions with related parties;
- the effects of new but not yet effective IFRSs;
- disclosures in respect of the compensation of key management personnel; and
- the disclosures required by IFRS 13 Fair Value Measurement for non-financial assets only.

The Company has taken advantage of the exemptions from producing consolidated financial statements for the year ended 31 December 2017, since it is a wholly-owned subsidiary undertaking of a parent company that is established under the law of an EEA state, which prepares consolidated financial statements in which the Company and its subsidiaries are included. These financial statements are separate financial statements.

Basis of accounting for long term insurance business

The Company has voluntarily changed its accounting policy for the valuation of insurance contract liabilities.

Previously insurance contract liabilities were calculated in accordance with the guidelines as laid down in the European Communities (Life Assurance) Framework Regulations, 1994 (the 'Insurance Regulations').

In 2017, the Company changed the valuation basis for its insurance contract liabilities to a modified Solvency II basis, with due regard to the actuarial principles laid down in the Insurance and Reinsurance Directive ('Solvency II Directive'). Under the new valuation basis, the Company's financial statements measure insurance contract liabilities on the basis of recognised actuarial methods, with due regard to the applicable actuarial principles recognised in the European Framework for the prudential and financial monitoring of direct life assurance business. The change in accounting policy has been driven by changes in the regulatory reporting requirements and to align the accounting policy more closely with these requirements.

This change in accounting policy has been accounted for retrospectively, as required under IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors and the comparative period has been restated to reflect this change. The effect of this change is explained further in note 29.

Non-distributable reserve

The surplus available for distribution is released from the non-technical reserve and retained in the profit and loss account. All non-distributable amounts in the profit and loss – non-technical account are transferred to the non-distributable reserve.

1. Accounting policies (continued)

Accounting estimates and judgements

(a) ***Front-end fees and acquisition costs***

The Company's critical accounting policies and the application of these policies and estimates are considered by management for each reporting period. In determining the amount of front-end fees and acquisition costs to defer in relation to the Company's investment contracts, judgements must be made in relation to the lives of the contracts and therefore the time period over which these balances are amortised to the profit and loss account. For capital protected products, the Company amortises the amounts over the capital protected period of the policy. For open ended unit linked funds, the expected life of the policy is subject to a high degree of judgement and can change quite significantly over time with changes in investor sentiment and market or product developments. In making an appropriate estimate in each reporting period, management seeks to take account of actual past experience and future expectations, with most weight given to recent experience.

The requirements of IFRS 4, Insurance Contracts are detailed in the risk and capital management note.

(b) ***Defined benefit pension scheme***

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet.

The assumptions reflect historical experience and current trends. See note 24 for the disclosures of the defined benefit pension scheme.

Contract classification

The Company classifies all life assurance products as either insurance or investment contracts for accounting purposes.

The Company issues contracts that transfer insurance risk or financial risk or both. Long-term business contracts issued by the Company fall into the following classes:

- Insurance contracts
- Investment contracts without discretionary participation features
- Unit linked investment contracts

Insurance contracts are contracts under which the Company accepts significant insurance risk from policyholders by agreeing to compensate them if a specified uncertain future event (the insured event) adversely affects them. Insurance contracts transfer significant insurance risk at the inception of the contract. As a general guideline, the Company defines as significant insurance risk, the possibility of having to pay benefits on the occurrence of an insured event that are at least 5% or more than the benefits payable if the insured event did not occur. A contract which exposes the issuer to financial risk without significant insurance risk is not an insurance contract.

Long-term business contracts that are not classified as insurance are deemed to be financial instruments and are classified as investment contracts. Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Unit linked contracts written by the Company where the liability under the contract is dependent on the value of the underlying financial assets; derivatives and investment property are classified as investment contracts unless the contracts also contain features that transfer significant insurance risk.

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. However, investment contracts are reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance contracts

Insurance contracts are accounted for in accordance with IFRS 4.

The Company changed its accounting policy for insurance contracts as permitted by IFRS 4. The change in approach for valuing technical provisions is more relevant and reliable given that the Solvency I regulations were replaced by the Solvency II regulations as of 1 January 2016.

1. Accounting policies (continued)

(a) Premiums

Premiums are recognised as revenue when due for payment. Premiums received in respect of unit linked business are recognised in the same period in which the associated technical provisions are established. Reinsurance premiums are recognised when due for payment.

(b) Claims and surrenders

Maturity claims and annuities are recognised when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the life assurance business provision and / or the technical provision for linked liabilities. Death claims and all other claims are accounted for when notified. A provision is made to reflect risk related claims incurred in the year but which were not notified to the Company at the balance sheet date. Reinsurance claims are recognised at the same time as the policyholders' claim liability.

Claims incurred comprise the settlement and handling costs of claims paid and outstanding claims arising from events occurring during the financial year together with adjustments to prior year claims provisions. All claims are recorded on the basis of notifications received up to the balance sheet date. An estimate of claims incurred but not yet reported is made and recorded within technical provisions and is calculated based upon historical loss reporting patterns. Claims outstanding are not discounted.

Insurance liabilities are calculated in accordance with recognised actuarial principles, based on local regulatory requirements.

(c) Deferred acquisition costs

The costs of acquiring new business which are incurred during the financial year, but where the benefit of such costs will be obtained in subsequent accounting periods, are deferred to the extent that they are recoverable out of margins in future matching revenues. In respect of insurance contracts, acquisition costs comprise all direct and indirect costs incurred in writing new contracts.

Deferred acquisition costs are included in the balance sheet as an asset and are amortised on a straight line basis over a period which is consistent with the assessment of the expected pattern of receipt of future revenue margins for each product type.

Impairment reviews are carried out annually or more frequently if circumstances exist that indicate the likelihood of impairment. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged to the long-term business technical account.

Investment contracts

Premiums and claims on investment contracts are taken directly to the balance sheet where investment contract premiums received are treated as a financial liability and investment contract claims are treated as a reduction in a financial liability. The investment return, the related change in the value of the liabilities, policy fees and expenses relating to investment contracts are recorded in the profit and loss account.

(a) Policy fees

Policy fees comprise fees and charges for administering contracts, investment management fees and an element of origination fees that relates to the current year and are included in 'Other technical income'. Fees are recognised in the period in which they are charged unless they relate to services to be provided in future periods in which case they are deferred and recognised as income over the expected term of the contract as the services are provided. Incremental costs that are directly attributable to securing investment contracts and are expected to be recoverable are deferred and recognised in the balance sheet as deferred acquisition costs. The asset is amortised as the related fees for investment management services are recognised.

(b) Investment contract liabilities

Financial liabilities in respect of investment contracts are carried in the balance sheet as 'investment contracts' in accordance with IAS 39, Financial Instruments: Recognition and Measurement.

(c) Deferred acquisition costs

The costs of acquiring new unit linked investment contracts, including commissions and other incremental expenses directly related to the issuance of each new contract, are deferred and amortised on a straight line basis over the expected contract period. The deferred acquisition costs are tested for recoverability at each reporting date. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged to the long-term business technical account.

1. Accounting policies (continued)

(d) Deferred income liabilities

Fees earned on investment contracts are recognised over the life of the contract as services are provided. Income is deferred for any front end fees which relate to services provided in future periods to the 'deferred income liability'. The deferred income liability is amortised on a straight line basis over the term of that contract.

Technical provisions

(a) Life assurance provisions

The technical provisions relating to term assurance and term critical illness are calculated on the basis of recognised actuarial methods, with due regard to the applicable actuarial principles recognised in the European framework for the prudential and financial monitoring of direct life assurance business.

Tests of adequacy are carried out on the reserves held for group life and disability insurance.

(b) Provisions for linked liabilities

Liabilities under unit linked contracts are recognised when the units are created and are dependent on the value of the underlying financial assets, derivatives and / or investment properties.

Unit linked contracts which transfer significant insurance risk, including guaranteed benefits, are classified as insurance contracts and are carried in the balance sheet at an amount determined by the valuation of the related units on the valuation date. Unit linked contracts which principally involve the transfer of financial risk are classified as investment contracts and are carried in the balance sheet at fair value. The fair value of these financial liabilities is equivalent to the amount payable on demand without penalty.

Financial liabilities

Financial liabilities, which include bank overdrafts, creditors, loans, borrowings and subordinated debt, are recognised at fair value. Other financial liabilities, which relate to unit linked investment contracts are recognised at fair value and are included with 'Technical provision for linked liabilities'.

Commission expenses

Acquisition commissions payable to financial advisors and independent intermediaries are included in acquisition costs in the technical account - long term business, as incurred. Renewal commissions are included in administrative expenses, as incurred.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

Investments

(a) Land and buildings

Freehold and leasehold land and buildings are all investment properties and are valued in accordance with IAS 40, Investment Property.

(b) Investment in subsidiary undertakings and participating interests

IInvestments in subsidiaries and participating interests are stated at cost, unless their value has been impaired, in which case they are valued at their realisable value or value in use, as appropriate. Participating interests are included in the balance sheet at the Company's share of their net assets.

(c) Assets held to cover linked liabilities

Freehold land and buildings held to cover linked liabilities are all investment properties and are valued in accordance with IAS 40.

The value of financial investments held to cover linked liabilities, including debt securities and other fixed income securities, shares (other than shares in subsidiary undertakings) and other variable yield securities, are based on quoted prices. All financial investments held to cover linked liabilities are held at fair value and categorised as fair value through profit or loss.

1. Accounting policies (continued)

(d) Other financial investments

The Company classifies other financial investments into the following classes specified by IAS 39.

- derivative financial instruments held for trading;
- financial assets designated at fair value through profit or loss on initial recognition;
- available-for-sale financial assets; and
- loans and other receivables.

All financial investments are classified as fair value through profit or loss unless they are classified as available-for-sale or loans and other receivables. The classification reflects the purpose for which investments were acquired or originated. Where the fair value category is used, this reflects the Company's strategy to manage its financial investments acquired to cover its long-term liabilities. These financial investments are managed and their performance is evaluated by the Company on a fair value basis.

Purchases and sales of financial investments are recognised on the trade date, the date on which the Company commits to purchase or sell the investments. Such purchases or sales of financial investments are those under a contract whose terms require the delivery of assets within the time frame established generally by regulation or convention in the market place concerned. Financial assets at fair value through profit or loss are initially recognised at fair value, being the consideration paid for the acquisition of the investments, excluding all transaction costs. Thereafter they are carried on the balance sheet at fair value, with all changes in fair value included in the profit and loss account.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value are recognised immediately in the profit and loss account. Fair values are obtained from the quoted market prices in active markets, or using valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets within investments for the benefit of life assurance policyholders who bear the investment risk.

Derivative financial instruments also include foreign exchange contracts, which include spot and forward contracts. These represent agreements to exchange the currency of one country for the currency of another country at an agreed price and settlement date. Gains and losses are recognised in the profit and loss based on the exchange rate on the date of settlement or balance sheet date.

Fair values for investments are based on quoted prices on the balance sheet date, determined from independent sources including recognised external pricing services, broker or dealer price quotations, and prices provided by valuation agents. For investments not listed, valuation techniques are adopted or an independent valuation is obtained from the administration manager of those funds. If no realistic value can be obtained, an investment will be measured at cost less any impairment provision, as this is considered best estimate of fair value.

Loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investments. All transaction costs directly attributable to the acquisition are also included in the cost of the investments. Loans and receivables are included at the amount of the advance outstanding at the balance sheet date, less a provision for any irrecoverable amount. This basis of valuation is viewed by the Directors as having prudent regard to the likely realisable value.

(e) Fair value measurements

Depending on the valuation techniques used and whether the underlying assumptions are based on observable data, financial instruments carried at fair value are classified under the following three levels:

Level 1 - This Category includes assets and liabilities for which fair values are determined directly from unadjusted current quoted prices traded in active markets. Included in level 1 are listed shares, other variable yield securities and units in unit trusts.

Level 2 - This category includes financial assets and liabilities for which fair values are determined using valuation techniques, for which all significant inputs are based on observable market data.

Financial assets and liabilities included in level 2 are shares and other variable yield securities and units in unit trusts. The fair value is based on asset prices obtained from external providers and the Company has limited access to the inputs and assumptions used. The data used by the price providers, as inputs to instrument specific price evaluation models, will include available recent trade data for the specific security or similar securities, spreads, dealer quotes, relevant sector or market indices, foreign exchange rates to the Company's reporting currency where applicable and appropriate interest rates.

1. Accounting policies (continued)

Level 3 - This category includes financial assets and liabilities for which fair values are determined using valuation techniques for which at least one of the significant inputs is not based on observable market data. In circumstances where there is little, if any, market activity for a certain instrument, an internal valuation method is required to be developed based on the best available information.

Financial assets and liabilities included in level 3 are shares in a private equity investment, the fair value of which is evaluated by the Company. The Company has set its valuation technique, discounted cash flow analysis to reflect the expected annual cash flows and the expected repayment of the principal at the end of the term. The cash flows have been discounted using the risk free rate.

The fair value hierarchy is reviewed at the end of each reporting period to determine whether significant transfers between levels have occurred.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised investment gains and losses. It also includes investment expenses and charges and interest payable.

Interest income on debt securities and other fixed income securities, other loans and deposits with credit institutions is recognised using the effective interest method.

The investment return arising in relation to investments which are directly connected with the carrying on of long-term business is recorded in the long-term business technical account. The investment return arising in relation to all other investments is dealt with in the non-technical account.

Dividends are included as investment income on the date that the shares become quoted ex-dividend. Rents and interest income and expenses are included on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and purchase price.

Unrealised gains and losses on investments recognised in the year represent the difference between the fair value at the balance sheet date and their purchase price or, if they have previously been fair valued, their fair value at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Reinsurance

Long-term business ceded to reinsurers is accounted for as insurance contracts provided that significant insurance risk is transferred. Reinsurance premiums are accounted for when due for payment. Reinsurance recoveries are accounted for in the same period as the related claim. The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The reinsurers' share of the technical provisions is calculated on a basis consistent with the calculation of the corresponding liabilities.

Post-employment benefits

The Company operates a defined benefit pension scheme and contributes to a defined contribution pension plan operated by Bank of Ireland Group plc.

The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to shareholders' funds in other comprehensive income in the period in which they arise to the extent that they are attributable to the shareholder.

The amount charged or credited to finance costs is a net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset. Past-service costs are recognised immediately in the profit and loss account.

1. Accounting policies (continued)

Management expenses
Management expenses, administration and non-acquisition costs are charged to the technical account for life assurance business when incurred.

Taxation
The Company is liable to Irish corporation tax on the basis applicable to a life assurance company and the provision for current taxation is charged in the profit and loss account. The Company is also subject to foreign taxation in respect of its overseas investments.

The balance on the long-term business technical account is computed on an after tax basis reflecting the taxation applicable to long-term business operations. In the non-technical account, the balance transferred from the long-term business technical account is grossed-up by the taxation attributable to profits from long term business at the Company's effective rate of corporation tax.

Provision is made for deferred tax liabilities and deferred tax assets, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax is recognised in the profit and loss account for the period, except to the extent that it is attributable to a gain or loss that is recognised directly in the statement of comprehensive income.

Tangible assets
Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to amortise the cost of the assets over the period of their estimated useful lives at the following rates:

Computer equipment	20%-25% straight line
Office equipment	20%-25% straight line

Operating leases
The total payments made under operating leases are charged to the profit and loss account as incurred over the lease term.

Foreign currencies
Items included in the financial statements of the Company are measured using Euro, the functional currency of the economic environment in which the Company operates. Foreign currency transactions are translated into Euro at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account for the period. Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

Dividends
Dividends are recognised when paid.

2. Premiums Written - Contracts Classified As Insurance

A. Gross Premiums Written

	31 December 2017				31 December 2016			
	Individual life €m	Individual pensions €m	Group contracts €m	Total €m	Individual life €m	Individual pensions €m	Group contracts €m	Total €m
Unit-linked	66	108	93	267	68	100	83	251
Non unit-linked	134	1	50	185	129	1	40	170
Periodic premiums	**200**	**109**	**143**	**452**	**197**	**101**	**123**	**421**
Unit-linked	287	615	41	943	281	519	41	841
Non unit-linked	-	29	-	29	-	37	-	37
Single premiums	**287**	**644**	**41**	**972**	**281**	**556**	**41**	**878**
Total premiums written	**487**	**753**	**184**	**1,424**	**478**	**657**	**164**	**1,299**

The written premiums above in 2017 and 2016 arise from contracts which meet the IFRS 4 definition of insurance. All business is written in the Republic of Ireland. The written premiums from insurance contracts is €1,424 million (2016 : €1,299 million). The written premiums from insurance contracts and investment contracts is €1,791 million (2016: €1,671 million).

B. Gross New Business Premiums

	31 December 2017				31 December 2016			
	Individual life €m	Individual pensions €m	Group contracts €m	Total €m	Individual life €m	Individual pensions €m	Group contracts €m	Total €m
Unit-linked	4	42	40	86	4	36	23	63
Non unit-linked	14	-	15	29	15	-	4	19
Periodic premiums	**18**	**42**	**55**	**115**	**19**	**36**	**27**	**82**
Unit-linked	287	615	41	943	281	519	41	841
Non unit-linked	-	29	-	29	-	37	-	37
Single premiums	**287**	**644**	**41**	**972**	**281**	**556**	**41**	**878**
Total premiums written	**305**	**686**	**96**	**1,087**	**300**	**592**	**68**	**960**

The new business premiums above in 2017 and 2016 arise from contracts which meet the IFRS 4 definition of insurance. New business premiums from insurance contracts is €1,087 million (2016: €960 million). New business premiums from insurance contracts and investment contracts is €1,372 million (2016: €1,278 million).

C. Reinsurance Balance

The net reinsurance debit in the technical account for the year amounted to €84 million (2016: €3 million debit).

3. Staff Costs

	31 December 2017 €m	31 December 2016 €m
Wages and salaries	37	37
Social insurance costs	4	4
Defined benefit retirement benefit costs (note 24)	7	(8)
Defined benefit retirement benefit curtailment gains	-	(1)
Defined contribution retirement benefit costs	1	1
	49	**33**
The average number of employees during the year was as follows:		
Sales and marketing	119	140
Policy administration	280	295
Other administration	221	200
	620	**635**

Included in wages and salaries are sales commission payments to staff of €1 million (2016: €2 million). All staff costs have been treated as an expense in the profit and loss account and there were no staff costs capitalised as part of tangible fixed assets.

4. Investment Income

	31 December 2017 €m	31 December 2016 €m
Income from land and buildings	36	35
Income from listed investments	198	225
Income from other investments	25	38
	259	**298**
Net gains on realisation of investments	646	359
	905	**657**
Investment Activity Report		
Investment income	259	298
Investment management expenses	(11)	(13)
Net realised gains	646	359
Net unrealised losses / gains	(7)	208
Interest payable on financial liabilities	(5)	(5)
Total investment return	**882**	**847**
Included in the total investment return are net gains or losses on financial assets at fair value through the profit and loss		
Designated at fair value through profit and loss (FVTPL)	646	359
Net unrealised (losses) / gains	(7)	208
Total realised and unrealised gains included in investment return	**639**	**567**

None of the investment income is derived from investments in any other group undertakings of Bank of Ireland Life Holdings Limited, the Company's immediate parent.

4. Investment Income (continued)

Income from investment properties includes rental income of €44 million (2016: €44 million) and is net of property expenses of €8 million (2016: €8 million).

All of the net gains and losses arising on investments during the year are in respect of property and financial investments, classified at fair value through profit or loss. Included in the investment activity report is €639 million (2016: €567 million) in respect of assets designated as fair value through profit or loss on initial recognition.

The investment return arising in relation to investments which are directly connected with the carrying on of long-term business is credited to the long-term business technical account. This investment return arises both on investments of the long-term business funds and investments attributable to the shareholder.

5. Other Technical Income, Net of Reinsurance

Other technical income of €66 million (2016: €137 million) comprises fees for policy administration and asset management services arising from unit linked investment contracts and movement in the deferred income liability.

6. Net Operating Expenses

	31 December 2017 €m	31 December 2016 €m
Net operating expenses comprise:		
Acquisition expenses	67	64
Change in deferred acquisition costs	11	14
Administrative expenses	113	99
	191	**177**
Net operating expenses include:		
Commission payments (including to employees)	85	83
Other sales related costs	3	3
Operating lease rentals (land and buildings)	1	1
Depreciation	2	2
Core operating expenses	89	75
Non-core costs	-	(1)
Change in deferred acquisition costs	11	14
Total operating expenses	**191**	**177**

Acquisition expenses include an allocation of commission on new business and operating expenses relating to the acquisition of new business. Comparative values have been restated to reflect the impact of reclassification of expenses.

Non-core costs in 2016 reflect the impact of changes to pension cost due to members leaving the Company under a voluntary severance scheme before retirement age.

7. Commissions

Total commissions incurred by the Company during the year, excluding payments to employees, was €84 million (2016: €80 million).

8. Profit On Ordinary Activities Before Taxation

This is stated after charging	31 December 2017 €m	31 December 2016 €m
Depreciation	2	2
Operating lease rentals other	-	-
Operating lease rentals property	1	1
Auditors' remuneration		
Remuneration (including expenses) for the statutory audit and other services carried out for the company by the company's auditors is as follows :		
- Audit of entity financial statements	-	-
- Other assurance services	-	-
- Tax advisory services	-	-
- Other non-audit services	-	-
Total auditors' remuneration	**-**	**-**

Total auditors' remuneration incurred by the Company during the year was €0.6 million (2016: €0.5 million), €0.3 million (2016: €0.3 million) for the audit of entity financial statements and €0.3 million (2016: €0.2 million) for other audit related assurance services.

9. Tax on Profit on Ordinary Activities

	31 December 2017 €m	31 December 2016 €m
Technical account charge		
Corporation tax charge for the year	15	18
Relief for double taxation	(1)	(1)
Overseas tax	13	13
Prior year under provision	1	-
	28	**30**
Deferred tax charge (note 23): origination and reversal of timing differences	(5)	1
	23	**31**
Non-technical account charge		
Irish corporation tax on profits for the financial year	10	13

The tax charge on the non-technical account for 2017 and 2016 is the same as the charge that would result from applying the standard rate of Irish corporation tax to profit on ordinary activities. The statutory rate applied to profit before tax is 12.5%.

9. Tax on Profit on Ordinary Activities (continued)

Reconciliation of tax on the profit before taxation at the standard Irish corporation tax rate to actual tax charge:

	31 December 2017 €m	31 December 2016 €m
Profit before tax		
Balance on the technical account - life assurance business	70	95
Add back tax charge attributable to the life assurance business	23	31
	93	**126**
Profit before tax multiplied by the rate of Irish corporation		
tax for the year of 12.5% (2016: 12.5%)	12	16
Effects of:		
Overseas tax	13	13
Non-taxable items	3	4
Relief for double taxation	(1)	(1)
Foreign tax deduction	(2)	(2)
Other deductions	(1)	(1)
Difference due to life assurance tax rate	(2)	2
Prior year under provision	1	-
Tax charge attributable to the life assurance business	**23**	**31**

10. Dividend

	31 December 2017 €	31 December 2016 €
Dividend paid	120,000,000	115,000,000
No of shares	175,500,001	175,500,001

A dividend of €0.684 (2016: €0.655) per share was paid during the year.

11. Land and Buildings

	31 December 2017		31 December 2016	
	Fair value €m	Cost €m	Fair value €m	Cost €m
Investment properties	-	-	-	-
Owner occupied properties	2	1	25	10
	2	**1**	**25**	**10**
Freehold				
Investment properties	-	-	-	-
Owner occupied properties	2	1	2	1
	2	**1**	**2**	**1**
Leasehold				
Investment properties	-	-	-	-
Owner occupied properties	-	-	23	9
	-	**-**	**23**	**9**
Total land and buildings	**2**	**1**	**25**	**10**
Assets classified as held for sale - Leasehold				
Investment properties	-	-	-	-
Owner occupied properties	28	9	-	-
Total assets classified as held for sale	**28**	**9**	**-**	**-**

Analysis of movement on land and buildings and assets classified as held for sale.

Movement in Land and Buildings

	31 December 2017				31 December 2016			
	Investment fair value €m	Owner occupied fair value €m	Assets classified as held for sale fair value €m	Total fair value €m	Investment fair value €m	Owner occupied fair value €m	Assets classified as held for sale fair value €m	Total fair value €m
Balance at 1 January	-	25	-	25	-	22	-	22
Additions and improvements	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Reclassifications	-	(28)	28	-	-	-	-	-
Net gains from fair value adjustments	-	5	-	5	-	3	-	3
Balance at 31 December	**-**	**25**	**25**	**-**	**-**	**25**	**-**	**25**

Land and buildings are stated in the balance sheet at fair value. Movements in fair value are included in the total investment return. Valuations were made on the basis of open market value. The open market value of all properties was determined using recent market prices. All properties are located in Ireland.

The valuations have been undertaken by Lisney (Chartered Surveyors) in Ireland at a valuation date of 31 December 2017, in accordance with The Statements of Asset Valuation Practice and Guidance Notes issued by the Society of Chartered Surveyors in Ireland.

Property interests held under operating leases are not classified and accounted for as investment property.

11. Land and Buildings (continued)

The investment property does not generate rental income and there are no direct operating expenses arising from the investment property.

There are no restrictions in place on the realisibility of investment property.

There was no rental income generated from land and buildings and direct operating expenses of €2 million (2016: €2 million) arose on these land and buildings.

The Company is in the process of disposing of its head office building in Dublin. This asset has been reclassified from land and buildings to assets classified as held for sale and is held at fair value less costs to sell. The disposal is expected to be completed in 2018.

12. Other Financial Investments

	31 December 2017		31 December 2016	
	Fair value €m	Cost €m	Fair value €m	Cost €m
Financial assets at fair value through profit and loss				
Designated upon initial recognition	1,593	1,382	1,624	1,377
Deposits with credit institutions	136	136	138	138
Total financial assets	**1,729**	**1,518**	**1,762**	**1,515**
Included in the balance sheet as follows:				
Shares and other variable yield securities				
- Unit trusts	75	75	80	81
- Unlisted securities	17	17	17	17
Debt securities and other fixed income securities	1,501	1,290	1,527	1,279
Deposits with credit institutions	136	136	138	138
	1,729	**1,518**	**1,762**	**1,515**

	31 December 2017		31 December 2016	
	Fair value €m	Cost €m	Fair value €m	Cost €m
Listed investments included at fair value				
Debt securities and other fixed income securities	1,501	1,290	1,527	1,279
Shares and other variable yield securities	75	75	80	81
	1,576	**1,365**	**1,607**	**1,360**
Other financial investments attributable to the shareholder include:				
Shares and other variable yield securities	17	17	17	17
Deposits with credit institutions	136	136	138	138
	153	**153**	**155**	**155**
Total	**1,729**	**1,518**	**1,762**	**1,515**

12. Other Financial Investments (continued)

Derivative financial instruments, at fair value through profit or loss

Included within listed investments are forward currency contracts with a fair value gain of €0.2 million (2016: €1 million loss). Movements in fair value arise due to variations in exchange rates prevailing at the dates on which contracts mature and are reflected in the profit and loss account. Gains for the year on foreign currency contracts amounted to €1 million (2016: €2 million loss).

13. Investments for the benefit of life assurance policyholders who bear the Investment Risk

	31 December 2017		31 December 2016	
	Fair value €m	Cost €m	Fair value €m	Cost €m
Assets held to cover:				
Unit linked insurance contracts	9,078	8,354	8,602	7,918
Unit linked investment contracts	5,770	5,310	5,649	5,200
	14,848	**13,664**	**14,251**	**13,118**

The carrying amounts disclosed above reasonably approximate the fair value at the balance sheet date. The market value of these assets, where the investment risk is borne by the policyholders, includes €2,674 million (2016: €2,431 million) in respect of group pension funds.

The difference between assets held to cover linked liabilities and the associated technical provisions, net of the reinsurers' share of technical provisions for linked liabilities, primarily represents amounts in respect of income tax and other charges which are not disclosed explicitly as linked liabilities in the Company's balance sheet.

Derivative financial instruments, at fair value through profit or loss, held for trading

Included within assets held to cover linked liabilities are forward currency contracts with a fair value loss of €7 million (2016: €5 million gain). Movements in fair value arise due to variations in exchange rates prevailing at the dates on which contracts mature and are reflected in the profit and loss account. Losses for the year on foreign currency contracts amounted to €12 million (2016: €18 million gain).

14. Debtors

	31 December 2017 €m	31 December 2016 €m
Debtors arising out of direct insurance operations		
Policyholders	59	42
Intermediaries	17	18
	76	**60**
Due from fellow subsidiaries	-	2
Other debtors	7	3
	83	**65**

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date. There were no impairment losses recognised in the period on debtors arising from direct insurance operations. Amounts due from fellow subsidiaries are unsecured, interest free and have no fixed date of repayment.

15. Tangible Assets

	31 December 2017			31 December 2016		
	Computer equipment €m	Office equipment €m	Total €m	Computer equipment €m	Office equipment €m	Total €m
Cost						
At 1 January	95	1	96	88	1	89
Additions	3	-	3	7	-	7
Disposals and adjustments	-	-	-	-	-	-
At 31 December	**98**	**1**	**99**	**95**	**1**	**96**
Accumulated Depreciation						
At 1 January	(86)	-	(86)	(84)	-	(84)
Charge for the year	(2)	-	(2)	(2)	-	(2)
Disposals and adjustments	-	-	-	-	-	-
At 31 December	**(88)**	**-**	**(88)**	**(86)**	**-**	**(86)**
Net Book Amounts						
31 December	10	1	11	9	1	10

16. Deferred Acquisition Costs

	31 December 2017 €m	31 December 2016 €m
Deferred expenses at 1 January	192	206
Acquisition expenses incurred during the year	67	64
Charged to the technical account	(6)	(6)
Apportionment for the year	253	264
Amortisation of prior year acquisition expenses	(72)	(72)
Deferred expenses at 31 December	**181**	**192**
On insurance contracts	164	169
On investment contracts	7	23
	181	192

Acquisition expenses include an allocation of commission on new business and operating expenses relating to the acquisition of new business. Comparative values have been restated to reflect the impact of reclassification of expenses.

17. Other Creditors Including Taxation and Social Insurance

	31 December 2017 €m	31 December 2016 €m
Creditors arising out of direct insurance operations	97	85
Due to fellow subsidiaries	11	14
Bank overdraft	28	26
Other creditors including tax and social security		
Taxation and social security		
- PAYE	7	6
- PRSI	1	1
- VAT	1	1
- Corporation tax	-	2
Government duties and levies	28	24
Other	14	10
	51	**44**
Total creditors	**187**	**169**

Creditors arising out of direct insurance operations and other creditors including taxation and social insurance are current and are repayable within the next 12 months. The bank overdraft is payable on demand and amounts due to fellow subsidiaries are unsecured, interest free and have no fixed date of repayment.

18. Actuarial Valuation and Unit Linked Liabilities

An actuarial valuation of the Company's liabilities, carried out at 31 December 2017 disclosed a surplus within the fund. The amount of surplus applied to meet the total cost of policyholders' bonus was €0.2 million (2016: €0.3 million). The shareholders' share of the distributed surplus was €136 million (2016 restated[1]: €118 million).

The technical provisions relating to insurance and investment contracts are:

	31 December 2017			31 December 2016		
	Unit-linked investment contracts €m	Unit-linked insurance contracts €m	Total €m	Unit-linked investment contracts €m	Unit-linked insurance contracts €m	Total €m
At 1 January	5,647	8,430	14,077	5,729	7,842	13,571
Deposits received from policyholders under investment contracts	367	-	367	372	-	372
Payments made to policyholders of, and fees deducted from investment contracts	(547)	-	(547)	(654)	-	(654)
Gross policy fees	(62)	-	(62)	(133)	-	(133)
Change in technical provision as shown in the technical account	361	461	822	333	588	921
At 31 December	**5,766**	**8,891**	**14,657**	**5,647**	**8,430**	**14,077**

The market value of investments held to cover linked liabilities was €14,848 million (2016: €14,251 million). The cost of investments held to cover linked liabilities was €13,664 million (2016: €13,118 million).

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

18. Actuarial Valuation and Unit Linked Liabilities (continued)

Financial liabilities in respect of unit linked contracts designated as investment are carried on the balance sheet at fair value. The related fair value of these financial liabilities is €5,766 million (2016: €5,647 million), which is equivalent to the amount payable under the contracts.

The difference between assets held to cover linked liabilities and the associated technical provisions, net of the reinsurers' share of technical provisions for linked liabilities, primarily represents amounts in respect of income tax and other charges which are not disclosed explicitly as linked liabilities in the Company's balance sheet.

19. Policyholders Liability

	31 December 2017		Restated[1] 31 December 2016	
	Life Assurance Provision €m	Claims Outstanding €m	Life Assurance Provision €m	Claims Outstanding €m
Gross				
At 1 January	2,013	153	1,974	136
Change in technical provision	(40)	22	39	17
At 31 December	**1,973**	**175**	**2,013**	**153**
Reinsurers share				
At 1 January	(764)	(14)	(776)	(17)
Change in technical provision	24	(2)	12	3
At 31 December	**(740)**	**(16)**	**(764)**	**(14)**
Net Amount				
At 31 December	1,233	159	1,249	139

20. Technical Provisions

Unit linked Contracts

Technical provisions for linked liabilities are determined by reference to the value of assets held to provide linked benefits to the relevant policyholders. Additional technical provisions arising in respect of linked contracts are held within the life assurance business provision.

The principal assumptions used in the calculation of the technical provision for linked liabilities are set out below:

	31 December 2017 €m	Restated[1] 31 December 2016 €m
Mortality table		
Unit Linked Pensions	100% AM00/AF00	100% AM00/AF00
Unit Linked Life	100% AM00/AF00	100% AM00/AF00
Expense Inflation	**3.5% p.a**	**3.5% p.a**

Interest Rate

The interest rates are set in accordance with Solvency II regulations. They are based on the Euro Swap Curve with credit risk adjustment, extrapolated to the ultimate forward rate of 4.2% from year 20.

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

20. Technical Provisions (continued)

Life Assurance Provision

The principal assumptions used in the calculation of the technical provisions for the life assurance provision are set out below.

	31 December 2017 €m	Restated[1] 31 December 2016 €m
Mortality table		
Industrial assurance	90% A1967 - 70 + 1	90% A1967 - 70 + 1
Non profit life assurance	70% AM00/AF00	70% AM00/AF00
Life Choice	60% AM00/AF00	60% AM00/AF00
Pension immediate annuity	100% PMA08 CMI Improvements LTR/2.0%	110% PMA00 MC/2.0%
Expense Inflation		
Industrial assurance	3.5%	3.5%
Non profit life assurance	3.5%	3.5%
Pension immediate annuity	3.5%	3.5%
Renewal Expenses		
Industrial Assurance	25% of each premium with no inflation	25% of each premium with no inflation
	30% of each premium inflating	30% of each premium inflating
Non-linked Protection	€86	€85
LifeChoice	€86	€85
Pension immediate annuity	€105	€75

Interest Rate

Interest rate is set in accordance with Solvency II regulations. It is based on the Euro Swap Curve with credit risk adjustment, extrapolated to the ultimate forward rate of 4.2% from year 20.

Unit growth rate

Unit growth rate is based on the forward rates derived from the same term structure as the Solvency II Discount Rate.

Expenses

Expense loadings are based on an assessment of the expected cost of administering existing contracts including allowance for future inflation.

Explicit provision is made in the life assurance provision for vested reversionary bonuses and a level of future bonus. Included in the life assurance provision is an amount of €2 million (2016: €2 million) for terminal bonuses.

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

21. Capital and Reserves

Called up share capital

	31 December 2017 €m	31 December 2016 €m
Authorised		
200,000,000 ordinary shares of 13 cents each (2016 : 200,000,000)	26	26
Issued and fully paid - presented as equity		
175,500,001 ordinary shares of 13 cents each (2016 : 175,500,001)	23	23

Share premium account

This reserve includes the authorisation and issue of 1 ordinary share of €0.13 in 2011 to Bank of Ireland Life Holdings Limited (the immediate parent company) in consideration for the sum of €25 million.

Capital reserve

This reserve represents capital contributions received from Bank of Ireland Life Holdings Limited (the immediate parent company) with no obligation to repay. The directors consider the capital reserve to be unencumbered and form part of the Company's own funds.

Non-distributable reserve

This reserve represents the non-distributable amounts in the profit and loss - non technical account which are not available for distribution.

Profit and loss account

This reserve represents the surplus which is available for distribution as determined by the Board on the advice of the Head of Actuarial Function. This surplus is released from the non-technical reserve and retained in the profit and loss account.

Distributable reserves

At 31 December 2017 there were distributable reserves of €89 million (2016 restated: €73 million).

22. Directors' Remuneration

	31 December 2017 €m	31 December 2016 €m
Fees	-	-
Salaries for management services	1	1
Contributions to retirement benefit schemes		
- Defined benefit scheme	-	-
- Defined contribution scheme	-	-
	1	1

At 31 December 2017, there are no retirement benefits accruing to the Directors under a defined benefit scheme or a defined contribution scheme. In 2016, retirement benefits were accruing to three Directors under a defined benefit scheme and one Director under a defined contribution scheme.

23. Provision for Other Risks and Charges - Deferred Taxation

	31 December 2017 €m	31 December 2016 €m
Deferred taxation 1 January	(2)	2
Net change for the year - pensions	-	(3)
Net change for the year - origination and reversal of timing differences	5	(1)
Deferred taxation at 31 December	**3**	**(2)**
The provision for deferred taxation comprises:		
Pension deficit	8	8
Unrealised gains on investments	(4)	(10)
Other timing differences	(1)	-
Deferred taxation at 31 December	**3**	**(2)**
Represented on the balance sheet as follows:		
Deferred taxation asset	8	8
Deferred taxation liability	(5)	(10)
	3	**(2)**

24. Pension Costs

The Company operates a group defined benefit pension scheme, which is closed to new members and covers the majority of the Company's employees. The assets of the scheme are held in separate trustee administered fund. The pension cost is assessed in accordance with the advice of an independent actuary using the Projected Unit Credit method.

The latest actuarial assessment of the New Ireland Assurance pension scheme was at 31 March 2016. At the date of the latest actuarial valuation, the market value of the scheme's assets was €217.3 million and the actuarial value of the assets was less than the accrued liabilities based on current earnings, and was equivalent to 90% of the liabilities allowing for expected future increases in earnings.

An assessment of the Funding Standard and Funding Standard Reserve position was completed at 31 December 2017 and it confirmed the Fund met the Funding Standard and the Funding Standard Reserve at that date.

The actuarial report is available for inspection by members of the scheme, but not for public inspection. No contributions are outstanding at the year end.

The following are the major assumptions used by the actuary in the calculation of the amounts recognised in the financial statements.

	31 December 2017 €m	31 December 2016 €m
Inflation	1.65%	1.55%
Salary increases	2.15%	2.05%
Pension payment increases	0.90%	0.85%
Pension increases for deferred benefits	1.60%	1.50%
Discount rate	2.10%	2.20%

The assumption for price inflation is set by reference to the European Central Bank inflation target for Eurozone countries.

The discount rate at 31 December 2017 has been determined with reference to market yields at the balance sheet date on high quality corporate bonds (AA rated or equivalent) of a duration appropriate to the scheme.

24. Pension Costs (continued)

The annual expenses which relate to active members are recorded within the service cost. The impact is not material.

Mortality assumptions

The mortality assumptions adopted for pension arrangements reflect both a base table and projected table developed from various Society of Actuaries in Ireland and mortality investigations that are considered a best fit for the Company's expected future mortality experience.

Mortality life expectancy	31 December 2017	31 December 2016
	Males	Females
Longevity at age 60 for members currently aged 60 years	27	27
Longevity at age 60 for members currently aged 40 years	30	30
	Females	Females
Longevity at age 60 for members currently aged 60 years	29	29
Longevity at age 60 for members currently aged 40 years	31	31

The sensitivity of overall pension liability to changes in the weighted principle assumptions is:

Factors		Change in assumption	Impact on scheme liabilities €m
Discount rate	0.25% decrease	17	16
Rate of inflation	0.10% decrease	(5)	(4)
Rate of salary increase	0.10% decrease	(2)	(2)
Rate of pension increase	0.10% decrease	(4)	(3)
Life expectancy	1 year decrease	(10)	(9)
Discount rate	0.25% increase	(16)	(15)
Rate of inflation	0.10% increase	5	4
Rate of salary increase	0.10% increase	2	2
Rate of pension increase	0.10% increase	4	4
Life expectancy	1 year decrease	10	9

The balance recognised in the balance sheet is:

	31 December 2017 €m	31 December 2016 €m
Actuarial value of liabilities	(314)	(303)
Fair value of scheme assets	254	239
Deficit in scheme	**(60)**	**(64)**

24. Pension Costs (continued)

The reconciliation of the movements to the balance sheet is:

	31 December 2017 €m	31 December 2016 €m
Deficit at 1 January	(64)	(104)
Employer contributions	7	7
Net benefit expense for period	(7)	8
Actuarial gain	4	25
Deficit at 31 December	**(60)**	**(64)**

The following discloses the changes in the scheme's liabilities:

	31 December 2017 €m	31 December 2016 €m
Scheme liabilities at 1 January	303	324
Employer service cost	5	6
Interest cost	7	7
Scheme participants contribution	1	1
Actuarial loss / (gain)	9	(8)
Benefits paid	(11)	(10)
Past service cost - planned amendments	-	(16)
Past service cost - curtailments	-	(1)
Scheme liabilities at 31 December	**314**	**303**

The following discloses the changes in the scheme's assets:

	31 December 2017 €m	31 December 2016 €m
Scheme assets at 1 January	239	220
Actual return on assets	18	21
Employer contribution	7	7
Scheme participants contribution	1	1
Benefits paid	(11)	(10)
Scheme assets at 31 December	**254**	**239**

24. Pension Costs (continued)

The major categories of plan assets as a percentage of total plan assets are as follows:

	31 December 2017 €m	31 December 2016 €m
Equities	65%	62%
Fixed Interest	23%	24%
Property	11%	10%
Cash	1%	4%

The assets do not include any of New Ireland Assurance Company plc own financial instruments or any direct property holding occupied by New Ireland Assurance Company plc.

Analysis of amounts recognised in the profit and loss	31 December 2017 €m	31 December 2016 €m
Expected return on scheme assets	5	4
Less interest on scheme liabilities	(7)	(7)
Employer service cost	(5)	(6)
Past service cost - planned amendments	-	16
Past service cost - curtailments	-	1
Total charge to Profit and Loss (note 3)	**(7)**	**8**

Analysis of amounts recognised in statement of comprehensive income	31 December 2017 €m	31 December 2016 €m
Gains on assets	13	17
Decrease in liabilities	2	12
Change in assumptions	(11)	(4)
	4	**25**

The total estimated charge to the profit and loss account for 2018 is €7 million. Expected employer contributions for the year ended 31 December 2018 are €7 million. Expected employee contributions for the year ended 31 December 2018 are €1 million.

25. Risk and Capital Management

Risk management objectives

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from non-linked insurance policies as they fall due. The most important components of this financial risk are insurance risk, interest rate risk, equity risk, liquidity risk and credit risk.

The principal technique of the Company's Asset Liability management policy is to match assets to the non-linked liabilities by reference to the type of benefits payable to contract holders. The Company invests in a portfolio of sovereign and corporate bonds to match these liabilities. The Company is exposed to market risk on this business to the extent that the discounted value of the liabilities differs from the market value of the assets.

The Company has not changed the processes used to manage its risks from previous periods.

The investment return on assets backing unit linked liabilities flows directly to the policyholders and they bear the investment risk on these assets. There is little in the way of options in the portfolio. Where guarantees have been granted (typically a minimum return of the amount invested), these guarantees have been provided by Bank of Ireland Global Markets.

The following tables reconcile the balance sheet (excluding capital and reserves) to each distinct category of liability:

	31 December 2017			Restated[1] 31 December 2016		
Classification at 31 December 2017	Unit linked contracts €m	Non-linked / other contracts €m	Total €m	Unit linked contracts €m	Non-linked / other contracts €m	Total €m
Shares and other variable yield securities and units in unit trusts at fair value through the profit and loss						
- Listed securities and unit trusts	10,755	75	10,830	9,253	80	9,333
- Unlisted securities	322	17	339	397	17	414
Debt securities and other fixed income securities at fair value through profit and loss						
- Listed	1,719	1,526	3,245	1,926	1,555	3,481
Derivative financial instruments at FVTPL	645	-	645	1,052	-	1,052
Deposits and cash balances	490	158	648	747	149	896
Property	912	30	942	864	25	889
Reinsurance assets	-	756	756	-	778	778
Other assets	5	287	292	12	281	293
Total assets	**14,848**	**2,849**	**17,697**	**14,251**	**2,885**	**17,136**
Long term business provision	-	1,973	1,973	-	2,013	2,013
Claims outstanding	-	175	175	-	153	153
Technical provisions for linked liabilities	14,657	-	14,657	14,077	-	14,077
Deposits received from reinsurers	-	25	25	-	19	19
Loans and borrowings	-	214	214	-	168	168
Provisions for other risks and charges	-	5	5	-	10	10
Other liabilities	191	32	223	174	51	225
Total liabilities	**14,848**	**2,424**	**17,272**	**14,251**	**2,414**	**16,665**

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

25. Risk and Capital Management (continued)

Insurance Risk

Insurance risk is the risk of unexpected variation in the amount or timing of claims. The Company currently writes life insurance business which results in material exposures to the following risks:

- Mortality – the risk of deviations in the timing and amounts of claims due to the incidence of death.
- Longevity – the risk of deviations in the timing and amounts of claims due to increasing life expectancy.
- Morbidity – the risk of deviations in the timing and amount of claims due to the incidence of disability and sickness.
- Lapse – the risk that policies are surrendered earlier than expected resulting in the Company losing a future income stream.
- Expense – the risk of deviations in timing and amount of expenses incurred within the business.

The management of insurance risk is the responsibility of the Board of the Company. Responsibilities delegated by the Board to the Reinsurance Committee include completing a review of the reinsurance arrangements at least annually and reporting on this review to the Board Risk Committee.

This includes a review of the panel of reinsurers that may be used and the optimal structure of the reinsurance arrangements. The Reinsurance Committee comprises senior members of the management team with actuarial and underwriting expertise.

The Company mitigates the potential impact of insurance risk through a number of measures. These include reinsurance, underwriting, contract design and diversification.

The Company manages insurance risk by underwriting protection new business at the application stage, claims management and the use of reinsurance. This involves reviewing medical information supplied on the application form and may involve the collection and review of further medical information, or requirement for a medical examination. Depending on this review applications may be accepted on standard terms, enhanced terms or declined.

The Company has in place a regular monitoring system which reports on the mortality and morbidity experience of the business. This is used to help determine the rates at which new business is accepted. The Company also transacts insurance contracts where risk rates charged under policies can be reviewed and hence alter in line with emerging experience.

Lapse risk is the risk that a greater than anticipated number of policies cease paying premiums or surrender from the Company. The Company derives income from the management fees, premium charges and other cash flows from its contracts. When a higher number of policies lapse than anticipated, there will be a negative impact on the profit of the year.

The table below shows the composition of policyholder liabilities and reserves by product type for all contracts, net of reinsurance. This illustrates the relative level of insurance risk the Company is exposed to.

	31 December 2017		Restated[1] 31 December 2016	
Class of business	**Policyholders liabilities and reserves %**	**Sum assured %**	**Policyholders liabilities and reserves %**	**Sum assured %**
Pension				
Linked	57%	21%	55%	20%
Non linked (non profit)	0%	0%	0%	0%
With profits	0%	0%	0%	0%
Annuities	9%	0%	10%	0%
Life				
Linked	32%	30%	33%	33%
Non linked (non profit)	2%	49%	2%	47%
With profits	0%	0%	0%	0%
Annuities	0%	0%	0%	0%
100%	100%	100%	100%	

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

25. Risk and Capital Management (continued)

The total sum at risk, net of reinsurance, is €27,781 million (2016 restated[1]: €26,883 million).

Market Risk

Market Risk is the risk of loss arising from movements in market prices. Market risk arises from the structure of the balance sheet and the Company's mix of business. The Company accepts and mitigates significant exposure to market risk. The main areas of market risk to which the Company is exposed are as follows:

- Interest rate risk – the risk of loss arising from a change to actual or expected interest rates. The prevailing interest rates will be a significant factor in determining the value of the Company's obligations as well as the expected income that will be generated from investments.
- Spread risk – the risk of loss arising from the yield on a bond increasing, resulting in a fall in the bond's value, without an equal increase in the benchmark interest rate. Bonds are a core investment asset for the Company.
- Equity and property risk – the risk of loss associated with falling equity or property values. This may arise from assets held directly by the Company or as a result of lower fees which are linked to the value of customers' investments in these assets.
- Currency risk – the risk of loss associated with a change in currency values.
- Concentration and contagion risk – the risk that the Company is overly reliant on a single counterparty or that the Company's counterparties are interrelated such that significant losses arising from a single counterparty are unlikely to occur in isolation.

(a) Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition to the extent that the present value of future claim costs are related to interest rates, liabilities to policyholders are exposed to interest rate risk. Insurance contracts may have benefit payments that are fixed and guaranteed at the inception of the contract. The financial component of these benefits can be a guaranteed fixed interest rate (for the insurance contracts, this rate may apply to maturity and/or death benefits) and hence the Company's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities is insufficient to fund the guaranteed benefits payable. The Company monitors interest rate risk by calculating the mean duration of the investment portfolio and of the liabilities to policyholders under insurance contracts. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The mean duration of the liabilities is determined by projecting expected cash flows from the contracts using prudent estimates of mortality and voluntary terminations. This is calculated in a consistent manner with the prior year. Any gap between the mean duration of the assets and the estimated mean duration of the liabilities is minimised by buying and selling fixed interest securities of different durations.

The Company invests in sovereign and corporate bonds of appropriate term to secure the promised benefits. The Company is not exposed to stock market movements on this business. As a result typical interest rate movements are matched by equivalent movements in liabilities. To the extent however, that interest rate movements are risk related, this will have an impact on the Company's capital position.

The sovereign bonds are diversified between Irish, French, Belgian, Italian and Austrian bonds. The corporate bonds are predominantly made up of a portfolio in excess of 100 different bonds and there is maximum exposure to any issuer of 5%. The fund is spread across a number of different countries (according to countries of risk). There is also a spread among industries but the guidelines explicitly exclude any investment in bank bonds as a way of diversifying from the Company's sovereign risk exposure. Asset backed securities are also excluded from this fund.

Information about the maturity dates for those financial assets and/or liabilities exposed to significant interest rate risk is an indicator of the sensitivity of the financial assets and/or liabilities to changes in current interest rates. The maturity profiles of debt securities and other fixed-income securities and deposits with credit institutions are set out in the tables below.

Debt securities and other fixed-income securities maturity schedule	**31 December 2017 €m**	**31 December 2016 €m**
Within one year	37	28
More than one year - within five years	145	125
More than five years - within ten years	347	363
More than ten years	997	1,039
Total	**1,526**	**1,555**

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

25. Risk and Capital Management (continued)

The fair values of debt securities through profit and loss are shown by contract maturity. Actual maturities may differ from contractual maturities because certain borrowers have the right to call or pre-pay certain obligations with or without call or pre-payment penalties.

Deposits with credit institutions maturity information	31 December 2017 €m	31 December 2016 €m
Within one year	158	142
More than one year - within five years	-	7
More than five years - within ten years	-	-
More than ten years	-	-
Total	**158**	**149**

A maturity analysis for unit linked investment contracts amounting to €14,848 million (2016: €14,251 million) has not been produced as policyholders can generally surrender their contracts at any time, at which point the underlying unit linked assets would be liquidated. Risks from the liquidation of unit linked assets are largely borne by the policyholders of unit linked contracts.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. Management monitors the sensitivity of interest rate movements by assessing the expected changes in the different portfolios due to parallel movements of 50 basis points in all yield curves.

The following table demonstrates the sensitivity to a possible change in interest rates, with all other variables held constant, of the Company's profit and net assets.

Impact on Profit and Net Assets	31 December 2017 €m	Restated[1] 31 December 2016 €m
Increase in yield curve +50 bps	(13.0)	(6.8)
Decrease in yield curve – 50bps	10.4	5.8

The above sensitivities do not include any impact in respect of the Company's pension schemes.

(b) Equity and Property price Risk

This is the risk of loss associated with falling equity or property values and it arises from assets held directly by the Company or in the main as a result of lower fees which are linked to the value of customer's investments in these assets. The Company indirectly derives income from management fees arising from the value of funds under management. A 5% increase in equity markets half way through the year will increase profits in that year by €1.7 million (2016: €1.7 million).

(c) Currency Risk

The Company does not bear any currency risk directly – this is borne by the policyholders. All assets held to match non linked liabilities are denominated in Euro.The Company indirectly derives income from management fees arising from the value of funds under management. A 5% movement in exchange rates half way through the year will change profits in that year by €1.2 million (2016: €1.0 million).

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

25. Risk and Capital Management (continued)

Liquidity Risk

Liquidity risk is the risk that the Company, though solvent, experiences difficulty in meeting its obligations as they fall due. The Company maintains and regularly updates its strategy with respect to liquidity risk.

The Company is exposed to daily calls on its available cash resources mainly from claims arising from non linked insurance contracts. The Company invests an amount in short-term cash deposits as a liquidity buffer which can be redeemed at short notice. The liquidity balance is monitored on a daily basis to ensure that this amount is sufficient, allowing for inflows and outflows.

The Company also manages its liquidity risk by adopting a policy of matching assets and liabilities. Of the financial assets at fair value through profit or loss, €14 billion (2016: €13 billion) are listed on recognised exchanges and are regularly traded and therefore these financial assets could be realised on demand if required to cover liabilities under insurance and investment contracts which, due to surrender options, could be payable on demand.

Where structured products are issued, the Company will ensure that the policy conditions state that the policyholder can only surrender the policy at the end of the term, and that the value will be equal to the amount received by the Company from the maturing asset. Early surrenders are not usually permitted.

As part of the regular annuity matching exercise referred to under Market Risk, the cash flows from assets and liabilities are projected into the future to identify mismatches which could result in a liquidity strain.

Maturities of financial liabilities

	Demand €m	0-3 mths €m	3-12 mths €m	1-5 years €m	+5 years €m	Total €m
31 December 2017						
Financial liabilities under investment contract	5,766	-	-	-	-	5,766
Due to fellow subsidiaries	-	11	-	-	-	11
Creditors and accruals	-	160	-	-	-	160
Bank overdraft	-	28	-	-	-	28
Loans and borrowings	-	-	2	-	184	186
Total	**5,766**	**199**	**2**	**-**	**184**	**6,151**

	Demand €m	0-3 mths €m	3-12 mths €m	1-5 years €m	+5 years €m	Total €m
31 December 2016						
Financial liabilities under investment contract	5,647	-	-	-	-	5,647
Due to fellow subsidiaries	-	14	-	-	-	14
Creditors and accruals	-	139	-	-	-	139
Bank overdraft	-	26	-	-	-	26
Loans and borrowings	-	-	39	23	80	142
Total	**5,647**	**179**	**39**	**23**	**80**	**5,968**

25. Risk and Capital Management (continued)

Credit Risk

Credit Risk is the risk of loss resulting from a counterparty being unable to meet its contractual obligations to the Company in respect of loans or other financial transactions. The Company does not actively seek credit risk. However, exposures are accepted for a number of reasons. The main reasons are as follows:

- Credit risk which is accepted as a residual risk arising from strategies employed to reduce other risks, reinsurance for example.
- Credit risk arising from an investment in assets for an acceptable rate of return.
- Credit risk which is unavoidable, but short term in nature, arising from the day-to-day operation of the business, overnight bank exposure for example.

Key areas where the Company is exposed to credit risk are:

- amounts due from insurance intermediaries;
- amounts due from sovereign and corporate bond issuers;
- amounts due from insurance contract holders;
- amounts on deposit with other credit institutions:
- reinsurers' share of insurance liabilities; and,
- amounts due from reinsurers in respect of claims already paid.

The Company manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty or groups of counterparties. Such risks are subject to regular review.

The Company has a material credit risk exposure to a number of reinsurance companies. Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder. The credit quality of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract.

In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. An analysis of reinsurers by Standard & Poor's rating (or equivalent) is produced periodically.

A concentration of credit risk can also arise through the Company's reinsurance arrangements where the Company has a large exposure to a single counterparty. This credit exposure is mitigated by collateralisation agreements where the Company has access to assets which would compensate the Company should the reinsurer fail to meet its obligations. Reinsurance in respect of annuity business is on a collateralised basis.

The Company uses a panel of highly rated reinsurance companies to diversify credit risk and the credit risk policy requires that the suitability of new counterparties is reviewed and approved prior to engagement. The Company also operates a Reinsurance Committee which reports to the Risk Committee at least annually and in addition on material items as they arise. Inter alia, the Committee considers retention levels across the business lines, the credit rating of the reinsurance companies and the extent of our exposure to each reinsurance company.

The assets bearing credit risk are summarised below:

	31 December 2017			Restated[1] 31 December 2016		
	Unit linked contracts €m	**Non-linked / other contracts €m**	**Total €m**	**Unit linked contracts €m**	**Non-linked / other contracts €m**	**Total €m**
Debt securities and other fixed income securities at fair value through profit and loss						
- Listed	1,719	1,526	3,245	1,926	1,555	3,481
Derivative financial instruments, at FVTPL	645	-	645	1,052	-	1,052
Deposits and cash balances	490	158	648	747	149	896
Reinsurance assets	-	756	756	-	778	778
Total	**2,854**	**2,440**	**5,294**	**3,725**	**2,482**	**6,207**

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

25. Risk and Capital Management (continued)

An analysis of the credit rating of assets bearing credit risk which includes the reinsurance asset, Irish sovereign bonds, Euro sovereign bonds, corporate bonds and cash deposits are shown below:

	Unit Linked Contracts		Non-linked / Other Contracts	
Class of business	31 December 2017 €m	31 December 2016 €m	31 December 2017 €m	Restated[1] 31 December 2016 €m
AAA	332	537	8	4
AA+	122	137	214	220
AA	392	569	574	589
AA -	4	17	751	776
A+	480	415	437	438
A	349	66	89	76
A -	31	195	96	121
BBB+	385	281	74	72
BBB	759	1,506	182	123
BBB-	-	2	14	57
BB+	-	-	1	6
BB	-	-	-	-
BB-	-	-	-	-
	2,854	**3,725**	**2,440**	**2,482**

No credit limits were exceeded during the period. No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

The Company maintains strict control limits on open derivative positions, by both amount and term. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

Sensitivity to an increase in credit spreads is shown in the table below.

Impact on Profit and Net Assets	31 December 2017 €m	Restated[1] 31 December 2016 €m
Credit spreads +0.50%	(69.5)	(25.9)

Unit linked contracts

For unit–linked contracts the Company matches all the liabilities with assets in the portfolio on which the unit prices are based. Therefore there is no interest, price, currency or credit risk attaching to these assets for the Company as all risk is borne by the policyholder. However the Company does carry the reputational risk of managing these amounts on behalf of policyholders and receives investment management fees based on the unit linked assets under management. The Company therefore has an indirect exposure to the performance of world equity markets. The amount related to unit linked contracts included in the assets bearing credit risk was €15 billion (2016: €14 billion).

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Company faces operational risks in the normal pursuit of its business objectives. By its nature, operational risk cannot be fully eliminated; however the Company has established a formal approach to the management of operational risk in the form of an Operational Risk Management Framework. which defines the Company's approach to identifying, assessing, managing, monitoring and reporting the operational risks which may impact the achievement of the Company's business objectives.

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

25. Risk and Capital Management (continued)

Fair Value Hierarchy

The table below shows, for the Company's financial assets and liabilities that are recognised and measured at fair value, their classification within a three – level fair value hierarchy.

Level 1 comprises financial assets and liabilities valued using quoted market prices in active markets. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

Level 2 comprises financial assets and liabilities valued using techniques based significantly on observable market data.

Level 3 comprises financial assets and liabilities valued using techniques where the impact of non observable market data is significant in determining the fair value of the instrument. Non observable market data is not readily available in an active market due to market illiquidity or complexity of the product. These inputs are generally determined based on observable inputs of a similar nature, or analytical techniques.

	31 December 2017				31 December 2016			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets held at fair value								
Equities and unit trusts	10,830	322	17	11,169	9,333	397	17	9,747
Debt securities	3,245	-	-	3,245	3,481	-	-	3,481
Derivative instruments	-	645	-	645	-	1,052	-	1,052
Non-financial assets held at fair value								
Investment property	-	-	912	912	-	-	864	864
Owner occupied property	-	-	2	2	-	-	25	25
Assets classified as held for sale	-	-	28	28	-	-	-	-
	14,075	**967**	**959**	**16,001**	**12,814**	**1,449**	**906**	**15,169**
Financial liabilities held at fair value								
Under insurance contracts	-	8,891	-	8,891	-	8,430	-	8,430
Under investment contracts	-	5,766	-	5,766	-	5,647	-	5,647
	-	**14,657**	**-**	**14,657**	**-**	**14,077**	**-**	**14,077**

Movements in Level 3 assets

31 December 2017	Equities and unit trusts €m	Investment property €m	Owner occupied property €m	Assets classified as held for sale €m	Total €m
Opening balance	17	864	25	-	906
Investment gains	-	31	5	-	36
Additions	-	74	-	-	74
Disposals	-	(57)	-	-	(57)
Reclassification	-	-	(28)	28	-
Closing Balance	**17**	**912**	**2**	**28**	**959**

25. Risk and Capital Management (continued)

31 December 2016	Equities and unit trusts €m	Investment property €m	Owner occupied property €m	Total €m
Opening balance	17	841	22	880
Investment (losses) / gains	-	(28)	3	(25)
Additions	-	65	-	65
Disposals	-	(14)	-	(14)
Reclassification	-	-	-	-
Closing Balance	**17**	**864**	**25**	**906**

The key assumptions driving the valuation of the level 3 investments are:

Equities

Equities are valued using discounted cash flow analysis, to reflect the expected annual coupon on the investment and the expected repayment of the principal at the end of the fixed term of the investment. The cash flows have been discounted using the risk free rate (the 10 year government bond rate). Using reasonable possible alternative assumptions would not have a material impact on the value of this asset.

Investment properties

Investment properties are carried at fair value as determined by external qualified property surveyors appropriate to the properties held. Fair values have been calculated using current trends in the market of property sales and rental yields in the retail, office and industrial property markets (level 2 inputs). Other inputs take into consideration occupancy rate forecasts, sales price expectations and letting prospects (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. All properties are valued based on highest and best use.

Owner occupied property and assets classified as held for sale

A revaluation of the Company's owner occupied property was carried out as at 31 December 2017. All freehold and long leasehold properties were valued by Lisney as external valuers. Lisney valuations were made on the basis of observable inputs such as comparable lettings and sales (level 2 inputs). Unobservable inputs such as profile, lot size, layout and presentation of accommodation are also used (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. All properties are valued based on highest and best use.

Capital Management

The new, harmonised EU-wide regulatory risk-based prudential regime for insurance companies, known as Solvency II, came into force with effect from 1 January 2016.

The regime requires new reporting and public disclosure arrangements to be put in place by insurance entities including the publication of certain information on the entity's public website.

The Solvency II Directive is commonly referred to as containing the following three pillars:
Pillar 1 contains mechanisms and requirements for the calculation by insurance companies of their minimum capital requirements for the risks to which the company is subject.

Pillar 2 is intended to ensure that each insurance company has sound internal processes with regard to its overall system of governance and risk management, the adequacy of the capital it holds, and also includes rules with regard to the supervision of these companies. Risks not considered under Pillar 1 are considered under this Pillar.

Pillar 3 is intended to complement Pillar 1 and Pillar 2. It requires that insurance companies disclose information on the application of Solvency II requirements, particularly covering capital requirements, risk exposures and risk management systems.

25. Risk and Capital Management (continued)

Solvency II requires companies to hold a risk-based Solvency Capital Requirement (SCR) which is calculated by considering the capital required for the company to withstand a number of severe scenarios. The SCR is calibrated to withstand a 1-in-200 year scenario over the next 12 months. Both the quantum of each of the shocks and the correlation factors applied are set out by the European Insurance and Occupational Pensions Authority (EIOPA).

Available capital resources

The table below sets out the total shareholders' equity compared to the excess own funds.

	31 December 2017 €m	Restated[1] 31 December 2016 €m
Total shareholders' equity	**425**	477
Adjustments to regulatory basis :		
Differences in technical provisions (net of reinsurance)	530	490
Deferred acquisition costs / deferred income liability	(164)	(171)
Asset valuation adjustments	(10)	(9)
Deferred taxation	(45)	(43)
Subordinated debt	160	80
Total eligible own funds to meet SCR	**896**	**824**
Solvency Capital Requirement (SCR)	(583)	(544)
Excess own funds	**313**	**280**
Ratio of eligible own funds to meet SCR	**154%**	**152%**

The Company's total eligible own funds under Solvency II are €896 million (2016: €824). This is a combination of the excess of assets over liabilities of €736 million (2016: €744 million), which is Tier 1 capital and the subordinated debt, of €160 million (2016: €80 million), which is a Tier 2 capital instrument.

The Company performs the calculations for its financial statements on a different basis to Solvency II. The above table shows the difference between the shareholder equity, which is shown in the financial statements, and the excess of assets over liabilities valued under Solvency II regulations.

A description of the elements of the changes is given below:

- The key difference between the financial statements and the Solvency II balance sheet is the calculation of the technical provisions net of reassurance. The minimum reserve for any policy is zero in the financial statements while it is permitted to have negative reserves under Solvency II. Allowing for these differences gives a positive difference of €530 million (2016 restated: €493 million) allowing for reinsurance
- There is a deferred acquisition costs asset and a deferred income liability in the financial statements, neither of which are allowable under Solvency II. Removing the deferred acquisition costs asset and a deferred income liability leads to a reduction of €164 million (2016: €171 million).
- There is a larger deferred tax liability of some €45 million (2016: €43 million), reflecting the larger net assets under Solvency II.
- There is also a small difference in asset valuations of €10 million (2016: €9 million). This is the value of software in the financial statements which has a nil value for Solvency purposes.

The net excess of assets over liabilities is €313 million (2016 restated: €280 million).

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

25. Risk and Capital Management (continued)

Capital resource sensitivities

The Company carries out regular assessments of the projected future solvency position, under a number of different scenarios, which are documented in the Own Risk and Solvency Assessment (ORSA) Report. This report is made available to the Central Bank of Ireland. As part of this report, a projection of the Company's solvency position over the next five years is documented. This report has confirmed the strength of the Company's capital position and the resilience of this capital position under the stress tests examined. An examination of the risks to which the Company is exposed, and the steps we have taken to mitigate these risks, are set out below.

Market risk

The Company's capital position is relatively insensitive to market movements as the bulk of our liabilities are unit linked with policyholders bearing the investment risk. Non-linked liabilities are closely matched by sovereign and corporate bonds of appropriate duration. The Company's free assets are mainly held in cash, short-term sovereign and corporate bonds and a combination of risk managed funds. To the extent that yield increases on the sovereign and corporate bonds are risk related this represents a market risk for the Company.

The Company's pension scheme contains an exposure to market risk which can impact on the capital position of the Company.

Insurance risk

The Company uses reinsurance to mitigate the impact of mortality and morbidity risks. Our current policy is to reinsure up to 90% of new guaranteed protection business, to reinsure only a small part of flexible protection unit linked contracts and to reinsure 75% of new income protection business.

Credit risk

The Company uses a number of different reinsurance companies of appropriate financial strength in managing its life assurance business. The Company's asset liability matching policy includes significant holdings of corporate bonds and sovereign debt of a number of Euro zone countries. The most significant holding of sovereign debt is French sovereign debt.

Options & Guarantees

The Company has a very limited range of options and guarantees in its business portfolio as the bulk of the business is unit linked without investment guarantees. Where investment guarantees have been given on unit linked business, they have been fully hedged.

The Company has not granted guaranteed annuity options on any of its business.

26. Future Capital Commitments Not Provided For

	31 December 2017 €m	31 December 2016 €m
Authorised but not contracted	2	1
Contracted	1	2

The future capital commitments not provided for in the financial statements relate to the infrastructure improvements underway to enhance and improve the customer offering.

27. Other Financial Commitments

At 31 December 2017 the Company had total commitments under non-cancellable operating leases of €5 million (2016: €5 million). The leases are due to expire as follows:

	31 December 2017 €m	31 December 2016 €m
Total		
Within one year	1	1
More than one year - within five years	3	3
More than five years	1	1
	5	**5**
Property		
Within one year	1	1
More than one year - within five years	3	3
More than five years	1	1
	5	**5**
Other		
Within one year	-	-
More than one year - within five years	-	-
More than five years	-	-
	-	**-**

28. Loans and Borrowings

In 2014, the Company issued a subordinated debt of €80 million to the Governor and Company of the Bank of Ireland at a fixed rate up to the first call date in 2019. The subordinated debt terms include mandatory interest payments to the note holder, a step up in the rate charged after a defined period and a block on dividend payments to shareholders whilst any interest repayments are outstanding. The interest rate is fixed at 4.9% per annum until 29 July 2019 (the first reset date).

The Company issued a further €80 million of subordinated debt to the Governor and Company of the Bank of Ireland on 30 November 2017. The annual rate of interest on this debt is 4%.

The Company and an external third party executed a Financial Reassurance agreement whereby the Company received ceding commission of €120 million secured against a defined block of the in force book of business. Under the agreement, the Company has an obligation to repay the ceding commission along with a risk premium over the term of agreement but the obligation is contingent on the surpluses arising from the defined portion of the value of in force emerging in the future. The risk premium was set at 1.75% in 2014. The first repayment of ceding commission was made in 2016 and the second payment of ceding commission was made in 2017. The outstanding ceding commission at 31 December 2017 is €24 million (2016: €60 million).

Analysis of loans and borrowings	31 December 2017 €m	31 December 2016 €m
Financial reinsurance	24	60
Subordinated debt	162	82
	186	**142**

28. Loans and Borrowings (continued)

Movement in loans and borrowings	31 December 2017 Financial reinsurance €m	31 December 2017 Sub-ordinated debt €m	31 December 2017 Total €m	31 December 2016 Financial reinsurance €m	31 December 2016 Sub-ordinated debt €m	31 December 2016 Total €m
Year ended 31 December						
At 1 January	60	82	142	121	82	203
Loan issued	-	80	80	(60)	-	(60)
Loan repaid	(36)	-	(36)	(36)	-	(36)
Interest charged	1	4	5	1	4	5
Interest paid	(1)	(4)	(5)	(2)	(4)	(5)
At 31 December	**24**	**162**	**186**	**60**	**82**	**142**

29. Impact of Change in Life Assurance Accounting Policy

As outlined in the voluntary changes in accounting policy on page 25 the Company has changed its accounting policy for the valuation of insurance contract liabilities. This change in accounting policy has been accounted for retrospectively as required under IA8 and the comparative periods have been restated to reflect this change. The effect of the change is explained in this note.

Impact of the restatement on the relevant financial statement line items for year ended 31 December 2016	Previously reported €m	Impact of change in policy €m	Restated[1] €m
Technical Account - Life Assurance Business (selected lines)			
Change in technical provisions, net of reinsurance			
- gross amount	56	(95)	(39)
- reinsurers' share	(93)	81	(12)
Total technical account - life assurance business	(958)	(14)	(972)
Balance on the technical account - life assurance business	109	(14)	95
Non-Technical Account (selected lines)			
Profit on ordinary activities before tax	124	(16)	108
Tax on profit on ordinary activities	(15)	2	(13)
Profit for the financial year	109	(14)	95
Statement of comprehensive income (selected lines)			
Profit for the financial year	109	(14)	95
Total comprehensive income for the financial year	131	(14)	117
Balance sheet (selected lines)			
Assets			
Life assurance business provision	1,230	(466	764
Reinsurers' share of technical provisions	1,244	(466)	778
Total assets	17,602	(466)	17,136

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

29. Impact of Change in Life Assurance Accounting Policy (continued)

Impact of the restatement on the relevant financial statement line items for year ended 31 December 2016	Previously reported €m	Impact of change in policy €m	Restated[1] €m
Liabilities			
Life assurance business provision	2,488	(475)	2,013
Technical provisions	2,641	(475)	2,166
Total equiry and liabilities before pension deficit	17,538	(466)	17,072
Total equity and liabilities	17,602	(466)	17,136
Capital and reserves			
Non - distributable reserve	297	9	306
Shareholders' funds - equity interests	462	9	471
Total capital and reserves	462	9	471

Impact of the restatement on the balance sheet as at 1 January 2016	Previously reported €m	Impact of change in policy €m	Restated[1] €m
Assets			
Life assurance business provision	1,323	(547)	776
Reinsurers' share of technical provisions	1,340	(547)	793
Total assets	17,233	(547)	16,686
Liabilities			
Life assurance business provision	2,544	(570)	1,974
Technical provisions	2,680	(570)	2,110
Total equiry and liabilities before pension deficit	17,129	(547)	16,582
Total equity and liabilities	17,233	(547)	16,686
Capital and reserves			
Non - distributable reserve	284	23	307
Shareholders' funds - equity interests	446	23	469
Total capital and reserves	446	23	469

30. Holding Company

The Company is a wholly-owned subsidiary of Bank of Ireland Life Holdings Limited which is incorporated in the Republic of Ireland. The Company's immediate parent company is Bank of Ireland Life Holdings Limited.The Company's ultimate parent company is the Bank of Ireland Group plc which is also incorporated in the Republic of Ireland. The Bank of Ireland Group plc is the holding company of the largest and smallest group of undertakings for which group financial statements are drawn up and of which the Company is a member. Copies of the group financial statements of the Bank of Ireland Group plc are available from Bank of Ireland, 40 Mespil Road, Dublin 4.

[1] As outlined in the Company accounting policies on page 25, comparative figures have been restated to reflect the impact of the voluntary change of accounting policy.

31. Related Party Transactions

The Company has taken advantage of an exemption from IAS 24 Related Party Disclosures not to disclose transactions with Group undertakings.

No contract of significance existed at any time during the year in which a director or key manager was materially interested or which requires disclosures as a related transaction as defined under IAS 24.

32. Subsequent Events

No significant events which require disclosure or adjustment to the financial statements, affecting the Company or any of its subsidiary undertakings, have occurred since the balance sheet date.

33. Subsidiaries

	Nature of Business	Percentage Owned	Country
General Investment Trust DAC	Pension Trustee Company	100%	Ireland
Leopardstown Offices Management Limited	Property Company	100%	Ireland
Weesperplein 6 Holding BV	Holding Company	100%	Netherlands
Weesperplein 6 BV	Property Company	100%	Netherlands
Life Fund Syndication Holding BV	Holding Company	100%	Netherlands
Life Fund Syndication BV	Property Company	100%	Netherlands
SCI Jupiter Immeuble	Property Company	100%	France
SCI Immeuble Saint George	Property Company	100%	France
SCI Sang Rouge	Property Company	100%	France
BSQ Limited	Property Company	100%	reland
New Ireland Real Estate France	Property Company	100%	France
Liquidated 19 December 2017			
Noisy Le Grand Paris SARL	Holding Company	100%	Luxembourg
Rue Saint George SARL	Holding Company	100%	Luxembourg
Les Borromees SARL	Holding Company	100%	Luxembourg

General Investment Trust DAC is a company whose sole purpose is the provision of trustee services to trust-based pension funds.

The other companies are vehicles with respect to property funds. The special purpose property investment companies are set up to hold investments property. The value of the companies and their underlying assets, and any changes in that value, is wholly attributable to policyholders.

In 2017, the creation of a new company, New Ireland Real Estate France was approved by the regulator in France (AMF) and was successfully established. This company is also a vehicle in respect to property funds. New Ireland Real Estate France holds all existing French subsidiaries, is 100% owned by the Company's existing Dutch subsidiary Weesperplein 6 Holding BV and there were no property acquisitions or disposals in the period.

Following the establishment of the new French subsidiary, the Luxembourg entities are no longer required and entered liquidation on the 19th December 2017.

The registered office of General Investment Trust DAC is situated at 11-12 Dawson Street, Dublin 2.

The registered office of Leopardstown Offices Management Limited is situated at Bank of Ireland, 40 Mespil Road, Dublin 4.

The registered office of the Netherlands subsidiaries is TMF Group, Luna ArenA, Herikerbergweg 238, 1101 CM Amsterdam P.O. Box 23393, 1100 DW Amsterdam.

The registered office of the French subsidiaries is Grandite & Ardoise, 4 Rue Cambon, 75001, Paris.

33. Subsidiaries (continued)

The Company's investment in these subsidiaries consists of ordinary shares.

BSQ Limited is in receivership with KPMG Dublin. EY have been selected to act as liquidator and steps are being taken to ensure the solvent liquidation can commence once the receivership has finished.

34. Approval of Financial Statements

The financial statements were approved by the Directors on 24 April 2018.