New Ireland Assurance Company plc

Directors' Report and Financial Statements

Financial Year Ended 31 December 2016

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2016

DIRECTORS AND OTHER INFORMATION

CHAIRMAN	Pat Healy
DIRECTORS	Tom Barry Sean Casey (resigned 31 March 2016) Sean Crowe Des Crowley Eilish Finan Ashok Gupta Denis Kelleher Liam McLoughlin Tony O'Riordan (appointed 9 January 2017) David Roberts David Swanton (resigned 1 November 2016) Mick Sweeney (Managing Director interim)
SECRETARY	Peter Gray (resigned 7 April 2017) Hill Wilson Secretarial Limited (appointed 7 April 2017)
REGISTERED OFFICE	11 – 12 Dawson Street Dublin 2.
HEAD OF ACTUARIAL FUNCTION	Shane Fahey FSAI
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 Financial Statements of New Ireland Assurance Company plc (the ‘Company’) for the year ended 31 December 2016.

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

The Company has in excess of €16 billion in assets under management and it is well positioned to benefit from the growing investment and pension market.

The Company performed well in 2016 in a competitive and challenging environment for the Irish life insurance industry.

Features of the Company and its business follow:

- The Company has an excellent distribution network across three core channels made up of the Bank of Ireland Group’s branch network, independent financial brokers and its own tied 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 strong 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 mean that the underlying individual investment and protection needs of the working population will continue to grow. Market volatility and continued low interest rates have had an adverse impact on the single premium life market during the year. Our pension business however had a more positive trend with the addition of new schemes and new members to existing schemes.

- The current low interest rate environment along with recent market volatility has resulted in a challenging year for the business. New business levels were 10% lower than the previous year, with investment in new lump sum business particularly impacted by market uncertainty. Regular premium pension sales were 3% ahead of the prior year. New sales in the year ended 31 December 2016 consisted of €1,154 million of new lump sum business and €124 million of new regular premium business. The Company’s overall share of the Irish life and pension market for 2016 was 21%.

- 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 Company continued to offer a strong service proposition to customers during 2016 with the retention of the PIBA Award for best Broker Company and also the award for Pensions Administrator of the Year.

- The new, 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.

DIRECTORS' REPORT continued

Review of the Business continued

- 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. This replaces the methodology previously in place under Solvency I for calculating regulatory reserves on a prudent basis, and Required Minimum Solvency Margin (RMSM) based on the application of prescribed factors. The Company's total eligible own funds under Solvency II are €824 million. The total SCR as at 31 December 2016 is €544 million. Therefore the Company has eligible own funds that are 1.52 times the level which is required to cover the SCR.

Financial review

The embedded value method is widely used within the life assurance industry and the Company uses this methodology in measuring its performance. The embedded value performance shows the Company's operating profit slightly higher than the previous year. Under this approach, which is set out below, the operating profit for the twelve month period ended 31 December 2016 was €82 million (2015: €81 million). New business profits are lower than the previous year reflecting lower volumes, particularly in single premium and protection sales.

Existing business profits reflect improved mortality and persistency experience, higher planned profit and an increased return on shareholder funds.

Embedded Value Performance

	2016 €m	2015 €m
New business profits	5	10
Existing business portfolio		
- Planned profit	61	51
- Experience variance mortality	12	8
- Experience variance persistency	8	7
- Actuarial basis changes	(4)	5
	77	71
Operating profit	82	81

Statutory performance

The accounts as prepared in accordance with accounting standards generally accepted in Ireland show an increase in the technical accounting profit for the year to €109 million (2015: €87 million) which is primarily due to profit on the inforce book, positive stock markets, improved lapse and mortality experience and the impact of basis assumption changes.

The key financial metrics can be described as follows:

- Total premiums received in the year of €1.7 billion were 14% lower than in 2015 (€1.9 billion) due to lower single premium investment. Premiums accounted for as insurance contracts were 10% lower at €1.3 billion (2015: €1.4 billion) also due to lower single premium investment.

DIRECTORS' REPORT continued

Statutory performance continued

- Total investment return was a positive €0.9 billion (2015: €0.7 billion) reflecting growth in equity and bond markets during the year. Irish property values also grew while property investments outside the Euro zone were impacted by adverse exchange rate movements.

- Total balance sheet assets grew by 2% to €17.6 billion (2015: €17.2 billion).

- Gross claims paid fell by 7% to €1.7 billion (2015: €1.8 billion). Persistency trends continue to improve. Gross claims accounted for as insurance contracts fell by 7% to €1.0 billion (2015: €1.1 billion).

- Net technical provisions increased by €1.0 billion (2015: increase €0.8 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 €75 million in the year (2015: €81 million). This reflects increased payroll costs arising from the new career and reward framework implemented in 2014 offset by reduced pension costs in the year.

Summary income statement

The profit and loss account – technical statement in the financial statements is presented in accordance with the required accounting classification where some of the items listed below are 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.

	2016	**2015**
	€m	**€m**
Premium income	1,671	1,934
Reinsurers' share of premiums	(80)	(88)
Claims paid	(1,671)	(1,806)
Reinsurers' share of claims	89	84
Investment return	865	723
Operating expenses	(177)	(177)
Change in deferred income liability	4	6
Investment charges	(13)	(16)
Interest on loans and borrowings	(5)	(6)
	683	654
Movement in linked liabilities	(506)	(565)
Net movement in non-linked liabilities	(37)	30
Tax charge attributable to the life assurance business	(31)	(32)
Profit for the financial year	109	87

DIRECTORS' REPORT continued

Actuarial valuations

The Company's assurance liabilities at 31 December 2016 are valued in Notes 18, 19 and 20. The bases and methods of valuation employed are consistent with the principles laid down in the European Communities (Life Assurance) Framework Regulations, 1994.

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). The key difference between the financial statements and the Solvency II balance sheet is the calculation of the technical provisions and the disallowance of the deferred acquisition cost asset and deferred income liability by regulation.

Distributable Profits for the year

	2016 €m	2015 €m
Profit on ordinary activities before tax	124	99
Tax on profit on ordinary activities	(15)	(12)
Profit on ordinary activities after tax	109	87
Other comprehensive income	22	-
Transfer to non-distributable reserves	(13)	(22)
Distributable profit for the year	118	65

The distributable profit represents a transfer of €118 million (2015: €65 million) from the policyholder funds to the shareholder 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

Shareholder funds increased by €16 million (2015: increased by €87 million) in the year due to profits after tax of €109 million and a change in the pension fund deficit of €22 million less a dividend payment of €115 million.

In 2016 the Directors authorised the payment of a dividend of €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 Governor and Company of the Bank of Ireland which is also incorporated in the Republic of Ireland.

DIRECTORS' REPORT continued

Subsidiaries

The information required by Section 314 of the Companies Act, 2014 is contained in the information provided in Note 29 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 2016.

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. Sean Casey resigned from his position of managing director on 31 March 2016 and Mick Sweeney was appointed to the position of managing director (interim) on 1 April 2016.

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 major 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.

Governance structure

The Board acknowledges 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.

DIRECTORS' REPORT continued

Governance structure continued

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 for 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 major institutions as the Company, has been so designated by the Central Bank of Ireland.

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, managed and monitored.

The following table notes the Directors' names, titles and their membership of the Board committees. Details are correct as at 31 December 2016.

Director	Category	Date of Appointment	Committee memberships
Pat Healy	Independent Non-executive and Chairman	April 2010 (Appointed Chairman April 2014)	Nomination and Governance, Remuneration
Mick Sweeney	Executive Managing Director (Interim)	September 2009 (Appointed interim managing director April 2016)	Investment, Risk
David Roberts	Executive	February 2010	Investment, Risk
Denis Kelleher	Executive	March 2008	
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

Notes:
Ashok Gupta and Eilish Finan joined the Nomination and Governance Committee on an interim basis for the following period: 24/05/2016 - 31/12/2016.
Tony O' Riordan was appointed as an executive director on 9 January 2017 and he is a member of the Investment and Risk Committees.
David Roberts stood down from the Risk Committee on 17 February 2017.

DIRECTORS' REPORT continued

Board of Directors continued

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. It also oversees the compliance function. It monitors the external auditor's 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 that relevant investments are consistent with policyholders' reasonable expectations. It is responsible for appointment of investment managers and custodians and for reviewing investment activity, performance and strategy.

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.

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.

Fitness and probity

The Central Bank Reform Act (2010) introduced a statutory system for the regulation by the Central Bank of Ireland of persons performing control functions and pre-approval control functions in regulated entities. The Fitness and Probity Standards (Code issued under Section 50 of the Act) specify the minimum standards of fitness and probity which all persons performing control functions or pre approval control functions shall apply in relation to the areas of competence and capability, acting honestly, ethically and with integrity and being financially sound.

The regime applied to pre-approval control functions from 2011, and from December 2012 to all control functions. Following a Board review, the Board was able to conclude that all control functions and pre approval control functions, including all Directors and certain other employees, were compliant with the Fitness and Probity Standards and had obtained each person's written agreement to abide by the Standards. This is updated annually.

DIRECTORS' REPORT continued

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 these and other 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 and manage 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 defined Risk Appetite which is 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.
- Preparation and review of the Company's risk appetite statement framework.
- 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 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 risk management system operates within the overall governance system of the Company, within both the corporate and management structures. The Board is responsible for the overall risk management system of the Company. It has delegated a number of risk activities to the 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.

DIRECTORS' REPORT continued

Risk management system continued

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 and 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 businesses 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 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 stated Risk Appetite. 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 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.

The Risk Appetite of the Company defines the amount and nature of the risks that the Company is prepared to accept in pursuit of its strategic objectives. This sets out the range of risks that the Company is willing to take on in pursuit of return. In addition, it notes the risks that are accepted in the course of the Company's business activities but which we seek to mitigate and those risks that we seek to avoid or transfer.

The Risk Appetite 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.

DIRECTORS' REPORT continued

Risk strategy and appetite continued

The Risk Appetite 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 and this gives support to the internal control system.

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. Internal control is overseen across 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 providing 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.

DIRECTORS' REPORT continued

Internal controls continued

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.

Director's 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.

DIRECTORS' REPORT continued

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 2016.

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 auditor is aware of that information.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to be re-appointed.

Directors

Date: 25 April 2017

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

Report on the financial statements

Our opinion

In our opinion, New Ireland Assurance 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 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with Generally Accepted Accounting Practice in Ireland; and
- have been properly prepared in accordance with the requirements of the Companies Act 2014.

What we have audited

The financial statements, included within the directors' report and financial statements, comprise:

- the balance sheet as at 31 December 2016;
- the profit and loss account for the year then ended;
- the statement of comprehensive income;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is Irish law and accounting standards issued by the Financial Reporting Council and promulgated by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland), including FRS 101, Reduced Disclosure Framework.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Matters on which we are required to report by the Companies Act 2014

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

Matter on which we are required to report by exception

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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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

Our responsibility is to audit and express an opinion on the financial statements in accordance with Irish law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the directors' report and financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

9 May 2017

PROFIT AND LOSS ACCOUNT – TECHNICAL ACCOUNT
LIFE ASSURANCE BUSINESS
Financial Year Ended 31 December 2016

	Notes	2016 €m	2015 €m
Earned premiums, net of reinsurance			
Gross premiums written	2	1,299	1,432
Outward reinsurance premiums		(80)	(88)
		1,219	1,344
Income and realised gains on investments	4	657	966
Unrealised gains / (losses) on investments	4	208	(243)
Other technical income, net of reinsurance	5	137	61
Total technical income		2,221	2,128
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		(1,000)	(1,088)
- reinsurers' share		92	79
		(908)	(1,009)
Change in the provision for claims			
- gross amount	19	(17)	(15)
- reinsurers' share	19	(3)	5
		(20)	(10)
		(928)	(1,019)
Change in technical provisions, net of reinsurance			
Life assurance business provision, net of reinsurance			
- gross amount	19	56	29
- reinsurers' share	19	(93)	1
		(37)	30
Technical provisions for linked liabilities	18	(921)	(821)
		(958)	(791)
Net operating expenses	6	(177)	(177)
Investment charges	4	(13)	(16)
Interest on loans and borrowings	28	(5)	(6)
Tax charge attributable to the life assurance business	9	(31)	(32)
		(226)	(231)
Balance on the technical account - life assurance business		109	87

All the above amounts relate to continuing activities.
The notes on pages 23 to 68 form an integral part of these financial statements.

PROFIT AND LOSS ACCOUNT – NON TECHNICAL ACCOUNT
Financial Year Ended 31 December 2016

	Notes	2016 €m	2015 €m
Balance on the technical account - life assurance business		109	87
Tax attributable to shareholders' profit		15	12
Profit on ordinary activities before tax		124	99
Tax on profit on ordinary activities	9	(15)	(12)
Profit for the financial year		109	87

All the above amounts relate to continuing activities.
The notes on pages 23 to 68 form an integral part of these financial statements

STATEMENT OF COMPREHENSIVE INCOME
Financial Year Ended 31 December 2016

	Notes	2016 €m	2015 €m
Profit for the financial year		109	87
Other comprehensive income:			
Items that will not be classified to profit and loss			
Remeasurement of post-employment benefit obligations	24	25	-
Deferred tax related to these items	22	(3)	-
Total comprehensive income for the financial year		131	87

All the above amounts relate to continuing activities.
The notes on pages 23 to 68 form an integral part of these financial statements.

BALANCE SHEET
As at 31 December 2016

Assets	Notes	2016 €m	2015 €m
Investments			
Land and buildings	11	25	22
Other financial investments	12	1,762	1,842
		1,787	1,864
Investments for the benefit of life assurance policyholders who bear the investment risk	13	14,251	13,702
Reinsurers' share of technical provisions			
Life assurance business provision	19	1,230	1,323
Claims outstanding	19	14	17
		1,244	1,340
Debtors			
Debtors arising out of direct insurance operations			
- policyholders	14	60	55
Due from fellow subsidiaries	14	2	1
Other debtors	14	3	5
		65	61
Other assets			
Tangible assets	15	10	5
Deferred taxation	22	8	13
Cash at bank		11	5
		29	23
Prepayments and accrued income			
Accrued interest		33	36
Other prepayments and accrued income		1	1
Deferred acquisition costs	16	192	206
		226	243
Total assets		17,602	17,233

All the above amounts relate to continuing activities.
The notes on pages 23 to 68 form an integral part of these financial statements.

Directors

Date: 25 April 2017

BALANCE SHEET continued
As at 31 December 2016

Liabilities	Notes	2016 €m	2015 €m
Capital and reserves			
Called up share capital - presented as equity	21	23	23
Share premium account	21	26	26
Capital reserve	21	43	43
Non - distributable reserve	21	297	284
Profit and loss account	21	73	70
Shareholders' funds - equity interests		462	446
Technical provisions			
Life assurance business provision	19	2,488	2,544
Claims outstanding	19	153	136
		2,641	2,680
Technical provisions for life assurance policies where the investment risk is borne by the policyholders	18	14,077	13,571
Accruals and deferred income		37	49
Deferred taxation	22	10	10
Creditors - Amounts falling due within one year			
Creditors arising out of direct insurance operations	17	85	74
Due to fellow subsidiaries	17	14	13
Bank overdraft	17	26	24
Other creditors including tax and social security	17	44	59
		169	170
Creditors - Amounts falling due after one year			
Loans and borrowings	28	142	203
Total liabilities before pension deficit		17,538	17,129
Pension deficit	24	64	104
Total liabilities		17,602	17,233

All the above amounts relate to continuing activities.
The notes on pages 23 to 68 form an integral part of these financial statements.

Directors

Date: 25 April 2017

STATEMENT OF CHANGES IN EQUITY
Financial Year Ended 31 December 2016

	Share capital	Share premium	Capital reserve	Non-Distributable Reserve	Profit and loss account	Shareholders' funds
	€m	€m	€m	€m	€m	€m
Balance at 1 January 2015	23	26	43	262	5	359
Retained profit for the financial year	-	-	-	-	87	87
Other comprehensive income for the year	-	-	-	-	-	-
Transfer to non-distributable reserve	-	-	-	22	(22)	-
Dividends paid	-	-	-	-	-	-
Balance at 31 December 2015	23	26	43	284	70	446
Retained profit for the financial year	-	-	-	-	109	109
Other comprehensive income for the year	-	-	-	-	22	22
Transfer to non-distributable reserve	-	-	-	13	(13)	-
Dividends paid	-	-	-	-	(115)	(115)
Balance at 31 December 2016	23	26	43	297	73	462

All the above amounts relate to continuing activities.
The notes on pages 23 to 68 form an integral part of these financial statements.

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 by 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 2016, 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 adopted the modified statutory solvency basis of accounting for long term business.

NOTES TO THE FINANCIAL STATEMENTS continued

1 Accounting policies continued

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.

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 (IFRS 4) 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 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 / or investment property are classified as investment contracts unless the contracts also contain features that transfer significant insurance risk.

NOTES TO THE FINANCIAL STATEMENTS continued

1 Accounting policies continued

Contract classification continued

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
On adoption of FRS 101, the Company did not change its accounting policies for insurance contracts as permitted by IFRS 4, as no other accounting policies were deemed to be more relevant and no less reliable or more reliable and no less relevant.

Insurance contracts are accounted for in accordance with IFRS 4.

(a)Premiums
Premiums are accounted for when due for payment. For unit linked business the due date is taken as the date that the associated technical provisions are established. Reinsurance premiums are accounted for 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.

NOTES TO THE FINANCIAL STATEMENTS continued

1 Accounting policies continued

Investment contracts
Investment contract premiums received are treated as a financial liability, claims are treated as a reduction in a financial liability and hence premiums and claims on investment contracts are taken directly to the balance sheet. 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 within "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 (IAS 39).

(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.

(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 life assurance provision is calculated with due regard to the actuarial principles laid down in the European Communities (Life Assurance) Framework Regulations, 1994. The technical provisions relating to term assurance and term critical illness are calculated using a gross premium valuation method, based on generally accepted actuarial principles. The provision is not less than that which would be determined on an appropriate net premium valuation method. An expense provision is made for pension insurance contracts secured by recurring single premiums and for annuity and future claim payments under immediate annuity contracts. 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 as and 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.

NOTES TO THE FINANCIAL STATEMENTS continued

1 Accounting policies continued

Financial liabilities
Financial liabilities which include bank overdrafts, creditors, loans, borrowings and subordinated debt are recognised at fair value. Other financial liabilities, carried at fair value, relate to unit linked investment contracts under ‘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 (IAS 40).

(b)Investment in subsidiary undertakings and participating interests
Investments 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.

(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 i.e. the date 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.

NOTES TO THE FINANCIAL STATEMENTS continued

1 Accounting policies continued

(d) Other financial investments - continued
Subsequent to initial recognition, these investments are measured at fair value. Fair value adjustments are recorded 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 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, an independent valuation is obtained from the administration manager of those funds, or valuation techniques are adopted. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS continued

1 Accounting policies continued

(e)Fair value measurements continued
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.

Other than for available-for-sale assets, 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 Company has no assets which are classified as available-for-sale. 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.

The liability recognised in the balance sheet in respect of 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.

NOTES TO THE FINANCIAL STATEMENTS continued

1 Accounting policies continued

Post-employment benefits continued
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 income statement.

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
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 using 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.

NOTES TO THE FINANCIAL STATEMENTS continued

2. PREMIUMS WRITTEN - CONTRACTS CLASSIFIED AS INSURANCE

A. Gross Premiums Written

	Individual Life €m	Individual Pensions €m	Group Contracts €m	2016 Total €m	Individual Life €m	Individual Pensions €m	Group Contracts €m	2015 Total €m
Unit-linked	68	100	83	251	74	88	74	236
Non unit-linked	129	1	40	170	123	1	35	159
Periodic premiums	197	101	123	421	197	89	109	395
Unit-linked	281	519	41	841	449	470	46	965
Non unit-linked	-	37	-	37	-	56	16	72
Single premiums	281	556	41	878	449	526	62	1,037
Total premiums written	478	657	164	1,299	646	615	171	1,432

The written premiums above in 2016 and 2015 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 €1,299 million (2015 : €1,432 million)
The written premiums from insurance contracts and investment contracts is €1,671 million (2015: €1,934 million)

NOTES TO THE FINANCIAL STATEMENTS continued

2. PREMIUMS WRITTEN - CONTRACTS CLASSIFIED AS INSURANCE continued

B. Gross New Business Premiums

	Individual Life €m	Individual Pensions €m	Group Contracts €m	2016 Total €m	Individual Life €m	Individual Pensions €m	Group Contracts €m	2015 Total €m
Unit-linked	4	36	23	63	4	35	19	58
Non unit-linked	15	-	4	19	18	-	5	23
Periodic premiums	19	36	27	82	22	35	24	81
Unit-linked	281	519	41	841	449	470	46	965
Non unit-linked	-	37	-	37	-	56	16	72
Single premiums	281	556	41	878	449	526	62	1,037
Total new business premiums	300	592	68	960	471	561	86	1,118

The new business premiums above in 2016 and 2015 arise from contracts which meet the IFRS 4 definition of insurance.
New business premiums from insurance contracts is €960 million (2015 : €1,118 million)
New business premiums from insurance contracts and investment contracts is €1,278 million (2015: €1,515 million)

C. Reinsurance Balance

The net reinsurance debit in the technical account for the year amounted to €84 million (2015: €3 million debit).

NOTES TO THE FINANCIAL STATEMENTS continued

3. STAFF COSTS

	2016 €m	2015 €m
Wages and salaries	37	36
Social insurance costs	4	4
Defined benefit retirement benefit costs (note 24)	(8)	9
Defined benefit retirement benefit curtailment gains	(1)	-
Defined contribution retirement benefit costs	1	-
	33	49

The average number of employees during the year was as follows:		
Sales and marketing	140	138
Policy administration	295	289
Other administration	200	170
	635	597

Included in wages and salaries are sales commission payments to staff of €2 million (2015: €3 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

	2016 €m	2015 €m
Income from land and buildings	35	38
Income from listed investments	225	259
Income from other investments	38	43
	298	340
Net gains on realisation of investments	359	626
	657	966

Investment Activity Report		
Investment income	298	340
Investment management expenses	(13)	(16)
Net realised gains	359	626
Net unrealised gains / (losses)	208	(243)
Interest payable on financial liabilities	(5)	(6)
Total investment return	847	701

Included in the total investment return are net gains or losses on financial assets at fair value through the profit and loss		
Designated at FVTPL	359	626
Net unrealised gains / (losses)	208	(243)
Total realised and unrealised gains included in investment return	567	383

NOTES TO THE FINANCIAL STATEMENTS continued

4. INVESTMENT INCOME continued

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.

Income from investment properties includes rental income of €44 million (2015: €45 million) and is net of property expenses of €8 million (2015: €7 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 €567 million (2015: €384 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 €137 million (2015: €61 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

	2016 €m	2015 €m
Net operating expenses comprise:		
Acquisition expenses	72	82
Change in deferred acquisition costs	14	-
Administrative expenses	91	95
	177	177
Net operating expenses include		
Commission payments (including to employees)	83	87
Other sales related costs	3	3
Operating lease rentals (land and buildings)	1	1
Depreciation	2	3
Core operating expenses	75	81
Non-core costs	(1)	2
Change in deferred acquisition costs	14	-
Total operating expenses	177	177

Acquisition expenses include an allocation of commission on new business and operating expenses relating to the acquisition of new business.

Non-core costs in 2016 reflect the impact of changes to pension cost due to members leaving the Company before retirement age under the current voluntary parting terms.
Non-core costs in 2015 reflect the impact of back dated payments to staff relating to the resolution between the Company and staff on non-payment of salary increases in 2009.

NOTES TO THE FINANCIAL STATEMENTS continued

7. COMMISSIONS

Total commissions incurred by the Company during the year, excluding payments to employees, was €80 million (2015: €84 million).

8. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

This is stated after charging	2016 €m	2015 €m
Depreciation	2	3
Operating lease rentals other	-	1
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 (2015: €0.4 million), €0.4 million (2015: €0.4 million) for the audit of entity financial statements and €0.2 million (2015:€nil million) for other assurance services.

9. TAXATION

	2016 €m	2015 €m
Technical account charge		
Corporation tax charge for the year	18	15
Relief for double taxation	(1)	(2)
Overseas tax	13	16
	30	29
Deferred tax charge (note 22): origination and reversal of timing differences	1	3
	31	32
Non-technical account charge		
Irish corporation tax on profits for the financial year	15	12

The tax charge on the non-technical account for 2016 and 2015 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%.

NOTES TO THE FINANCIAL STATEMENTS continued

9. TAXATION continued

	2016 €m	2015 €m
Profit before tax		
Balance on the technical account - life assurance business	109	87
Add back tax charge attributable to the life assurance business	31	32
	140	119
Profit before tax multiplied by the rate of Irish corporation tax for the year of 12.5% (2015: 12.5%)	18	15
Effects of:		
Overseas tax	13	16
Non-taxable items	4	3
Relief for double taxation	(1)	(2)
Foreign tax deduction	(2)	(1)
Other deductions	(1)	-
Difference due to life assurance tax rate	-	1
Tax charge attributable to the life assurance business	31	32

10. DIVIDEND

	2016 €	2015 €
Dividend paid	115,000,000	-
No of shares	175,500,001	175,500,001

A dividend of €0.655 (2015: €Nil) per share was paid during the year.

NOTES TO THE FINANCIAL STATEMENTS continued

11. LAND AND BUILDINGS

	2016 Fair Value €m	2016 Cost €m	2015 Fair Value €m	2015 Cost €m
Investment properties	-	-	-	-
Owner occupied properties	25	10	22	10
	25	10	22	10
A. Freehold				
Investment properties	-	-	-	-
Owner occupied properties	2	1	2	1
	2	1	2	1
B. Leasehold				
Investment properties	-	-	-	-
Owner occupied properties	23	9	20	9
	23	9	20	9
Total	25	10	22	10

Movement in Land and Buildings

	Investment Fair Value	Owner Occupied Fair Value	Total Fair Value
Year ended 31 December 2016	€m	€m	€m
Balance at 1 January	-	22	22
Additions and improvements	-	-	-
Disposals	-	-	-
Net gains from fair value adjustments	-	3	3
Balance at 31 December	-	25	25
Year ended 31 December 2015			
Balance at 1 January	-	17	17
Additions and improvements	-	-	-
Disposals	-	-	-
Net gains from fair value adjustments	-	5	5
Balance at 31 December	-	22	22

NOTES TO THE FINANCIAL STATEMENTS continued

11 LAND AND BUILDINGS continued

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 2016, 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.

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 (2015: €2 million) arose on these land and buildings.

12. OTHER FINANCIAL INVESTMENTS

	2016 Fair Value €m	2016 Cost €m	2015 Fair Value €m	2015 Cost €m
Financial assets at fair value through profit and loss				
Designated upon initial recognition	1,624	1,377	1,650	1,437
Deposits with credit institutions	138	138	192	192
Total financial assets	1,762	1,515	1,842	1,629

Included in the balance sheet as follows:				
Shares and other variable yield securities				
- Unit trusts	80	81	103	103
- Unlisted securities	17	17	17	17
Debt securities and other fixed income securities	1,527	1,279	1,530	1,316
Deposits with credit institutions	138	138	192	192
	1,762	1,515	1,842	1,629

NOTES TO THE FINANCIAL STATEMENTS continued

12. OTHER FINANCIAL INVESTMENTS continued

	2016 Fair Value €m	2016 Cost €m	2015 Fair Value €m	2015 Cost €m
Listed investments included at fair value				
Debt securities and other fixed income securities	1,527	1,279	1,530	1,316
Shares and other variable yield securities	80	81	103	103
	1,607	1,360	1,633	1,419
Other financial investments attributable to the shareholder include:				
Shares and other variable yield securities	17	17	17	17
Deposits with credit institutions	138	138	192	192
	155	155	209	209
	1,762	1,515	1,842	1,629

Derivative financial instruments, at fair value through profit or loss
Included within listed investments are forward currency contracts with a fair value loss of €1 million (2015: €nil 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 €2 million (2015: €2 million loss).

13. INVESTMENTS FOR THE BENEFIT OF LIFE ASSURANCE POLICYHOLDERS WHO BEAR THE INVESTMENT RISK

	2016 Fair Value €m	2016 Cost €m	2015 Fair Value €m	2015 Cost €m
Assets held to cover :				
Unit linked insurance contracts	8,602	7,918	7,968	7,436
Unit linked investment contracts	5,649	5,200	5,734	5,352
	14,251	13,118	13,702	12,788

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 €2,431 million (2015: €2,245 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.

NOTES TO THE FINANCIAL STATEMENTS continued

13. INVESTMENTS FOR THE BENEFIT OF LIFE ASSURANCE POLICYHOLDERS WHO BEAR THE INVESTMENT RISK continued

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 gain of €5 million (2015: €13 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 €18 million (2015: €31 million loss).

14. DEBTORS

	2016 €m	2015 €m
Debtors arising out of direct insurance operations		
Policyholders	42	39
Intermediaries	18	16
	60	55
Due from fellow subsidiaries	2	1
Other debtors	3	5
	65	61

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 FIXED ASSETS

Year ended 31 December 2016

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

NOTES TO THE FINANCIAL STATEMENTS continued

15. TANGIBLE FIXED ASSETS continued

Year ended 31 December 2015

Cost	Computer Equipment €m	Office Equipment €m	Total €m
At 1st January 2015	88	1	89
Additions	2	-	2
Disposals and adjustments	(2)	-	(2)
At 31 December 2015	88	1	89
Accumulated Depreciation			
At 1st January 2015	(83)	-	(83)
Charge for the year	(3)	-	(3)
Disposals and adjustments	2	-	2
At 31 December 2015	(84)	-	(84)
Net Book Amounts			
31st December 2015	4	1	5

16. DEFERRED ACQUISITION COSTS

	2016 €m	2015 €m
Deferred expenses at 1 January	206	206
Acquisition expenses incurred during the year	72	82
Charged to the technical account	(14)	(12)
Apportionment for the year	264	276
Amortisation of prior year acquisition expenses	(72)	(70)
Deferred expenses at 31 December	192	206
On insurance contracts	169	179
On investment contracts	23	27
	192	206

Acquisition expenses include an allocation of commission on new business and operating expenses relating to the acquisition of new business.

NOTES TO THE FINANCIAL STATEMENTS continued

17. OTHER CREDITORS INCLUDING TAXATION AND SOCIAL INSURANCE

	2016 €m	2015 €m
Creditors arising out of direct insurance operations	85	74
Due to fellow subsidiaries	14	13
Bank overdraft	26	24
Other creditors including tax and social security		
Taxation and social security		
- PAYE	6	6
- PRSI	1	1
- VAT	1	1
- Corporation tax	2	-
Government duties and levies	24	43
Other	10	8
	44	59
Total creditors	169	170

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 was carried out at 31 December 2016 which disclosed a surplus within the fund. The amount of surplus applied to meet the total cost of policyholders' bonus was €1 million (2015: €1 million). The shareholders' share of the distributed surplus was €65 million (2015: €65 million).

The technical provisions relating to insurance and investment contracts are:

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

NOTES TO THE FINANCIAL STATEMENTS continued

18. ACTUARIAL VALUATION AND UNIT LINKED LIABILITIES continued

	Unit linked Investment contracts	Unit linked Insurance contracts	Total
	2015 €m	2015 €m	2015 €m
At 1 January	5,680	7,326	13,006
Deposits received from policyholders under investment contracts	502	-	502
Payments made to policyholders of, and fees deducted from investment contracts	(703)	-	(703)
Gross policy fees	(55)	-	(55)
Change in technical provision as shown in the technical account	305	516	821
At 31 December	5,729	7,842	13,571

The market value of investments held to cover linked liabilities was €14,251 million (2015: €13,702 million). The cost of investments held to cover linked liabilities was €13,118 million (2015: €12,788 million).

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 €5,647 million (2015: €5,729 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' LIABILITIES

	Life Assurance Provision €m	Claims Outstanding €m
Year ended 31 December 2016		
Gross:		
At 1 January	2,544	136
Change in technical provision	(56)	17
At 31 December	2,488	153
Reinsurers share:		
At 1 January	(1,323)	(17)
Change in technical provision	93	3
At 31 December	(1,230)	(14)
Net Amount:		
At 31 December 2016	1,258	139

NOTES TO THE FINANCIAL STATEMENTS continued

19. POLICYHOLDERS' LIABILITIES continued

	Life Assurance Provision €m	Claims Outstanding €m
Year ended 31 December 2015		
Gross:		
At 1 January	2,573	121
Change in technical provision	(29)	15
At 31 December	2,544	136
Reinsurers share:		
At 1 January	(1,322)	(12)
Change in technical provision	(1)	(5)
At 31 December	(1,323)	(17)
Net Amount:		
At 31 December 2015	1,221	119

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:

	Interest Rate		Mortality Table	
Class of business	**2016**	**2015**	**2016**	**2015**
Unit linked pensions	0.95%	1.35%	110% AM00/AF00	110% AM00/AF00
Unit linked life	0.25%	0.65%	110% AM00/AF00	110% AM00/AF00

	2016	2015
Expense inflation	4.5% p.a	4.5% p.a

Life Assurance Provision

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

	Interest Rate		Mortality Table	
Class of business	**2016**	**2015**	**2016**	**2015**
Industrial assurance	-0.10%	-0.05%	A1967 - 70 + 1	A1967 - 70 + 1
Non profit life assurance	0.95%	1.35%	80% AM00/AF00	90% AM00/AF00
Life Choice	2.25%	1.35%	70% AM00/AF00	80% AM00/AF00
Pension immediate annuity	0.89%	1.32%	100% PMA00 MC/2.0%	95% PMA00 MC/2.0%

NOTES TO THE FINANCIAL STATEMENTS continued

20. TECHNICAL PROVISIONS continued

Life Assurance Provision continued

Expense inflation	2016	2015
Industrial assurance	0% p.a.	0% p.a.
Non profit life assurance	4.5% p.a	4.5% p.a
Life Choice	4.5% p.a	4.5% p.a
Pension immediate annuity	4.5% p.a	4.5% p.a

Renewal expenses	2016	2015	Expenses as % Reserves
	€pa	€pa	
Industrial assurance	60% of premium income	60% of premium income	0.10% p.a.
Non-linked protection	36	35	0.10% p.a.
Life Choice	36	35	0.10% p.a.
Pension immediate annuity	25	26	0.10% p.a.

A reduction in fixed interest yields would reduce the impact of discounting on the life assurance provision, resulting in an increased provision.

Unit growth rate
Unit growth before charges is assumed to be 2.25% gross, 1.8% net (2015: 2.6% gross, 2.08% net).

Expenses
Expense loadings are based on a prudent 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. Also included in the life assurance provision is an amount of €2 million (2015: €2 million) for terminal bonuses.

21. SHAREHOLDER'S FUNDS – EQUITY INTERESTS

Called up share capital

Authorised		
200,000,000 ordinary shares of 13 cents each (2015 : 200,000,000)	26	26
Issued and fully paid - presented as equity		
175,500,001 ordinary shares of 13 cents each (2015 : 175,500,001)	23	23

NOTES TO THE FINANCIAL STATEMENTS continued

21. SHAREHOLDER'S FUNDS – EQUITY INTERESTS continued

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, as determined by the Head of Actuarial Function.

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 2016 there were distributable reserves of €73 million (2015: €70 million).

22. PROVISION FOR OTHER RISKS AND CHARGES – Deferred taxation

	2016 €m	2015 €m
Deferred taxation 1 January	2	6
Net change for the year - pensions	(3)	-
Net change for the year - origination and reversal of timing differences	(1)	(3)
Deferred taxation at 31 December	(2)	3
The provision for deferred taxation comprises		
Pension deficit	8	13
Unrealised gains on investments	(10)	(10)
Other timing differences	-	-
Deferred taxation at 31 December	(2)	3
Represented on the balance sheet as follows		
Deferred taxation asset	8	13
Deferred taxation liability	(10)	(10)
	(2)	3

NOTES TO THE FINANCIAL STATEMENTS continued

23. DIRECTORS REMUNERATION

	2016 €m	2015 €m
Fees	-	-
Salaries for management services	2	2
Contributions to retirement benefit schemes		
- Defined benefit scheme	-	-
	2	2

Retirement benefits are accruing to three directors (2015: three directors) under a defined benefit scheme and one director (2015: one director) under a defined contribution scheme.

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 and directors. 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 2 January 2016 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.

	2016	2015
Inflation	1.55%	1.60%
Salary increases	2.05%	2.10%
Pension payment increases	0.85%	1.35%
Pension increases for deferred benefits	1.50%	1.55%
Discount rate	2.20%	2.30%

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 2016 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.

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

NOTES TO THE FINANCIAL STATEMENTS continued

24. PENSION COSTS continued

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 mortality investigations that are considered a best fit for the Company's expected future mortality experience.

Mortality life expectancy table

	2016	2015
	Males	**Males**
Longevity at age 60 for members currently aged 60 years	27	27
Longevity at age 60 for members currently aged 40 years	30	29
	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:

Factor	Change in assumption	Impact on scheme liabilites (€m)
Discount rate	0.25% decrease	16.3
Rate of inflation	0.10% decrease	(4.2)
Rate of salary increase	0.10% decrease	(2.0)
Rate of pension increase	0.10% decrease	(3.4)
Life expectancy	1 year increase	9.2

The balance recognised in the balance sheet is:

	2016 €m	2015 €m
Actuarial value of liabilities	(303)	(324)
Fair value of scheme assets	239	220
Deficit in scheme	(64)	(104)

The reconciliation of the movements to the balance sheet is:

	2016 €m	2015 €m
Deficit at 1 January	(104)	(101)
Employer contributions	7	5
Net benefit expense for period	8	(9)
Actuarial gain	25	1
Deficit at 31 December	(64)	(104)

NOTES TO THE FINANCIAL STATEMENTS continued

24. PENSION COSTS continued

The following discloses the changes in the scheme's liabilities and assets

	2016 €m	2015 €m
Scheme liabilities at 1 January	324	310
Employer service cost	6	6
Interest cost	7	7
Scheme participants contribution	1	1
Actuarial (gain) / loss	(8)	7
Benefits paid	(10)	(7)
Past service cost - planned amendments	(16)	-
Past service cost - curtailments	(1)	-
Scheme liabilities at 31 December	303	324

	2016 €m	2015 €m
Scheme assets at 1 January	220	209
Actual return on assets	21	12
Employer contribution	7	5
Scheme participants contribution	1	1
Benefits paid	(10)	(7)
Scheme assets at 31 December	239	220

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

	2016	2015
Equities	62%	56%
Fixed Interest	24%	26%
Property	10%	10%
Cash	4%	8%

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.

NOTES TO THE FINANCIAL STATEMENTS continued

24. PENSION COSTS continued

Analysis of amounts recognised in the profit and loss

	2016 €m	2015 €m
Expected return on scheme assets	4	5
Less interest on scheme liabilities	(7)	(7)
Employer service cost	(6)	(7)
Past service cost - planned amendments	16	-
Past service cost - curtailments	1	-
Total charge to Profit and Loss (note 3)	8	(9)

Analysis of amounts recognised in statement of comprehensive income

	2016 €m	2015 €m
Gains on assets	17	7
Decrease / (increase) in liabilities	12	(6)
Change in assumptions	(4)	(1)
	25	-

The total estimated charge to the profit and loss account for 2017 is €6 million. Expected employer contributions for the year ended 31 December 2017 are €8 million. Expected employee contributions for the year ended 31 December 2017 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.

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

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

Classification at 31 December 2016	**Unit Linked Contracts**	**Non-linked / Other Contracts**	**Total**
	€m	**€m**	**€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	9,253	80	9,333
- Unlisted securities	397	17	414
Debt securities and other fixed income securities at fair value through profit and loss			
- Listed	1,926	1,555	3,481
Derivative financial instruments at FVTPL	1,052	-	1,052
Deposits and cash balances	747	149	896
Property	864	25	889
Reinsurance assets	-	1,244	1,244
Other assets	12	281	293
Total assets	14,251	3,351	17,602
Long term business provision	-	2,488	2,488
Claims outstanding	-	153	153
Technical provisions for linked liabilities	14,077	-	14,077
Deposits received from reinsurers	-	19	19
Loans and borrowings	-	168	168
Provisions for other risks and charges	-	10	10
Other liabilities	174	51	225
Total liabilities	14,251	2,889	17,140

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

Classification at 31 December 2015	Unit Linked Contracts	Non-linked / Other Contracts	Other
	€m	€m	€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	8,012	103	8,115
- Unlisted securities	570	17	587
Debt securities and other fixed income securities at fair value through profit and loss			
- Listed	2,002	1,557	3,559
Derivative financial instruments at FVTPL	1,475	-	1,475
Deposits and cash balances	793	197	990
Property	841	22	863
Reinsurance assets	-	1,367	1,367
Other assets	9	268	277
Total assets	13,702	3,531	17,233
Long term business provision	-	2,544	2,544
Claims outstanding	-	136	136
Technical provisions for linked liabilities	13,571	-	13,571
Deposits received from reinsurers	-	18	18
Loans and borrowings	-	227	227
Provisions for other risks and charges	-	10	10
Other liabilities	131	150	281
Total liabilities	13,702	3,085	16,787

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 Risk Committee.

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

Insurance Risk continued

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 this will have 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.

	Policyholder liabilities and reserves 2016 %	Sum assured 2016 %	Policyholder liabilities and reserves 2015 %	Sum assured 2015 %
Pension				
Linked	54%	17%	54%	17%
Non linked (non profit)	0%	0%	0%	0%
With profits	0%	0%	0%	0%
Annuities	6%	0%	6%	0%
Life				
Linked	38%	37%	38%	37%
Non linked (non profit)	2%	46%	2%	46%
With profits	0%	0%	0%	0%
Annuities	0%	0%	0%	0%
	100%	100%	100%	100%

The total sum at risk, net of reinsurance, is €26,883 million (2015: €26,394 million).

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

Market Risk
Market Risk is the risk of loss arising from movements in market prices. 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.

Market risk arises from the structure of the balance sheet, and the Company's mix of business.

(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 are 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.

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

(a)Interest rate risk continued

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

	2016 €m	2015 €m
Within one year	28	28
More than one year - within five years	125	89
More than five years - within ten years	363	401
More than ten years	1,039	1,039
Total	1,555	1,557

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

	2016 €m	2015 €m
Within one year	142	169
More than one year - within five years	7	28
More than five years - within ten years	-	-
More than ten years	-	-
Total	149	197

A maturity analysis for unit linked investment contracts amounting to €14,251 million (2015: €13,702 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.

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

(a)Interest rate risk continued

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

	2016 €m	2015 €m
Increase in yield curve +50 bps	(6.8)	(2.8)
Decrease in yield curve – 50bps	5.8	1.8

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 does indirectly derive 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 (2015: €1.6 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 does indirectly derive 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 €1.0 million (2015: €0.6 million).

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, €13 billion (2015: €12 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.

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

Liquidity Risk continued

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 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

	Demand €m	0 - 3 mths €m	3 - 12 mths €m	1 - 5 years €m	5 years + €m	Total €m
31 December 2015						
Financial liabilities under investment contract	5,729	-	-	-	-	5,729
Due to fellow subsidiaries	-	13	-	-	-	13
Creditors and accruals	-	142	-	-	-	142
Bank overdraft	-	24	-	-	-	24
Loans and borrowings	-	-	63	60	80	203
Total	5,729	179	63	60	80	6,111

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.

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

Credit Risk continued

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:

	Unit Linked Contracts	Non-linked / Other Contracts	Total
	€m	€m	€m
31 December 2016			
Debt securities and other fixed income securities at fair value through profit and loss			
- Listed	1,926	1,555	3,481
Derivative financial instruments, at FVTPL	1,052	-	1,052
Deposits and cash balances	747	149	896
Reinsurance assets	-	1,244	1,244
Total	3,725	2,948	6,673
31 December 2015			
Debt securities and other fixed income securities at fair value through profit and loss			
- Listed	2,002	1,557	3,559
Derivative financial instruments, at FVTPL	1,475	-	1,475
Deposits and cash balances	793	197	990
Reinsurance assets	-	1,367	1,367
Total	4,270	3,121	7,391

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

Credit Risk 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	
	2016	**2015**	**2016**	**2015**
	€m	€m	€m	€m
AAA	537	489	4	2
AA+	137	147	220	212
AA	569	546	589	567
AA -	17	16	1,085	1,181
A+	415	511	595	694
A	66	187	76	111
A -	195	83	121	59
BBB+	281	262	72	59
BBB	1,506	10	123	63
BBB-	2	2,009	57	127
BB+	-	-	6	1
BB	-	-	-	45
BB-	-	10	-	-
	3,725	4,270	2,948	3,121

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

	2016	2015
	€m	€m
Credit spreads +0.50%	(25.9)	(24.4)

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 €14 billion (2015: €14 billion).

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

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.

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.

	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Category				
Financial assets held at fair value at 31 December 2016				
Equities and unit trusts	9,333	397	17	9,747
Debt securities	3,481	-	-	3,481
Derivative instruments	-	1,052	-	1,052
Non-financial assets held at fair value at 31 December 2016				
Investment property	-	-	864	864
Owner occupied property	-	-	25	25
	12,814	1,449	906	15,169
Financial liabilities held at fair value at 31 December 2016				
Liabilities to customers :				
Under insurance contracts	-	8,430	-	8,430
Under investment contracts	-	5,647	-	5,647
	-	14,077	-	14,077

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

FAIR VALUE HIERARCHY continued

	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Category				
Financial assets held at fair value at 31 December 2015				
Equities and unit trusts	8,115	570	17	8,702
Debt securities	3,559	-	-	3,559
Derivative instruments	-	1,475	-	1,475
Non-financial assets held at fair value at 31 December 2015				
Investment property	-	-	841	841
Owner occupied property	-	-	22	22
	11,674	2,045	880	14,599
Financial liabilities held at fair value at 31 December 2015				
Liabilities to customers :				
Under insurance contracts	-	7,842	-	7,842
Under investment contracts	-	5,729	-	5,729
	-	13,571	-	13,571

Movements in Level 3 assets

	Equities and Unit Trusts	Investment Property	Owner Occupied Property	Total
Year ended 31 December 2016	€m	€m	€m	€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

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

FAIR VALUE HIERARCHY continued

Movement in level 3 assets

Year ended 31 December 2015	Equities and Unit Trusts €m	Investment Property €m	Owner Occupied Property €m	Total €m
Opening balance	17	741	17	775
Investment gains	-	93	5	98
Additions	-	81	-	81
Disposals	-	(34)	-	(34)
Reclassification	-	(40)	-	(40)
Closing Balance	17	841	22	880

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 taken into consideration are 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
A revaluation of the Company's owner occupied property was carried out as at 31 December 2016. 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.

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

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.

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
Under the new reporting and public disclosure arrangements the table below sets out for the first year in 2016 the total shareholders' equity compared to the excess own funds.

	2016
	€m
Total shareholders' equity	462
Adjustments to regulatory basis :	
Differences in technical provisions (net of reinsurance)	503
Deferred acquisition costs / deferred income liability	(171)
Asset valuation adjustments	(9)
Deferred taxation	(40)
Capital restructure : subordinated debt	80
Total eligible own funds to meet SCR	824
Solvency Capital Requirement (SCR)	(544)
Excess own assets	280
Ratio of eligible own funds to meet SCR	152%

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

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

CAPITAL MANAGEMENT continued

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. Moving from prudent reserves to best estimate plus risk margin gives a positive difference of some €503 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 these leads to a reduction of €171 million.

- There is a larger deferred tax liability of some €40 million, reflecting the larger net assets under Solvency II.

- There is also a small difference in asset valuations of €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 €280 million.

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.

NOTES TO THE FINANCIAL STATEMENTS continued

25. RISK AND CAPITAL MANAGEMENT continued

CAPITAL MANAGEMENT continued

Capital resource sensitivities continued

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

	2016 €m	2015 €m
Authorised but not contracted	1	7
Contracted	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 2016 the Company had total commitments under non-cancellable operating leases of €5 million (2015: €6 million). The leases are due to expire as follows:

	2016 €m	2015 €m
Total		
Within one year	1	1
More than one year - within five years	3	3
More than five years	1	2
	5	6
Property		
Within one year	1	1
More than one year - within five years	3	3
More than five years	1	2
	5	6
Other		
Within one year	-	-
More than one year - within five years	-	-
More than five years	-	-
	-	-

NOTES TO THE FINANCIAL STATEMENTS continued

28. LOANS AND BORROWINGS

The subordinated debt of €80 million was issued by New Ireland Assurance Company plc to Bank of Ireland Governor & Co 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).

New Ireland Assurance Company plc 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, New Ireland has an obligation to repay the loan 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 and the first repayment of ceding commission was made in 2016.

Analysis of loans and borrowings

	2016	**2015**
	€m	**€m**
Financial reinsurance	61	121
Subordinated debt	82	82
	142	203

Movement in loans and borrowings

	Financial reinsurance	**Subordinated debt**	**Total**
	€m	**€m**	**€m**
Year ended 31 December 2016			
At 1 January	121	82	203
Loan repaid	(60)	-	(60)
Interest charged	1	4	5
Interest paid	(2)	(4)	(6)
At 31 December	61	82	142
Year ended 31 December 2015			
At 1 January	121	82	203
Interest charged	2	4	6
Interest paid	(2)	(4)	(6)
At 31 December	121	82	203

NOTES TO THE FINANCIAL STATEMENTS continued

29. SUBSIDIARIES

	Nature of Business	Percentage Owned	Country
General Investment Trust Limited	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
Noisy Le Grand Paris SARL	Holding Company	100%	Luxembourg
Rue Saint George SARL	Holding Company	100%	Luxembourg
SCI Immeuble Saint George	Property Company	100%	France
Les Borromees SARL	Holding Company	100%	Luxembourg
SCI Sang Rouge	Property Company	100%	France
BSQ Limited	Property Company	100%	Ireland

General Investment Trust is a company which offers pension trustee services to corporate pension clients of New Ireland Assurance Company plc.

The other companies are vehicles with respect to property funds.

The registered office of General Investment Trust Limited 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 Luxembourg subsidiaries except Lisbonne Lux SARL, is TMF Group, L 1855 Luxembourg, 46A Avenue JF Kennedy.

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

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

BSQ Limited is in receivership with KPMG Dublin.

30. HOLDING COMPANY

The Company is a wholly-owned subsidiary of Bank of Ireland Life Holdings Ltd which is incorporated in the Republic of Ireland. The Company’s immediate holding company is Bank of Ireland Life Holdings. The ultimate holding company is the Governor and Company of the Bank of Ireland which is also incorporated in the Republic of Ireland. The Governor and Company of the Bank of Ireland 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 Governor and Company of the Bank of Ireland are available from Bank of Ireland, 40 Mespil Road, Dublin 4.

NOTES TO THE FINANCIAL STATEMENTS continued

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. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Directors on 25 April 2017.