NEW IRELAND
ASSURANCE

Directors' Report and Financial Statements 2018

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Year Ended 31 December 2018

NEW IRELAND ASSURANCE

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Directors and Other Information

CHAIRMAN
Pat Healy

DIRECTORS
Tom Barry
Sean Crowe
Des Crowley
Eilish Finan
Ashok Gupta
Gavin Kelly *(appointed 16 November 2018)*
Liam McLoughlin *(resigned 31 January 2018)*
Michael Murphy
Tony O'Riordan

SECRETARY
Hill Wilson Secretarial Limited

REGISTERED OFFICE
11-12 Dawson Street
Dublin 2 (up to 24 April 2018)

5 - 9 South Fredrick Street
Dublin 2 (from 24 April 2018)

Company Number 7336

HEAD OF ACTUARIAL FUNCTION
Shane Fahey FSAI

INDEPENDENT AUDITORS
KPMG
Chartered Accountants
1 Harbourmaster Place
International Financial Services Centre
Dublin 1.

BANKERS
Bank of Ireland
2 College Green
Dublin 2.

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

Directors' Report

The Directors are pleased to submit their Annual Report and audited Financial Statements of New Ireland Assurance Company plc (the Company) for the year ended 31 December 2018.

Principal activities

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

Review of the business

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

The purpose of the Company is to enable customers, colleagues and communities to thrive by protecting families, investing their money and securing their future. As at 31 December 2018 the Company has in excess of 560,000 customer contracts and funds under management of €16.0 billion. The Company is part of the Bank of Ireland Group. Bank of Ireland is a diversified financial services group with total assets on its balance sheet of €124 billion.

The Company sells a broad range of protection, investment and pension products to individual and corporate customers in the Republic of Ireland. Its liabilities are predominantly unit linked and it has a multi-channel distribution strategy. The Company is a market leading life and pension provider and has circa 20.1% share of the new business market, an increase of 1.5% in the year.

The Company has a strategic plan that includes significant investment over the next 2 years. This investment will help the Company realise its strategic priorities which are:

- To be the financial services partner of choice for customers.
- To transform and deliver a modern digital business of scale.
- To deliver sustainable profit growth for the business by delivering excellent customer value and shareholder returns through cost and capital efficiency.

The Company performed well in 2018 in a competitive life and pensions market.

Features of the Company and its business are as follows:

- The Company has a strong distribution network across three core channels made up of the Bank of Ireland Group's branch network, independent financial brokers and its tied agent financial advisors.
- It provides a range of protection, investment and pension products offering customers access to a wide range of investment markets and fund managers across its fund platform.
- The Company has a competitive product range particularly in the protection market with the Life Choice contract and with its suite of investment and pension funds, including its iFunds range. 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.
- New business volumes were 15% higher than the previous year, at €302 million (2017: €263 million) in Annual Premium Equivalent (APE) terms, benefiting from strong annuity, group risk and pension sales. The Company wrote the largest bulk annuity in the market in 2018 and also renewed its focus on Group Risk , leading to business growth.
- New sales in the year ended 31 December 2018 consisted of €1,449 million (2017: €1,232 million) of new single premium business and €157 million (2017: €140 million) of new regular premium business.
- The estimated growth in the Life and Pensions market was circa 6%. Both the broker distribution channel and the bank channel outperformed the market growth. This resulted in an increase in market share of the life and pensions market to 20.1% from 18.6% at close of the previous year.
- The Company continues to invest in a significant transformation program. In 2018 it launched its new digital underwriting rules engine and the Life Advice tool to support Online Family Protection, being the first of a planned series of developments designed to enhance the experience of our customers.
- Core operating expenses (excl. amortisation and deprecation) at €84 million (2017: €89 million) were 6% lower than previous year. Staff costs declined as the increased costs arising from salary increases were more than offset by a reduction in the number of staff. Non staff costs saw some reduction as a result of the early impact of strategic initiatives.

Review of the Business *(continued)*

- The Company has €16 billion of assets under management, with positive customer flows into unit linked funds partly offsetting the fall in assets arising from investment markets performance. Of the €16 billion assets under management, €14.2 billion is in unit linked funds where investment risk is borne by policyholders, and where a change in the value of the underlying asset is accompanied by a corresponding change in the liability. A further €1.8 billion covers technical provisions (other than unit linked liabilities), the pension scheme deficit, solvency capital requirement and excess own funds in the life company.
- Solvency II is the harmonised EU-wide regulatory capital framework for insurance companies. Under Solvency II, the Company is required to value its liabilities using best estimate assumptions as to future experience. It is also required to hold an additional risk margin and a risk-based Solvency Capital Requirement (SCR) which is calculated by considering the impact of a number of stress scenarios on the Company's capital. At the end of 2018, the Company's total eligible own funds under Solvency II are €840 million (2017: €896 million). This was 1.47 times, or €268 million above, the SCR of €572 million.
- In 2018 the Company applied and was approved by the Central Bank of Ireland to use the EIOPA published volatility adjustment within the calculation of its technical provisions. All other methods used in the calculation of technical provisions have remained unchanged between 2017 and 2018. The volatility adjustment is an addition to the risk-free curve under the Solvency II regulations which is designed to protect insurers with long-term liabilities from the impact of volatility on the insurers' solvency position.

Future Outlook

Increased levels of income and employment along with favorable demographics mean the underlying individual pension, investment and protection needs of the population will continue to grow. Pension demand will grow driven by a shift from defined benefit to defined contribution and in anticipation of auto-enrolment. The Company will benefit from the transformation actions taken in 2018 and will continue investing in a significant transformation program that will support the growth plans of the business, improve customer experience and drive efficiency and cost reductions.

Financial Review

Embedded Value Performance

The Company measures its key performance indicators using embedded value performance. The key performance indicators are new business value, operating profit, operating expenses and market share. Embedded value is widely used within the life assurance industry and the Company uses a market consistent embedded value (MCEV) methodology in measuring its performance. The table below outlines the operating profit on an MCEV basis for the year which was €92 million (2017: €74 million) for the twelve month period ended 31 December 2018. The total profit including the impact of interest rate movements, investment variance and non-core items was €36 million (2017: €113 million). In measuring performance the company treated the profit on the sale of the head office property as a non core item.

	2018 €m	2017 €m
New business profits	11	11
Existing business portfolio		
- Expected return	41	47
- Experience variance mortality	14	11
- Experience variance persistency	7	6
- Actuarial basis changes	19	(1)
Operating profit	**92**	**74**
Economic assumptions and interest rate movements	(20)	22
Investment variance - unit linked	(43)	17
Total profit before tax	**29**	**113**
Non core items	7	-
Total profit	**36**	**113**

Financial Review *(continued)*

New business levels were 15% higher in 2018 at €302 million (2017: €263 million) in APE terms, benefiting from strong annuity, group risk and pension sales. The overall mix of business in 2018 has seen higher premiums going into lower margin products relative to 2017 with new business profits at €11.3 million (2017: €10.8 million) slightly ahead of last year.

Expected return at €41 million (2017: €47 million) was lower than prior year mainly due to the unwind of risk margin.

Persistency and mortality variances were very strong in 2018 and higher than prior year, with experience continuing to be better than assumptions.

Actuarial basis changes were positive in 2018 at €19.1 million relative to €1 million negative in 2017. Changes in assumptions on mortality, morbidity, lapse and annuity longevity assumptions resulted in a positive impact on profits. Per policy renewal expenses were lower with a smaller cost base spread over more business, and lower investment expenses, leading to a further positive profit impact.

Interest rates in 2018 reduced while bond spreads widened. The overall impact of the change in interest rate movements was €20 million negative (2017: €22 million positive).

Unit linked performance was below the assumed unit growth assumption of 3.5% leading to a negative unit linked investment variance of €43 million (2017: €17 million positive).

Statutory performance

The financial statements as prepared in accordance with the Financial Reporting Standard 101, Reduced Disclosure Framework (FRS 101), show a technical accounting profit for the year of €27 million (2017: €70 million) reflecting the impact of assumption changes and adverse investment performance.

Total premiums received in the year (across insurance and investment contracts) of €2.2 billion (2017: €1.8 billion) were 22% higher than in 2017 due to higher annuity, group risk and pension sales. Premiums accounted for as insurance contracts were 28% higher at €1.8 billion (2017: €1.4 billion) also due to higher annuity, group risk and pension sales.

Total investment return was €0.6 billion negative (2017: €0.9 billion positive) reflecting adverse equity market movements in 2018.

Assets under management of €16.0 billion (2017: €16.7 billion) reduced by 4% with positive cash flows into unit linked funds more than offset by investment losses.

Gross claims paid decreased by 6% to €1.7 billion (2017: €1.8 billion). Gross claims accounted for as insurance contracts decreased by 15% to €1.1 billion (2017: €1.3 billion).

Net technical provisions decreased by €0.3 billion (2017: increase €0.8 billion), due mainly to the decrease in value of policyholders' investments. Unit linked policyholder liability provisions move in line with the movement in investment assets, therefore a fall in investment asset values is matched with a fall in corresponding technical provisions.

Core operating expenses (excluding commissions, cost of sales, amortisation, depreciation and non-core costs) were 6% lower at €84 million in the year (2017: €89 million). This decrease is due to staff costs savings arising from lower FTE numbers, while non staff costs saw some reduction as a result of the early impact of strategic initiatives. Lower operating costs were partially offset by costs incurred in relation to business transformation initiatives undertaken in the year.

The pension scheme deficit on the Company's pension scheme has increased by €11m (2017: €4 million decrease). The scheme liabilities have decreased by €7 million (2017: €11 million increase) as the increase in liabilities arising from the lower discount rate has been offset by the benefit of lower than assumed inflation. The scheme assets have decreased by €18 million (2017: €15 million increase) as the fund investment performance was adverse, with investments declining by 7%. The impact of both the lower liability and asset movements against the underlying actuarial assumptions has resulted in a €14 million loss (2017: €4 million profit) taken to reserves (€12 million net of deferred tax).

Capital remains strong at 147% of SCR after the payment of a €70 million dividend in the year.

Summary income statement

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

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

	2018 €m	2017 €m
Premium income	2,174	1,791
Reinsurers' share of premiums	(311)	(86)
Claims paid	(1,719)	(1,837)
Reinsurers' share of claims	103	94
Investment return	(636)	898
Net operating expenses	(185)	(191)
Change in deferred income liability	3	4
Investments expenses and charges	(13)	(11)
Interest on loans and borrowings	(7)	(5)
	(591)	657
Movement in linked liabilities	663	(580)
Net movement in non linked liabilities	(43)	16
Tax charge attributable to the life assurance business	(2)	(23)
Total profit	27	70

Actuarial valuations

The Company's assurance liabilities at 31 December 2018 are valued as shown in Notes 19, 20 and 21.

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

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

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

There are a number of differences in the bases, methods and assumptions used in the valuation of technical provisions under the Solvency II basis and in the financial statements. The main differences are set out below. Note 26 of the financial statements reconciles total shareholders' equity with the Solvency Capital Requirement (SCR) under Solvency II.

Minimum reserves

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

Risk margin

Only insurance contracts are included in the risk margin calculation for the financial statements, whereas under Solvency II both insurance and investment contracts are captured. Investment contracts in the financial statements are measured under IFRS 9.

Distributable profits for the year

	2018 €m	2017 €m
Profit on ordinary activities before tax	31	80
Tax on profit on ordinary activities	(4)	(10)
Profit on ordinary activities after tax	27	70
Other comprehensive income	(12)	4
Transfer from non-distributable reserves	69	62
Distributable profit for the year	**84**	**136**

The distributable profit represents a transfer of €84 million (2017: €136 million) from the policyholders' 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 fell by €55 million (2017: decreased by €46.0 million) in the year due to profits after tax of €27 million (2017: €70 million) and an actuarial loss in the pension fund benefit, net of deferred tax of €12 million (2017: €4 million gain) less a dividend payment of €70 million (2017: €120 million).

In 2018 the Directors authorised the payment of a dividend of €70 million, €0.4 per share (2017: €120 million, €0.684 per share) to Bank of Ireland Life Holdings Limited.

Holding company

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

Subsidiaries

The information required by Section 314 of the Companies Act, 2014 is contained in the information provided in Note 30 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. BSQ Limited is in receivership with KPMG Dublin. EY have been selected to act as liquidator and steps are being taken to ensure the solvent liquidation can commence once the receivership has finished.

Directors and Secretary

The names of persons who were directors at any time since the previous reporting period are set out on page 2. Directors' titles and memberships of committees are outlined at page 10. Unless otherwise stated, the Directors served for the entire period.

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 Companies Act, 2014.

Governance

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

Governance structure

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

The Board operates the following committees:

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

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

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

Board of Directors

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

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

Governance *(continued)*

The following table notes the Directors' names, titles and their membership of the Board committees. Details are correct as at 31 December 2018.

Director	Category of Director	Date of Appointment	Committee memberships
Pat Healy	Independent Non-Executive and Chairman	April 2010 (appointed Chairman April 2014)	Nomination and Governance, Remuneration
Michael Murphy	Executive Director and Managing Director	July 2017	Investment, Risk
Tony O'Riordan	Executive Director and Chief Financial Officer	January 2017	Investment, Risk
Ashok Gupta	Independent Non-Executive	January 2013	Risk (Chair), Audit
Tom Barry	Independent Non-Executive	April 2014	Nomination and Governance (Chair), Remuneration (Chair), Audit (Chair), Risk
Éilish Finan	Independent Non-Executive	November 2014	Investment (Chair), Audit, Nomination and Governance, Remuneration
Des Crowley	Group Non-Executive	November 2009	Nomination and Governance, Remuneration
Gavin Kelly	Group Non-Executive	November 2018	-
Sean Crowe	Group Non-Executive	July 2014	Investment, Risk

Audit Committee

The committee has responsibilities relating to the integrity and disclosure of financial and related information, oversight of the effectiveness of internal controls and the Company's relationship with, and expectations of, internal and external auditors. It monitors and reviews the effectiveness of the Company's internal audit function and ensures that it operates in an independent manner. As at 31 December 2018 it also oversaw the compliance function; however this responsibility has subsequently been transferred to the Risk Committee. It monitors the external auditors' independence and objectivity and the effectiveness of the audit process and of the Company's disclosure and reporting policy and processes.

Risk Committee

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

Investment Committee

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

Remuneration Committee

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

Governance *(continued)*

Nomination and Governance Committee

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

Fitness and probity

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

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

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

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

Risk management

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

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

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

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

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

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

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

Risk management system

The Board is responsible for the overall risk management system of the Company. It has delegated the management and oversight of a number of risk activities to the Risk Committee, which in turn has a number of management risk committees reporting into it. These management committees are led by the Executive Risk Committee (ERC) which is chaired by the CRO and whose membership consists of senior staff including the Managing Director.

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

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

1st line of defence

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

2nd line of defence

The second line of defence consists of the control functions of compliance, risk management and the actuarial function. These functions formulate risk frameworks and policy and provide oversight, monitoring and challenge to the operation of the risk framework within the Company. The actuarial function also provides assurances to the Board in relation to the adequacy of the Company's provisions in respect of its obligations.

3rd line of defence

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

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

Risk strategy and appetite

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

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

The Company has a preference for risks that it understands well and is in a position to manage appropriately and it pursues an appropriate return for the risks taken. 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 Statement of the Company defines the amount and nature of the risks that the Company is prepared to accept in pursuit of its strategic objectives. In addition, it notes the risks that are accepted in the course of the Company's business activities but which the Company seeks to mitigate, and those risks that it seeks to avoid or transfer.

The Risk Appetite Statement is defined in qualitative and quantitative terms, in respect of the key risk categories, within a framework that facilitates monitoring and appropriate action at Board and management levels.

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

Internal controls

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

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

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

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

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

Internal controls *(continued)*

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 controls partially or completely ineffective.

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

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

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

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

The system of internal control is intended to support the Company in achieving its strategic and business objectives, while 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.

Directors' compliance statement

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

Non-financial information statement

The Company has not separately presented a non-financial information statement as it is a subsidiary of Bank of Ireland Group plc and the Company is included in the group non-financial performance information statement.

Future developments

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

Principal risks and uncertainties

The Company is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. Note 26 outlines the range of financial risks facing the Company and the principal techniques the Company uses to mitigate these risks. The uncertainties for the Company associated with Brexit have been subject to close scrutiny during the year, with a number of potential scenarios considered. Where issues were identified action has been taken or a contingency has been put in place. The implications continue to be assessed based on the available information.

Accounting records

The Directors believe that they have complied with the requirements of sections 281 to 285 of the Companies Act 2014 with regard to adequate accounting records by employing accounting personnel with appropriate expertise and by providing adequate resources to the financial function. The accounting records of the Company are maintained at 5 - 9 South Frederick, Dublin 2.

Political donations

The Directors, on enquiry, have satisfied themselves that there were no political donations made during the year ended 31 December 2018.

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 auditors are unaware; and they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Independent Auditors

PricewaterhouseCoopers resigned as Auditor during the year and KPMG, Chartered Accountants, were appointed in their place and will continue in office in accordance with Section 383(2) of the Companies Act 2014.

On behalf of the Board:

Michael Murphy
Director

Tony O'Riordan
Director

Date: 12 April 2019

Statement of Directors Responsibilities

in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the directors' report, and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with FRS 101 Reduced Disclosure Framework. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Company and of its profit or loss for that 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 applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the assets, liabilities, financial position and profit or loss of the Company and enable them to ensure that its financial statements comply with the Companies Act, 2014 and European Union (Insurance Undertakings: Financial Statements) Regulations 2015. They are responsible for such internal controls as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and they have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The Directors are also responsible for preparing a Directors' Report that complies with the requirements of the Companies Act 2014.

On behalf of the Board:

Michael Murphy
Director

Tony O'Riordan
Director

Date: 12 April 2019

Independent Auditor's Report

Report on the audit of the financial statements

Our opinion

We have audited the financial statements of New Ireland Assurance Company plc ('the Company') for the year ended 31 December 2018 set out on pages 21 to 66, which comprise the profit and loss account - technical account - life assurance business, profit and loss account – non-technical account, statement of comprehensive income, balance sheet, statement of changes in equity and related notes, including the summary of significant accounting policies set out in note 1. The financial reporting framework that has been applied in their preparation is Irish Law and FRS 101 Reduced Disclosure Framework.

In our opinion, the accompanying financial statements:

- give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with FRS 101 Reduced Disclosure Framework;
- have been properly prepared in accordance with the requirements of the Companies Act 2014; and
- have been properly prepared in accordance with the European Union (Insurance Undertakings: Financial Statements) Regulations 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities section of our report. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the Board of directors on 24 April 2018. The period of total uninterrupted engagement is therefore one year for the year ended 31 December 2018. We have fulfilled our ethical responsibilities under, and we remained independent of the Company in accordance with, ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA) as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Other matter – first year audit considerations

Prior to the commencement of the current financial year and our formal appointment in April 2018, we were required to become independent. We met with management to understand the business and to gather information which we needed to plan our first audit effectively. We met with the former auditors and attended the audit committee meetings throughout the 2017 audit cycle to understand the key audit matters as and when they arose. We also assessed the audit work papers of the former auditors to gain sufficient audit evidence about whether the opening balances contained misstatements that could materially affect the current year financial statements.

Key audit matters: our assessment of risks of material misstatement

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

In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows:

Valuation of insurance and investment contract liabilities €16,212 million (2017: €16,630 million)

Refer to pages 28 to 32 (accounting policy) and notes 19 to 21 (financial disclosures)

The key audit matter

The Company's Insurance and investment contract liabilities consist of technical provisions – life assurance business provision (€2,218 million) and the technical provisions for life assurance policies where the investment risk is borne by the policyholders (€13,994 million). These insurance and investment contract liabilities collectively represent the single largest liability for the Company, representing 96% of total liabilities.

The technical provisions - life assurance business provision is an estimate of the non-linked liabilities payable to policyholders. It is determined using standard actuarial methodologies and assumptions regarding future mortality, morbidity, persistency, expenses, unit growth rates and interest rates. The calculation basis is complex and involves the use of detailed methodologies, multiple assumptions and significant judgements.

The technical provisions for life assurance policies where the investment risk is borne by the policyholders is related to the unit-linked assets on the balance sheet and their valuation is determined in the same manner as the investments for the benefit of life assurance policyholders who bear the investment risk. We do not consider these provisions to have a high risk of material misstatement or to be subject to a significant level of judgement but because of their materiality in the context of the financial statements, we consider them a key focus of our audit.

How the matter was addressed in our audit

Our procedures included but were not limited to:

- Obtaining and documenting our understanding of the valuation process and evaluating and testing the design, implementation and operating effectiveness of key controls relevant to the valuation of insurance and investment contract liabilities.
- Testing the completeness and accuracy of the key data used in the valuation calculation.
- In conjunction with our actuarial specialists, evaluating and challenging the methodologies applied and the key assumptions and judgments used in the valuation.
- Assessing and challenging the methodology and basis used to set the underlying assumptions with reference to guidance issued by the European Insurance and Occupational Pensions Authority ('EIOPA'), the Company's actuarial experience investigations, published mortality tables and our experience of similar companies in the marketplace as applicable.
- Assessing the calculation of insurance and investment contract liabilities through:
  - Agreeing the assumptions and key data input into the actuarial models to those we had evaluated;
  - Testing the design, implementation and operating effectiveness of management's controls over the output of the calculations; and
  - Evaluating the external actuary's report on the actuarial methodologies, assumptions, judgements and calculations.
- Obtaining and re-performing the year end asset and liability reconciliation and verifying the asset and liability totals to source information. Tracing material reconciling amounts to corroborating audit evidence.
- Assessing the Company's product classification with reference to IFRS 4 Insurance Contracts.
- We found the valuation of insurance and investment contract liabilities to be reasonable.

Valuation of defined benefit pension net liability €71 million (2017: €60 million)

Refer to page 33 (accounting policy) and notes 25 (financial disclosures)

The key audit matter

The Company has a defined benefit pension scheme which is significant in the context of the overall balance sheet and the results of the Company. The scheme has an IAS 19 Employee Benefits defined benefit pension deficit of €71 million at 31 December 2018.

The valuation of the pension obligation is calculated with reference to a number of actuarial assumptions and inputs including discount rate, rate of inflation and mortality rates. The treatment of curtailments, settlements, past service costs and other amendments can significantly impact the balance sheet and results of the Company.

We regard the determination of the Company's defined benefit pension liability as a key audit matter because its valuation is complex and requires judgement in choosing appropriate actuarial assumptions. Small changes in these assumptions can have a material impact on the liability.

How the matter was addressed in our audit

Our procedures included but were not limited to:

- Obtaining an understanding of the process around the defined benefit pension scheme and testing the design and implementation of key controls relating to the defined benefit pension scheme.
- Testing key data to source documentation establishing the obligation to members, and vice versa.
- Testing the valuation of a sample of the underlying pension scheme assets to independent third party sources.
- In conjunction with our actuarial specialist we met with management and the scheme actuary to understand, assess and challenge the judgements made in determining the key assumptions used in the calculation of the liability with reference to our own independent benchmarks.
- Challenging the adequacy of the disclosures relating to defined benefit pension net liability having regard for the requirements of IAS 19 Employee Benefits.
- Overall, we found that the key assumptions and methodologies used by management in the valuation of the defined benefit pension net liability to be reasonable.

Valuation and ownership of investments €15,900 million (2017: €16,607 million)

Refer to pages 31 to 32 (accounting policy) and notes 13 and 14 (financial disclosures)

The key audit matter

Investments comprise of equities, unit trusts, debt securities, open derivative positions, unlisted securities and investment properties. Investments represent 92% of total assets on the Company's balance sheet. Due to the size of the investment portfolio, we consider the valuation of investments to be a key audit matter.

The valuation of certain investments require a degree of judgment in selecting the valuation basis for each investment because quoted prices or an active market are not readily available.

In relation to the ownership of the investment portfolio, there are certain assets which are held outside of custody arrangements.

How the matter was addressed in our audit

Our procedures included but were not limited to:

- Obtaining and documenting our understanding of the valuation process and testing the design, implementation and operating effectiveness of key controls operating over the valuation and ownership of investments.
- For a sample of equities, unit trusts, debt securities and open derivative positions, testing the valuation of these investments by agreeing the prices used to independent third party sources.
- For unlisted securities, assessing management's basis for determining fair value and for a sample of these investments by independently obtaining valuations directly from the relevant underlying fund administrators.
- Verifying the ownership of the investment portfolio by agreeing the investments to independently obtained confirmations on a sample basis.
- For investment properties, the valuation is determined based on advice from the Company's external property valuation experts. Our procedures involved:
  - Evaluating the independence of the Company's external property valuation experts and the property valuation reports;
  - Confirming that the properties are valued in accordance with the Royal Institution of Chartered Surveyors ('RICS') valuation standards on the basis of market value; and
  - Obtaining confirmation of title deeds to confirm ownership.
- On the basis of the work performed, the valuation and ownership of investments was reasonable.

Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at €4.2 million, determined with reference to a benchmark of profit before tax, normalised by averaging over the last five years due to the year on year volatility inherent in insurance company profitability.

We reported to the audit committee any corrected or uncorrected identified misstatements exceeding €0.2 million, in addition to other identified misstatements that warranted reporting on qualitative grounds. For the purposes of accumulating classification misstatements related to unit linked assets and liabilities that are likely only to lead to a reclassification between these line items, we have applied a higher reporting threshold of €2m. Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's offices in Dublin.

We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Directors are responsible for the preparation of the other information presented in the annual report together with the financial statements. The other information comprises the information included in the directors' report and the statement of directors' responsibilities other than the financial statements and our auditor's report thereon.

The financial statements and our auditor's report thereon do not comprise part of the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Other information *(continued)*

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Based solely on our work on the other information we report that:

- we have not identified material misstatements in the directors' report;
- in our opinion, the information given in the directors' report is consistent with the financial statements; and
- in our opinion, the directors' report has been prepared in accordance with the Companies Act 2014.

Our opinions on other matters prescribed by the Companies Act 2014 are unmodified

We have obtained all the information and explanations which we consider necessary for the purpose 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 and the Company's balance sheet, profit and loss account - technical account - life assurance business and profit and loss account – non-technical account are in agreement with the accounting records.

We have nothing to report on other matters on which we are required to report by exception

The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by Sections 305 to 312 of the Act are not made.

Respective responsibilities and restrictions on use

Directors' responsibilities

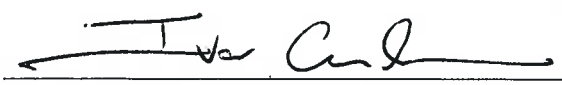
As explained more fully in their statement set out on page 16, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation and not just those directly affecting the financial statements. A fuller description of our responsibilities is provided on IAASA's website at:
https://www.iaasa.ie/getmedia/b2389013-1cf6-458b-9b8f-a98202dc9c3a/Description_of_auditors_responsiblities_for_audit.pdf

The purpose of our audit work and to whom we owe our responsibilities

Our report is made solely to the Company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for our report, or for the opinions we have formed.



Ivor Conlon
for and on behalf of KPMG
Chartered Accountants and Statutory Audit Firm
1 Harbourmaster Place, IFSC, Dublin 1.

12 April 2019

Profit and Loss Account

Profit and loss account – technical account life assurance business
Financial year ended 31 December 2018

	Note	2018 €m	2017 €m
Earned premiums, net of reinsurance			
Gross premiums written	2	1,810	1,424
Outward reinsurance premiums		(311)	(86)
		1,499	1,338
Income on investments	4	216	259
Net gains on realisation of investments	4	408	646
Unrealised losses on investments	4	(1,260)	(7)
Other technical income, net of reinsurance	5	56	66
Total technical income		919	2,302
Claims incurred, net of reinsurance			
Claims paid			
- gross amount		(1,151)	(1,268)
- reinsurers' share		101	92
		(1,050)	(1,176)
Change in the provision for claims			
- gross amount	19	19	(22)
- reinsurers' share	19	2	2
		21	(20)
		(1,029)	(1,196)
Change in technical provisions, net of reinsurance			
Life assurance business provision, net of reinsurance			
- gross amount	19	(245)	40
- reinsurers' share	19	202	(24)
		(43)	16
Technical provisions for linked liabilities	20	387	(822)
		344	(806)
Net operating expenses	6	(185)	(191)
Investment expenses and charges	4	(13)	(11)
Interest on loans and borrowings	24	(7)	(5)
Tax charge attributable to the life assurance business	9	(2)	(23)
		(207)	(230)
Balance on the technical account - life assurance business		27	70

All the above amounts relate to continuing activities. The notes on pages 26 to 66 form an integral part of these financial statements.

Profit and loss account – non-technical account
Financial year ended 31 December 2018

	Note	2018 €m	2017 €m
Balance on the technical account - life assurance business		27	70
Tax attributable to shareholders' profit		4	10
Profit on ordinary activities before tax		31	80
Tax on profit on ordinary activities	9	(4)	(10)
Profit for the financial year		27	70

All the above amounts relate to continuing activities. The notes on pages 26 to 66 form an integral part of these financial statements.

Statement of comprehensive income
Financial year ended 31 December 2018

	Note	2018 €m	2017 €m
Profit for the financial year		27	70
Other comprehensive income			
Items that will not be classified to profit and loss			
Remeasurement of post employment benefit obligations	25	(14)	4
Deferred tax related to these items	22	2	-
Total comprehensive income for the financial year		15	74

All the above amounts relate to continuing activities. The notes on pages 26 to 66 form an integral part of these financial statements.

Balance Sheet

Balance sheet as at 31 December 2018	Note	2018 €m	2017 €m
Intangible assets	11	19	10
Investments			
Investment in subsidiaries	30	-	-
Assets classified as held for sale	12	-	28
Other financial investments	13	1,732	1,729
		1,732	1,757
Investments for the benefit of life assurance policyholders who bear the investment risk	14	14,168	14,848
Reinsurers' share of technical provisions			
Life assurance business provision	19	942	740
Claims outstanding	19	18	16
		960	756
Debtors			
Debtors arising out of insurance operations			
- policyholders and intermediaries	15	69	75
Due from fellow subsidiaries	15	4	1
Other debtors	15	11	7
		84	83
Other assets			
Land and buildings and tangible assets	16	3	3
Deferred taxation	22	26	8
Cash at bank		30	22
		59	33
Prepayments and accrued income			
Accrued interest		25	28
Other prepayments and accrued income		1	1
Deferred acquisition costs	17	168	181
		194	210
Total assets		17,216	17,697

All the above amounts relate to continuing activities. The notes on pages 26 to 66 form an integral part of these financial statements.

Balance Sheet

Balance sheet as at 31 December 2018 *(continued)*	Note	2018 €m	2017 €m
Capital and reserves			
Called up share capital - presented as equity	18	23	23
Share premium account	18	26	26
Capital reserve	18	43	43
Non - distributable reserve	18	175	244
Profit and loss account	18	103	89
Shareholders' funds - equity interests		370	425
Technical provisions			
Life assurance business provision	19	2,218	1,973
Claims outstanding	19	156	175
		2,374	2,148
Technical provisions for life assurance policies where the investment risk is borne by the policyholders	20	13,994	14,657
Accruals and deferred income		27	29
Deferred taxation	22	-	5
Creditors - Amounts falling due within one year			
Creditors arising out of insurance operations	23	118	97
Due to fellow subsidiaries	23	5	11
Bank overdraft	23	49	28
Other creditors including tax and social security	23	46	51
		218	187
Creditors - Amounts falling due after one year			
Loans and borrowings	24	162	186
Total equity and liabilities before pension deficit		17,145	17,637
Pension deficit	25	71	60
Total equity and liabilities		17,216	17,697

All the above amounts relate to continuing activities. The notes on pages 26 to 66 form an integral part of these financial statements.

Michael Murphy
Director

Tony O'Riordan
Director

Date: 12 April 2019

Statement of Changes in Equity

Financial Year Ended 31 December 2018	Share capital €m	Share premium €m	Capital reserve €m	Non-distribuable reserve €m	Profit and loss account €m	Shareholders' funds €m
Restated[1] balance at 1 January 2017	**23**	**26**	**43**	**306**	**73**	**471**
Retained profit for the financial year	-	-	-	-	70	70
Other comprehensive income for the year	-	-	-	-	4	4
Transfer from non-distributable reserve	-	-	-	(62)	62	-
Dividends paid	-	-	-	-	(120)	(120)
Balance at 31 December 2017	**23**	**26**	**43**	**244**	**89**	**425**
Retained profit for the financial year	-	-	-	-	27	27
Other comprehensive income for the year	-	-	-	-	(12)	(12)
Transfer from non-distributable reserve	-	-	-	(69)	69	-
Dividends paid	-	-	-	-	(70)	(70)
Balance at 31 December 2018	**23**	**26**	**43**	**175**	**103**	**370**

All the above amounts relate to continuing activities. The notes on pages 26 to 66 form an integral part of these financial statements.

[1] *Comparative figures have been restated to reflect the impact of the voluntary change of accounting policy as disclosed in the prior year accounts.*

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') and the European Union (Insurance Undertakings: Financial Statements) 2015.

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

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 21 and note 25.

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 International Financial Reporting Standards (IFRS).

The Company is a qualifying entity for the purposes of FRS 101. Note 31 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 2018, 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.

Adoption of new accounting standards

The following new standards have been adopted by the Company during the year ended 31 December 2018:

- IFRS 9 'Financial Instruments; and
- IFRS 15 'Revenue from Contracts with Customers'.

The Company's accounting policies have been updated for the application of IFRS 9 and IFRS 15 from 1 January 2018.

The impact of each accounting standard is detailed below:

IFRS 15 'Revenue from contracts with customers'

IFRS 15 specifies how and when an entity recognises revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single principles-based five-step model to be applied to all contracts with customers. The standard does not impact income recognition related to financial instruments within the scope of IFRS 9 and insurance contracts within the scope of IFRS 4. As a result, there has been no significant changes to the financial statements on the adoption of IFRS 15 for the year ended 31 December 2018.

IFRS 15 did not have a material impact on the Company's financial statements. While the Company has applied this standard retrospectively, there was no cumulative effect of initially applying this standard to be recognised at the date of initial application and prior periods did not require restatement.

1. Accounting policies *(continued)*

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' replaces IAS 39 'Financial Instruments: recognition and measurement'. It sets out requirements relating to recognition and derecognition, classification and measurement of financial assets and financial liabilities. Financial assets within its scope are required to be classified as being measured, subsequent to initial recognition, at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The classification is dependent on both the overall objective of the business model within which the asset is held and the contractual cash flow characteristics of the asset. For financial liabilities, there is no change to classification and measurement. The Company does not apply hedge accounting techniques under either IAS 39 or IFRS 9.

The financial statements for the comparative year have not been restated to reflect the change as the impact is not material to the financial statements. Below table outlines the reconciliation of the balance sheet classification as at 1 January 2018 under IAS 39 to the classification under IFRS 9.

	Classification under IAS 39	Carrying amount under IAS 39 31 December 2017 €m	Classification under IFRS 9	Carrying amount under IFRS 9 1 January 2018 €m
Assets				
Other financial investments	FVTPL	1,729	FVTPL (Mandatory)	1,729
Investments for the benefit of life assurance policyholders	FVTPL	14,848	FVTPL (Mandatory)	14,848
Cash at bank and in hand	Loans and receivables	22	Amortised cost	22
Other debtors	Loans and receivables	83	Amortised cost	83
Total assets		16,682		16,682
Liabilities				
Technical provisions	FVTPL	5,766	FVTPL (Designated)	5,766
Bank overdraft	Amortised cost	28	Amortised cost	28
Loans and Borrowing	Amortised cost	186	Amortised cost	186
Other creditors	Amortised cost	187	Amortised cost	187
Total liabilities		6,171		6,171

Please see the individual accounting policies for investments and other financial assets and liabilities within the accounting policies note for policies on classification and measurement, recognition, derecognition and impairment under IFRS 9.

Basis of accounting for long term insurance business

The Company uses a modified Solvency II basis to value its insurance contract liabilities, with due regard to the actuarial principles laid down in the Insurance and Reinsurance Directive ('Solvency II Directive'). Under this valuation basis, the Company's financial statements measure insurance contract liabilities on the basis of recognised actuarial methods, with due regard to the applicable actuarial principles recognised in the European Framework for the prudential and financial monitoring of direct life assurance business.

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

The Company's critical accounting policies and the application of these policies and estimates are considered by management for each reporting year.

(a) Technical Provisions

The measurement basis of policyholder liabilities is dependent upon the classification of the contracts under IFRS 4.

The Company uses a modified Solvency II basis to value its insurance contract liabilities, with due regard to the actuarial principles laid down in the Insurance and Reinsurance Directive ('Solvency II Directive'). Under this valuation basis, the Company's financial statements measure insurance contract liabilities and Life Assurance provisions on the basis of recognised actuarial methods, with due regard to the applicable actuarial principles recognised in the European Framework for the prudential and financial monitoring of direct life assurance business.

See note 21 for disclosures of the technical provisions.

(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 25 for the disclosures of the defined benefit pension scheme.

(c) Valuation of Investments

All financial investments are classified as fair value through profit or loss.

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

Investment properties are carried at fair value as determined by external qualified property surveyors appropriate to the properties held. Fair values have been calculated using current trends in the market of property sales and rental yields in the retail, office and industrial property markets (level 2 inputs). Other inputs take into consideration includes occupancy rate forecasts, sales price expectations and letting prospects (level 3 inputs). See note 14 for disclosures on the valuation of investments.

(d) Front-end fees and acquisition costs

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

The requirements of IFRS 4, Insurance Contracts are detailed in the risk and capital management note in note 26.

Contract classification

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

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

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

1. Accounting policies *(continued)*

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

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

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. However, investment contracts are reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance contracts

Insurance contracts are accounted for in accordance with IFRS 4.

(a) Premiums

Premiums receivable in respect of non-unit linked insurance contracts are recognized as revenue when due from policyholders. Premiums received in respect of unit linked business are recognized in the same period in which the associated technical provisions are created. Reinsurance premiums are recognized 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 to claims incurred in the year but which were not notified to the Company at the balance sheet date. Reinsurance claims are recognised at the same time as the policyholders' claim liability.

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

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

(c) Deferred acquisition costs

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

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

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

Investment contracts

Investment contracts are accounted for in accordance with IFRS 9 and previously IAS 39. All of the Company's investment contracts are unit linked in nature. These contracts are accounted for as financial liabilities whose value is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds'.

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

1. Accounting policies *(continued)*

(a) Policy fees

Policy fees comprise fees and charges for administering contracts, investment management fees and an element of origination fees that relate to the current year and are included in 'Other technical income'. Fees are recognised in the period in which they are charged unless they relate to services to be provided in future periods in which case they are deferred and recognised as income over the expected term of the contract as the services are provided. Incremental costs that are directly attributable to securing investment contracts and are expected to be recoverable are deferred and recognised in the balance sheet as deferred acquisition costs. The asset is amortised as the related fees for investment management services are recognised. Policy fees on investment contracts are accounted for in accordance with IFRS 9.

(b) Investment contract liabilities

Investment contracts are accounted for in accordance with IFRS 9. All of the Company's investment contracts are unit linked in nature. These contracts are accounted for as financial liabilities whose value is contractually linked to the fair value of the financial assets within the policyholders' unit linked funds. The fair value of these financial liabilities is equivalent to the amount payable on demand without penalty.

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

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

(b) Provisions for linked liabilities

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

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

Financial liabilities

Under both IFRS 9 and IAS 39, the Company classifies its financial liabilities, which include bank overdrafts, creditors, loans and borrowings as amortised cost.

Financial liabilities are initially recognised at fair value (normally the issue proceeds i.e. the fair value of consideration received) less, in the case of financial liabilities subsequently carried at amortised cost, transaction costs. For financial liabilities carried at amortised cost, any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement using the effective interest method. When a financial liability that is measured at amortised cost is modified without resulting in derecognition, a gain or loss is recognised in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified contractual cash flows discounted at the original effective interest rate.

Other financial liabilities, which relate to unit linked investment contracts are recognised at fair value and are included within 'Technical provision for life assurance policies where the investment risk is borne by the policyholders'.

1. Accounting policies *(continued)*

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, canceled or expires.

Commission expenses

Acquisition commissions payable to financial advisors and independent intermediaries are included in acquisition costs in the technical account - life assurance 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) Investment in subsidiary undertakings

The Company applies the following accounting policy for each sub-categories of investments in subsidiary undertakings:

- Investments in Dutch and French subsidiaries are valued at fair value through the profit and loss. The subsidiaries are distinct from the Company's other subsidiaries as they have been set up to hold investment properties. The value of the companies and their underlying assets and any changes in that value, is wholly attributable to the policyholders. The valuation is based on the valuation of the properties and local management accounts.
- Investments in all other subsidiaries and participating interests are stated at cost.

(b) 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 'Investment Property'. 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.

(c) Financial assets

From 1 January 2018, the Company applies the following accounting policies to the classification, recognition and measurement policies to financial assets. A financial asset is recognised in the balance sheet when, and only when, the Group becomes a party to its contractual provisions. At initial recognition, a financial asset is measured at fair value (plus, in the case of a financial asset not at FVTPL, directly attributable transaction costs) and is assigned one of the following classifications for the purposes of subsequent measurement:

- financial assets at amortised cost;
- financial assets at FVOCI; or
- financial assets at FVTPL.

Financial assets at FVTPL

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

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

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 account based on the exchange rate on the date of settlement or balance sheet date.

1. Accounting policies *(continued)*

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

Financial assets at amortised cost

Until 31 December 2017, under requirements of IAS 39, the Company categorised its financial assets as: financial assets at fair value through profit or loss; loans and receivables; held to maturity or available for sale financial assets and determined the classification of its financial assets at initial recognition. The Company's policies for classification, recognition and measurement of financial assets for the comparative period for the year ended 31 December 2017 under IAS39 are as follows;.

Financial assets at fair value through profit or loss

All financial investments are classified as fair value through profit or loss and the recognition, measurement and derecognition is as noted above for IFRS 9.

Loans and receivables

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.

(d) 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.

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.

1. Accounting policies *(continued)*

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised investment gains and losses.

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

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

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

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

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

Reinsurance

Contracts entered into by the Company with re-insurers under which the Company is compensated for losses on one or more contracts issued by the Company are dealt with as insurance contracts, subject to meeting the significant insurance risk test in IFRS 4. The impairment requirements of IFRS 4 are applied to these assets.

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 re-insurers are estimated based upon the gross provisions, having due regard to collect-ability. The reinsurers' share of the technical provisions is calculated on a basis consistent with the calculation of the corresponding liabilities.

Post-employment benefits

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

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

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

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

1. Accounting policies *(continued)*

Management expenses

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

Taxation

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

The balance on the life assurance business technical account is computed on an after tax basis reflecting the taxation applicable to life assurance 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.

Intangible assets

Intangible assets comprise of computer software externally purchased and are stated at cost less accumulated amortisation and impairment, if any and are amortised on a straight line basis over their useful lives at a rate of 20% - 25%.

Land and buildings

Freehold and leasehold land and buildings are initially recognised at cost, and subsequently are revalued annually to fair value by independent external valuers. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from the open market value at the reporting date. Increases in the carrying amount arising on the revaluation of land and buildings, are recognised in the technical account. The Directors consider that residual values of freehold and long leasehold property based on prices prevailing at the time of acquisition or subsequent valuation are such that depreciation is not material.

Tangible assets

Tangible assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight line method to write down the carrying value of other items of tangible assets to their residual values over their estimated useful lives as follows:

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

Operating leases

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

Foreign currencies

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

Dividends

Dividends are recognised in the period in which they are approved by the Company's Board of Directors.

2. Premiums Written - Contracts Classified As Insurance

A. Gross Premiums Written

	2018				2017			
	Individual life €m	Individual pensions €m	Group contracts €m	Total €m	Individual life €m	Individual pensions €m	Group contracts €m	Total €m
Unit-linked	62	139	85	286	66	108	93	267
Non unit-linked	140	-	65	205	134	1	50	185
Periodic premiums	202	139	150	491	200	109	143	452
Unit-linked	316	701	23	1,040	287	615	41	943
Non unit-linked	-	31	248	279	-	29	-	29
Single premiums	316	732	271	1,319	287	644	41	972
Total premiums written	518	871	421	1,810	487	753	184	1,424

The written premiums above in 2018 and 2017 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 €1,810 million (2017: €1,424 million). The written premiums from insurance contracts and investment contracts is €2,174 million (2017: €1,791 million).

B. Gross New Business Premiums

	2018				2017			
	Individual life €m	Individual pensions €m	Group contracts €m	Total €m	Individual life €m	Individual pensions €m	Group contracts €m	Total €m
Unit-linked	3	39	22	64	4	42	40	86
Non unit-linked	12	-	22	34	14	-	15	29
Periodic premiums	15	39	44	98	18	42	55	115
Unit-linked	316	701	23	1,040	287	615	41	943
Non unit-linked	-	31	248	279	-	29	-	29
Single premiums	316	732	271	1,319	287	644	41	972
Total new business premiums	331	771	315	1,417	305	686	96	1,087

The new business premiums above in 2018 and 2017 arise from contracts which meet the IFRS 4 definition of insurance. New business premiums from insurance contracts is €1,417 million (2017: €1,087 million). New business premiums from insurance contracts and investment contracts is €1,606 million (2017: €1,372 million).

C. Reinsurance Balance

The net reinsurance debit in the technical account for the year amounted to €6 million (2017: €16 million debit).

3. Staff Costs

	2018 €m	2017 €m
Wages and salaries	35	36
Social insurance costs	4	4
Defined benefit retirement benefit costs (note 25)	7	7
Defined contribution retirement benefit costs	1	1
Other staff costs	1	1
Staff costs capitalised	(1)	-
	47	49
The average number of employees during the year was as follows:		
Sales and marketing	119	119
Policy administration	271	280
Other administration	201	221
	591	620

Included in wages and salaries are sales commission payments to staff of €1 million (2017: €1 million). Staff costs that are directly associated with the production of identifiable and unique software products controlled by the Company and which will generate economic benefits exceeding costs beyond one year, are capitalised as part of intangible assets.

4. Investment Income

	2018 €m	2017 €m
Income from investment properties	43	36
Income from listed investments	152	198
Income from other investments	21	25
	216	259
Net gains on realisation of investments	408	646
	624	905
Investment Activity Report		
Investment income	216	259
Investment expenses and charges	(13)	(11)
Net realised gains	408	646
Net unrealised losses	(1,260)	(7)
Total investment return	(649)	887
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	408	646
Net unrealised losses	(1,260)	(7)
Total realised and unrealised (losses) / gains included in investment return	(852)	639

4. Investment Income *(continued)*

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 a loss of €852 million (2017: €639 million gain) in respect of assets designated as fair value through profit or loss on initial recognition.

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 €48 million (2017: €44 million) and is net of property expenses of €4 million (2017: €8 million).

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 life assurance business funds and investments attributable to the shareholder.

5. Other Technical Income, Net of Reinsurance

Other technical income of €56 million (2017: €66 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

	2018 €m	2017 €m
Net operating expenses comprise		
Acquisition expenses	60	67
Change in deferred acquisition costs	13	11
Administrative expenses	112	113
	185	191
Net operating expenses include		
Commission payments including to employees (note 7)	88	85
Other sales related costs	4	3
Operating lease rentals net of recoverable charges	-	1
Depreciation and amortisation	3	2
Operating expenses	84	89
Non recurring costs associated with sale of head office	2	-
Profit on sale of head office	(9)	-
Change in deferred acquisition costs	13	11
Total operating expenses	185	191

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

7. Commissions

Total commissions incurred by the Company during the year, excluding payments to employees, was €88 million (2017: €84 million).

8. Profit on Ordinary Activities before Taxation

	2018 €m	2017 €m
Depreciation and amortisation	3	2
Operating lease rentals other	-	-
Operating lease rentals property	1	1
Auditors' remuneration		
Remuneration (including expenses) for the statutory audit and other services carried out for the Company by the Company's auditors is as follows:		
- Audit of entity financial statements	-	-
- Other assurance services	-	-
- Tax advisory services	-	-
- Other non-audit services	-	-
Total auditors' remuneration	-	-

Total auditors' remuneration incurred by the Company during the year was €0.5 million (2017: €0.6 million), €0.3 million (2017: €0.3 million) for the audit of entity financial statements and €0.2 million (2017: €0.3 million) for other audit related assurance services.

9. Tax on Profit on Ordinary Activities

	2018 €m	2017 €m
Technical Account Charge		
Corporation tax charge for the year	13	15
Relief for double taxation	-	(1)
Overseas tax	10	13
Prior year under provision	-	1
	23	28
Deferred tax charge (note 22): origination and reversal of timing differences	(21)	(5)
	2	23
Non-Technical Account Charge		
Irish corporation tax on profits for the financial year	4	10

The tax charge on the non-technical account for 2018 and 2017 is the same as the charge that would result from applying the standard rate of Irish corporation tax to profit on ordinary activities. The statutory rate applied to profit before tax is 12.5%.

9. Tax on Profit on Ordinary Activities *(continued)*

Reconciliation of tax on the profit before taxation at the standard Irish corporation tax rate to actual tax charge	2018 €m	2017 €m
Profit before tax		
Balance on the technical account - life assurance business	27	70
Add back tax charge attributable to the life assurance business	2	23
	29	93
Profit before tax multiplied by the rate of Irish corporation tax for the year of 12.5% (2017: 12.5%)	4	12
Effects of:		
Overseas tax	10	13
Non taxable items	(4)	3
Relief for double taxation	-	(1)
Foreign tax deduction	(1)	(2)
Other deductions	(1)	(1)
Difference due to life asssurance tax rate	(6)	(2)
Prior year under provision	-	1
Tax charge attributable to the life assurance business	2	23

10. Dividend

	2018 €	2017 €
Dividend paid	70,000,000	120,000,000
No of shares	175,500,001	175,500,001

A dividend of €0.399 (2017: €0.684) per share was paid during the year.

11. Intangible Assets

Computer Software	2018 €m	2017 €m
Cost		
At 1 January	97	94
Additions	12	3
Disposals	-	-
Revaluation	-	-
Reclassification	-	-
At 31 December	109	97
Accumulated amortisation		
At 1 January	(87)	(85)
Charge for the year	(3)	(2)
Disposals	-	-
At 31 December	(90)	(87)
Net Book Amounts		
At 31 December	19	10

12. Assets Classified as Held for Sale

In 2018 the Company completed the disposal of its head office building in Dublin. The gain of €9 million on disposal of the asset, which had been reclassified as assets classified as held for sale was recognised in the Technical Account in net operating expenses and was calculated based on sale proceeds of €38 million less costs attributable to the sale of €1 million offset against the held for sale value of the property of €28 million.

13. Other Financial Investments

	2018		2017	
Financial assets at fair value through profit and loss	Fair value €m	Cost €m	Fair value €m	Cost €m
Designated upon initial recognition	1,630	1,504	1,593	1,382
Deposits with credit institutions	102	102	136	136
Total financial assets	1,732	1,606	1,729	1,518
Included in the balance sheet as follows:				
Shares and other variable yield securities				
- Unit trusts	116	115	75	75
- Unlisted securities	17	17	17	17
Debt securities and other fixed income securities	1,497	1,372	1,501	1,290
Deposits with credit institutions	102	102	136	136
Total financial assets	1,732	1,606	1,729	1,518

	2018		2017	
Listed investments included at fair value	Fair value €m	Cost €m	Fair value €m	Cost €m
Debt securities and other fixed income securities	1,497	1,372	1,501	1,290
Shares and other variable yield securities	116	115	75	75
	1,613	1,487	1,576	1,365
Other financial investments attributable to the shareholder include:				
Shares and other variable yield securities	17	17	17	17
Deposits with credit institutions	102	102	136	136
Total financial assets	1,732	1,606	1,729	1,518

Derivative financial instruments, at fair value through profit or loss

Included within listed investments are forward currency contracts with a fair value gain of €0.1 million (2017: €0.2 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 €0.1 million (2017: €1 million gain).

14. Investments for the Benefit of Life Assurance Policyholders who bear the Investment Risk

	2018		2017	
	Fair value €m	Cost €m	Fair value €m	Cost €m
Unit linked insurance contracts	8,934	10,096	9,078	8,354
Unit linked investment contracts	5,234	5,914	5,770	5,310
Total financial assets	14,168	16,010	14,848	13,664

The carrying amounts of unit linked investments 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 €2,536 million (2017: €2,674 million) in respect of group pension funds. See further analysis in note 26.

Investments in subsidiaries undertakings which are property companies are held for the benefit of policyholders and are valued at fair value. The value of these undertakings are included as part of investments for the benefit of life assurance policyholders who bear the investment risk. The fair value amount at 31 December 2018 is €229 million (2017: €193 million)

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.

Unconsolidated structured entities

The company holds investments in unconsolidated structured entities arising from investments in collective investment undertakings, carried at fair value of €8,573 million (2017: €8,296) The value included in assets held to cover linked assurance contracts is €8,457 million (2017: €8,221 million) and €116 million (2017: €75 million) is held in other financial investments.

A summary across fund type of the Company's interest in collective investment undertakings is as follow:

	2018 €m	2017 €m
Equity funds	3,193	3,237
Debt funds	1,992	1,617
Money market funds	1,274	1,246
Alternative funds	599	654
Other	1,515	1,542
	8,573	8,296

The investments in collective investment undertakings, are primarily held to match policyholder liabilities and the majority of the risk from a change in the value of the Company's investment is matched by a change in policyholder liabilities. The collective investment vehicles are primarily financed by investments from investors in the vehicles. The company does not sponsor any of the unconsolidated structured entities.

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 €1 million (2017: €7 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 €6 million (2017: €12 million loss).

15. Debtors

Debtors arising out of direct insurance operations	2018 €m	2017 €m
Policyholders	18	25
Intermediaries	18	17
Debtors arising out of reassurance operations	33	33
	69	75
Due from fellow subsidiaries	4	1
Other debtors	11	7
	84	83

The carrying amounts disclosed above reasonably approximate fair value at the balance sheet date. There was 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.

16. Land and Buildings and Tangible Assets

	2018			2017		
	Freehold land and buildings and leaseholds (held at fair vlaue €m	Computer and other equipment (at cost) €m	Total €m	Freehold land and buildings and leaseholds (held at fair vlaue €m	Computer and other equipment (at cost) €m	Total €m
Cost						
At 1 January	3	2	5	25	2	27
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Revaluation	-	-	-	6	-	6
Reclassification	-	-	-	(28)	-	(28)
At 31 December	3	2	5	3	2	5
Accumulated depreciation						
At 1 January	-	(2)	(2)	-	(2)	(2)
Charge for the year	-	-	0	-	-	-
Disposals	-	-	-	-	-	-
At 31 December	-	(2)	(2)	-	(2)	(1)
Net Book Amounts						
At 31 December	3	-	3	3	-	3

Computer and other equipment cost and accumulated depreciation at 1 January 2018 are restated to exclude intangible assets. Intangible assets are now disclosed separately in Note 11.

Freehold land and buildings and leaseholds are stated in the balance sheet at fair value. Movements in fair value are included in net operating expenses. 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.

16. Land and Buildings and Tangible Assets *(continued)*

The valuations have been undertaken by Lisney (Chartered Surveyors) in Ireland at a valuation date of 31 December 2018, 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 leaseholds. The leasing cost of these properties are recognised as expenses in net operating costs and the financial commitments of these properties are set out in note 28.

There is no rental income generated from the freehold land and buildings, the leaseholds and the asset held for sale. Direct operating expenses of €2 million (2017: €2 million) arose on these properties.

17. Deferred Acquisition Costs

	2018 €m	2017 €m
Deferred expenses at 1 January	181	192
Acquisition expenses incurred during the year	60	67
Charged to the technical account	(6)	(6)
Apportionment for the year	235	253
Amortisation of prior year acquisition expenses	(67)	(72)
Deferred expenses at 31 December	168	181
On insurance contracts	154	164
On investment contracts	14	17
	168	181

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

18. Capital and Reserves

Called up share capital	2018 €m	2017 €m
Authorised		
200,000,000 ordinary shares of 13 cents each (2017: 200,000,000)	26	26
Issued and fully paid - presented as equity		
175,500,001 ordinary shares of 13 cents each (2017: 175,500,001)	23	23

Share premium account

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

Capital reserve

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

Non-distributable reserve

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

18. Capital and Reserves *(continued)*

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 2018 there were distributable reserves of €103 million (2017: €89 million).

19. Policyholders' Liabilities

	2018		2017	
	Life Assurance Provision €m	Claims Outstanding €m	Life Assurance Provision €m	Claims Outstanding €m
Gross				
At 1 January	1,973	175	2,013	153
Change in technical provision	245	(19)	(40)	22
At 31 December	**2,218**	**156**	**1,973**	**175**
Reinsurers share				
At 1 January	(740)	(16)	(764)	(14)
Change in technical provision	(202)	(2)	24	(2)
At 31 December	**(942)**	**(18)**	**(740)**	**(16)**
Net Amount				
At 31 December	1,276	138	1,233	159

20. Actuarial Valuation and Unit Linked Liabilities

An actuarial valuation of the Company's liabilities, carried out at 31 December 2018 disclosed a surplus within the fund. The amount of surplus applied to meet the total cost of policyholders' bonus was €0.2 million (2017: €0.2 million). The shareholders' share of the distributed surplus was €84 million (2017: €136 million).

The technical provisions relating to insurance and investment contracts are:

	2018			2017		
	Unit linked Investment Contracts €m	Unit linked Insurance Contracts €m	Total €m	Unit linked Investment Contracts €m	Unit linked Insurance Contracts €m	Total €m
At 1 January	5,766	8,891	14,657	5,647	8,430	14,077
Deposits received from policyholders under investment contracts	364	-	364	367	-	367
Payments made to policyholders of, and fees deducted from investment contracts	(587)	-	(587)	(547)	-	(547)
Gross policy fees	(53)	-	(53)	(62)	-	(62)
Change in technical provision as shown in the technical account	(256)	(131)	(387)	361	461	822
At 31 December	**5,234**	**8,760**	**13,994**	**5,766**	**8,891**	**14,657**

20. Actuarial Valuation and Unit Linked Liabilities *(continued)*

The market value of investments held to cover linked liabilities was €14,168 million (2017: €14,848 million). The cost of investments held to cover linked liabilities was €16,010 million (2017: €13,664 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 €5,234 million (2017: €5,766 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 amounts which are not policyholder linked liabilities in the Company's balance sheet.

21. 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:

Mortality Table	2018	2017
Unit Linked Pensions	100% AM00/AF00	100% AM00/AF00
Unit Linked Life - Bank	90% AM00/ AF00 select	100% AM00/AF00
Unit Linked Life - Broker	100% ult	100% AM00/AF00
Unit Linked Life - Financial Advisor	100% ult	100% AM00/AF00
Expense Inflation	**3.5% p.a**	**3.5% p.a**

Interest Rate

The interest rates are set in accordance with Solvency II regulations. They are based on the Euro Swap Curve with credit risk adjustment, extrapolated to the ultimate forward rate of 4.05% from year 20.

Life Assurance Provision

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

Mortality Table	2018	2017
Industrial assurance	90% A1967 - 70 + 1	90% A1967 - 70 + 1
Non profit life assurance	70% AM00/AF00	70% AM00/AF00
Life Choice	60% AM00/AF00	60% AM00/AF00
Pension immediate annuity	100% of PMA08/PFA08, year of use 2018, 2014 CMI Improvements, LTR/2.0%	100% PMA08 CMI Improvements LTR/2.0%

21. Technical Provisions *(continued)*

Expense Inflation	2018 €m	2017 €m
Industrial assurance	3.5%	3.5%
Non profit life assurance	3.5%	3.5%
Pension immediate annuity	3.5%	3.5%

Renewal Expenses	2018	2017
Industrial Assurance	25% of each premium with no inflation, 30% of each premium inflating	25% of each premium with no inflation, 30% of each premium inflating
Non-linked Protection	€79	€86
LifeChoice	€79	€86
Pension immediate annuity	€109	€105

Interest Rate

The interest rate is set in accordance with Solvency II regulations, based on the Euro Swap Curve with credit risk adjustment, extrapolated to the ultimate forward rate of 4.05% from year 20.

Unit growth rate

The unit growth rate is based on the forward rates derived from the same term structure as the Solvency II discount rate.

Expenses

Expense loadings are based on an assessment of the expected cost of administering existing contracts including allowance for future inflation. This is based on an analysis of costs actually incurred in 2018.

Explicit provision is made in the life assurance provision for vested reversionary bonuses and a level of future bonus. Included in the life assurance provision is an amount of €1 million (2017: €1 million) for terminal bonuses.

22. Provision for Other Risks and Other Charges – Deferred Taxation

Deferred Taxation	2018 €m	2017 €m
Deferred taxation 1 January	3	(2)
Net change for the year - pensions	2	-
Net change for the year - origination and reversal of timing differences	21	5
Deferred taxation at 31 December	**26**	**3**
The provision for deferred taxation comprises:		
Pension deficit	9	8
Unrealised gains on investments	17	(4)
Other timing differences	-	(1)
Deferred taxation at 31 December	**26**	**3**
Represented on the balance sheet as follows:		
Deferred taxation asset	26	8
Deferred taxation liability	-	(5)
	26	**3**

23. Other Creditors including Taxation and Social Insurance

	2018 €m	2017 €m
Creditors arising out of direct insurance operations	79	72
Creditors arising out of reinsurance operations	39	25
	118	97
Due to fellow subsidiaries	5	11
Bank overdraft	49	28
Other creditors including tax and social security		
Taxation and social security		
- PAYE	7	7
- PRSI	1	1
-VAT	-	1
- Corporation tax	-	-
Government duties and levies	18	28
Other	20	14
	46	51
Total creditors	**218**	**187**

Creditors arising out of direct insurance operations, reinsurance 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.

24. Loans and Borrowings

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

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

The Company and an external third party executed a Financial Reassurance agreement whereby the Company received ceding commission of €120 million secured against a defined block of the in force book of business. Under the agreement, the Company had an obligation to repay the ceding commission along with a risk premium over the term of agreement but the obligation was contingent on the surpluses arising from the defined portion of the value of in force emerging in the future. The risk premium was set at 1.75% in 2014. The first repayment of ceding commission was paid in 2016, the second repayment of ceding commission was paid in 2017. The final repayment of ceding commission of €24 million was paid on 30 April 2018.

	2018 €m	2017 €m
Financial reinsurance	-	24
Subordinated debt	162	162
	162	186

The subordinated debt includes interest payable of €2 million (2017: €2 million) which is payable within one year.

	2018			2017		
	Financial Reinsurance €m	Subordinated Debt €m	Total €m	Financial Reinsurance €m	Subordinated Debt €m	Total €m
At 1 January	24	162	186	60	82	142
Loan issued	-	-	-	-	80	80
Loan repaid	(24)	-	(24)	(36)	-	(36)
Interest charged	-	7	7	1	4	5
Interest paid	-	(7)	(7)	(1)	(4)	(5)
At 31 December	-	162	162	24	162	186

25. Pension Costs

The Company operates a group defined benefit pension scheme, which is closed to new members and covers the majority of the Company's employees. The assets of the scheme are held in a 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 last formal triennial valuation of the New Ireland Assurance pension scheme was carried out at 31 March 2016. At that date, 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.

The scheme is also subject to an annual valuation under the Irish Pensions Authority Minimum Funding Standard (MFS). The MFS valuation is designed to assess whether the scheme has sufficient funds to provide a minimum level of benefits in a windup scenario.

The scheme did not meet the Funding Standard at 31 December 2018 but has subsequently met it at 28 February 2019.

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.

	2018	2017
Inflation	1.35%	1.65%
Salary increases	1.85%	2.15%
Pension payment increases	0.70%	0.90%
Pension increases for deferred benefits	1.30%	1.60%
Discount rate	2.00%	2.10%

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 2018 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.

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

	2018 Males	2017 Males
Longevity at age 60 for members currently aged 60 years	27	27
Longevity at age 60 for members currently aged 40 years	30	30

	2018 Females	2017 Females
Longevity at age 60 for members currently aged 60 years	29	29
Longevity at age 60 for members currently aged 40 years	31	31

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

Factors	Change in assumptions	Impact on scheme liabilities 2018 €m	Impact on scheme liabilities 2017 €m
Discount rate	0.25% decrease	16	17
Rate of inflation	0.10% decrease	(4)	(5)
Rate of salary increase	0.10% decrease	(2)	(2)
Rate of pension increase	0.10% decrease	(4)	(4)
Life expectancy	1 year decrease	(10)	(10)
Discount rate	0.25% increase	(15)	(16)
Rate of inflation	0.10% increase	5	5
Rate of salary increase	0.10% increase	2	2
Rate of pension increase	0.10% increase	4	4
Life expectancy	1 year increase	10	10

The balance recognised in the balance sheet is:

	2018 €m	2017 €m
Actuarial value of liabilities	(307)	(314)
Fair value of scheme assets	236	254
	(71)	(60)

25. Pension Costs *(continued)*

The reconciliation of the movements to the balance sheet is:

	2018 €m	2017 €m
Deficit at 1 January	(60)	(64)
Employer contributions	10	7
Net benefit expense for period	(7)	(7)
Actuarial (loss) / gain	(14)	4
Deficit at 31 December	**(71)**	**(60)**

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

	2018 €m	2017 €m
Scheme liabilities at 1 January	314	303
Employer service cost	5	5
Interest cost	7	7
Scheme participants contribution	1	1
Actuarial loss / (gain)	(11)	9
Benefits paid	(9)	(11)
Scheme liabilities at 31 December	**307**	**314**
Scheme assets at 1 January	254	239
Actual return on assets	(20)	18
Employer contribution	10	7
Scheme participants contribution	1	1
Benefits paid	(9)	(11)
Scheme assets at 31 December	**236**	**254**

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

	2018	2017
Equities	56%	65%
Fixed Interest	26%	23%
Property	12%	11%
Cash	6%	1%

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.

25. Pension Costs *(continued)*

Analysis of amounts recognised in the profit and loss:

	2018 €m	2017 €m
Expected return on scheme assets	5	5
Less interest on scheme liabilities	(7)	(7)
Employer service cost	(5)	(5)
Past service cost - planned amendments	-	-
Past service cost - curtailments	-	-
Total charge to profit and loss (note 3)	(7)	(7)

Analysis of amounts recognised in statement of comprehensive income:

	2018 €m	2017 €m
(Losses) / gains on assets	(25)	13
Decrease in liabilities	1	2
Change in assumptions	10	(11)
	(14)	4

The total estimated charge to the profit and loss account for 2019 is €7 million. Expected employer contributions for the year ended 31 December 2019 are €3 million. Expected employee contributions for the year ended 31 December 2019 are €1 million.

26. 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.

26. Risk and Capital Management *(continued)*

Classification	2018 Unit linked contracts €m	2018 Non-linked / other contracts €m	2018 Total €m	2017 Unit linked contracts €m	2017 Non-linked / other contracts €m	2017 Total €m
Shares and other variable yield securities and units in unit trusts at fair value through the profit and loss						
- Listed securities and unit trusts	10,113	116	10,229	10,755	75	10,830
- Unlisted securities	227	17	244	322	17	339
Debt securities and other fixed income securities at fair value through profit and loss						
- Listed	1,928	1,521	3,449	1,719	1,526	3,245
Derivative financial instruments at FVTPL	658	-	658	645	-	645
Deposits and cash balances	206	132	338	490	158	648
Investment property	791	-	791	719	-	719
Investment in subsidiary undertakings at FVTPL	229	-	229	193	-	193
Assets classified as held for sale	-	-	-	-	28	28
Reinsurance assets	-	960	960	-	756	756
Other assets	16	302	318	5	289	294
Total assets	**14,168**	**3,048**	**17,216**	**14,848**	**2,849**	**17,697**
Long term business provision	-	2,218	2,218	-	1,973	1,973
Claims outstanding	-	156	156	-	175	175
Technical provisions for linked liabilities	13,994	-	13,994	14,657	-	14,657
Deposits received from reinsurers	-	39	39	-	25	25
Loans and borrowings	-	211	211	-	214	214
Provisions for other risks and charges	-	-	-	-	5	5
Other liabilities	174	54	228	191	32	223
Total liabilities	**14,168**	**2,678**	**16,846**	**14,848**	**2,424**	**17,272**

The classification categories were restated to separately disclose property of €912 million into the following categories; investment properties of €719 million and investments in subsidiary undertakings at FVTPL of €193 million as at 31 December 2017.

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.

26. Risk and Capital Management *(continued)*

The management of insurance risk is the responsibility of the Board of the Company. The Financial Risks Committee, supported by a sub-committee with responsibility for reinsurance, actively monitors the appropriateness of the reinsurance strategy for both new and existing products and reports its findings to the Board Risk Committee.

This includes a review of the panel of re-insurers that may be used and the optimal structure of the reinsurance arrangements.

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 in line with emerging experience.

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

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

	2018		2017	
Class of business	Policyholders liabilities and reserves %	Sum assured %	Policyholders liabilities and reserves %	Sum assured %
Pension				
Linked	57%	21%	57%	21%
Non linked (non profit)	-	-	-	-
With profits	-	-	-	-
Annuities	6%	-	9%	-
Life				
Linked	35%	28%	32%	30%
Non linked (non profit)	2%	51%	2%	49%
With profits	-	-	-	-
Annuities	-	-	-	-
	100%	100%	100%	100%

The total sum at risk, net of reinsurance, is €27,332 million (2017: €27,781 million).

26. Risk and Capital Management *(continued)*

Market Risk

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

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

(a) Interest rate risk

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

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

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

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

Debt securities and other fixed-income securities maturity schedule	2018 €m	2017 €m
Within one year	26	37
More than one year - within five years	168	145
More than five years - within ten years	379	347
More than ten years	948	997
Total	1,521	1,526

26. Risk and Capital Management *(continued)*

The fair values of debt securities through profit loss or 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 schedule	2018 €m	2017 €m
Within one year	132	158
More than one year - within five years	-	-
More than five years - within ten years	-	-
More than ten years	-	-
Total	132	158

A maturity analysis for unit linked investment contracts amounting to €14,168 million (2017: €14,848 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 borne by the policyholders of unit linked contracts.

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

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

Impact on Profit and Net Assets	2018 €m	2017 €m
Increase in yield curve +50 bps	(12.8)	(13.0)
Decrease in yield curve -50bps	8.9	10.4

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

(b) Equity and Property price Risk

This is the risk of loss associated with falling equity or property values and it arises from assets held directly by the Company or in the main as a result of lower fees which are linked to the value of customer's investments in these assets. The Company indirectly derives income from management fees arising from the value of funds under management. A 5% increase in equity markets half way through the year will increase profits in that year by €1.5 million (2017: €1.7 million).

(c) Currency Risk

The Company does not bear any currency risk directly – this is borne by the policyholders. The value of the shareholder's holding in non Euro currency is not material. All assets held to match non linked liabilities are denominated in Euro. The Company indirectly derives income from management fees arising from the value of funds under management. A 5% movement in exchange rates half way through the year will change profits in that year by €0.9 million (2017: €1.2 million).

26. Risk and Capital Management *(continued)*

Liquidity Risk

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

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

In the case of unit linked business, liquidity risk can arise when unit linked assets cannot be sold quickly enough to meet surrender values. The managers of the unit linked funds maintain a liquidity balance as appropriate to allow for surrenders. This is kept under regular review allowing for the expected inflows and outflows and taking into consideration the investment guidelines and liquidity of the assets in the funds.

The Company, from time to time, sells structured products such as tracker bonds which contain investment guarantees. It is the policy of the Company to hedge all tracker guarantees with a third party. Where structured products are issued, the Company will ensure that the policy conditions state that the policyholder can only surrender the policy at the end of the term, and that the value will be equal to the amount received by the Company from the maturing asset. Early surrenders are not usually permitted.

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

Maturities of financial liabilities

2018	Demand €m	0-3 mths €m	3-12 mths €m	1-5 years €m	+5 years €m	Total €m
Financial liabilities under investment contract	5,234	-	-	-	-	5,234
Due to fellow subsidiaries	-	5	-	-	-	5
Creditors and accruals	-	178	-	-	-	178
Bank overdraft	-	49	-	-	-	49
Loans and borrowings	-	-	2	-	160	162
Total	**5,234**	**232**	**2**	**-**	**160**	**5,628**

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

26. Risk and Capital Management *(continued)*

Credit Risk

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

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

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

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

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

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

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

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

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

26. Risk and Capital Management *(continued)*

The assets bearing credit risk are summarised below:

	2018			2017		
	Unit linked contracts €m	Non-linked / other contracts €m	Total €m	Unit linked contracts €m	Non-linked / other contracts €m	Total €m
Debt securities and other fixed income securities at fair value through profit and loss						
- Listed	1,928	1,521	3,449	1,719	1,526	3,245
Derivative financial instruments, at FVTPL	658	-	658	645	-	645
Deposits and cash balances	206	132	338	490	158	648
Reinsurance assets	-	960	960	-	756	756
Other assets	16	80	96	5	81	86
Total	2,808	2,693	5,500	2,859	2,521	5,380

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

	Unit Linked Contracts		Non-linked / Other Contracts	
Class of business	2018 €m	2017 €m	2018 €m	2017 €m
AAA	308	332	17	8
AA+	138	122	217	215
AA	341	392	353	574
AA -	21	4	960	777
A+	499	485	454	464
A	172	349	107	89
A -	177	31	199	96
BBB+	1,138	385	205	74
BBB	14	759	135	182
BBB-	-	-	26	14
BB+	-	-	-	1
Unrated	-	-	20	27
	2,808	2,859	2,693	2,521

Unrated items are premiums due from policyholders.

26. Risk and Capital Management *(continued)*

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	2018 €m	2017 €m
Credit spreads +0.50%	(50.7)	(47.5)

In 2018 the Company applied and was approved by the Central Bank of Ireland to use the EIOPA published volatility adjustment within the calculation of its technical provisions. This adjustment is reflected in the values in the above table where value the in 2017 is restated from (€69.5) to (€47.5).

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 €2.8 billion (2017: €2.9 billion).

Operational risk

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

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.

26. Risk and Capital Management *(continued)*

	2018				2017			
	Level 1 €m	Level 2 €m	Level 3 €m	Total €m	Level 1 €m	Level 2 €m	Level 3 €m	Total €m
Financial assets held at fair value								
Equities and unit trusts	10,229	227	17	10,473	10,830	322	17	11,169
Debt securities	3,326	123	-	3,449	3,245	-	-	3,245
Derivative instruments	-	658	-	658	-	645	-	645
Deposits with credit institutions	-	102	-	102	-	136	-	136
Non-financial assets held at fair value								
Investment property	-	-	791	791	-	-	719	719
Investment in subsidiary undertakings at FVTPL	-	-	229	229	-	-	193	193
Owner occupied property	-	-	2	2	-	-	2	2
Assets classified as held for sale	-	-	-	-	-	-	28	28
	13,555	1,110	1,039	15,704	14,075	1,103	959	16,137
Financial liabilities held at fair value								
Under insurance contracts	-	10,978	-	10,978	-	10,864	-	10,864
Under investment contracts	-	5,234	-	5,234	-	5,766	-	5,766
Subordinated debt	-	162	-	162	-	162	-	162
	-	16,374	-	16,374	-	16,792	-	16,792

The financial liabilities held at fair value at 31 December 2017 were restated to include €1,973 million for liabilities to non linked customers under insurance contracts.

Movements in Level 3 assets

	2018						2017					
	Equities and unit trusts €m	Investment property €m	Investment in subsidiary undertakings at FVTPL €m	Owner occupied property €m	Assets classified as held for sale €m	Total €m	Equities and unit trusts €m	Investment property €m	Investment in subsidiary undertakings at FVTPL €m	Owner occupied property €m	Assets classified as held for sale €m	Total
Opening balance	17	719	193	2	28	959	17	733	131	25	-	906
Investment gains	-	10	3	-	-	13	-	2	29	5	-	36
Additions	-	90	33	-	-	123	-	41	33	-	-	74
Disposals	-	(13)	-	-	(28)	(41)	-	(57)	-	-	-	(57)
Reclassification												
Move from level 3 to level 2	-	(15)	-	-	-	(15)	-	-	-	(28)	28	-
Closing Balance	17	791	229	2	-	1,039	17	719	193	2	28	959

In 2018, a number of real estate funds totaling €15 million were reclassified from investment properties to other financial assets at FVTPL.

26. Risk and Capital Management *(continued)*

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 in subsidiary undertakings at FVTPL and investment properties

Investments in Dutch and French subsidiaries are valued at fair value through the profit and loss. The subsidiaries are distinct from the Company's other subsidiaries as they have been set up to hold investment properties

Investment properties

Investment properties are carried at fair value as determined by external qualified property surveyors appropriate to the properties held. Fair values have been calculated using current trends in the market of property sales and rental yields in the retail, office and industrial property markets (level 2 inputs). Other inputs take into consideration includes 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 2018. All freehold and long leasehold properties were valued by Lisney as external valuers. Lisney valuations were made on the basis of observable inputs such as comparable lettings and sales (level 2 inputs). Unobservable inputs such as profile, lot size, layout and presentation of accommodation are also used (level 3 inputs). Using reasonably possible alternative assumptions would not have a material impact on the value of these assets. All properties are valued based on highest and best use.

Capital Management

Solvency II is the harmonised EU-wide regulatory capital framework for insurance companies.

The regime requires 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 contains 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).

26. Risk and Capital Management *(continued)*

Available capital resources

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

	2018 €m	2017 €m
Total shareholders' equity	370	425
Adjustments to regulatory basis :		
Differences in technical provisions (net of reinsurance)	528	530
Deferred acquisition costs / deferred income liability	(154)	(164)
Asset valuation adjustments	(19)	(10)
Deferred taxation	(45)	(45)
Subordinated debt	160	160
Total eligible own funds to meet SCR	**840**	**896**
Solvency Capital Requirement (SCR)	(572)	(583)
Excess own funds	**268**	**313**
Ratio of eligible own funds to meet SCR	147%	154%

The Company's total eligible own funds under Solvency II are €840 million (2017: €896). This is a combination of the excess of assets over liabilities of €680 million (2017: €736 million), which is Tier 1 capital and the subordinated debt of €160 million (2017: €160 million), which is a Tier 2 capital instrument.

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

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

- The key difference between the financial statements and the Solvency II balance sheet is the calculation of the technical provisions net of reassurance. The minimum reserve for any policy is zero in the financial statements while it is permitted to have negative reserves under Solvency II. Allowing for these differences gives a positive difference of €528 million (2017: €530 million) allowing for reinsurance
- There is a deferred acquisition costs asset and a deferred income liability in the financial statements, neither of which are allowable under Solvency II. Removing the deferred acquisition costs asset and a deferred income liability leads to a reduction of €154 million (2017: €164 million).
- There is a larger deferred tax liability of €45 million (2017: €45 million), reflecting the larger net assets under Solvency II.
- There is also a small difference in asset valuations of €19 million (2017: €10 million). This is the value of computer software in the financial statements which has a nil value for Solvency purposes.

The net excess of assets over liabilities is €268 million (2017: €313 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.

26. Risk and Capital Management *(continued)*

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

Insurance risk

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

Credit risk

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

Options and 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.

27. Future Capital Commitments not provided for

	2018 €m	2017 €m
Authorised but not contracted	6	2
Contracted	2	1

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

28. Other Financial Commitments

At 31 December 2018 the Company had total commitments under non-cancellable operating leases of €3 million (2017: €5 million). The leases are due to expire as follows:

	2018 €m	2017 €m
Total		
Within one year	1	1
More than one year - within five years	3	3
More than five years	-	1
	4	5
Property		
Within one year	1	1
More than one year - within five years	3	3
More than five years	-	1
	4	5
Other		
Within one year	-	-
More than one year - within five years	-	-
More than five years	-	-
	-	-

29. Directors' Remuneration

	2018 €m	2017 €m
Aggregate emoluments paid to or receiveable by directors in respest of qualifying services:		
- Fees	-	-
- Salaries for management services	1	1
Aggregate amount of money or value of other assets, paid to or receiveable by the Directors under long term incentive schemes in respect of qualifying services	-	-
Aggregate contributions paid, treated as paid or payable during the financial year to a retirement benefit scheme in respect of qualifying services of Directors:		
- Defined contribution schemes	-	-
- Defined benefit schemes	-	-
Amounts paid or payable to past directors directors of the Company or of its holdings undertakings:		
- For retirement benefits in relation to services as director	-	-
- For other retirement benefits	-	-
Total for retirement benefits (paid or payable)	-	-

30. Subsidiaries

Investment in subsidiaries

The investment in subsidiaries are stated in the financial statement at cost at €127 (2017: €127) and the subsidiary companies are listed below:

	Nature of Business	Percentage Owned	Country
General Investment Trust DAC	Pension Trustee Company	100%	Ireland
Leopardstown Offices Management Limited	Property Company	100%	Ireland
BSQ Limited	Property Company	100%	Ireland
GD (5&6) Basement Company Limited	Property Company	100%	Ireland

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

Leopardstown Offices Management Company does not trade.

GD (5&6) Basement Company Limited is a property management company and its registered office is situated at 4th Floor 76 Lower Baggot Street, Dublin 2.

The registered office of General Investment Trust DAC is situated at 3-4 South Frederick Street, Dublin 2.

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

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

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

30. Subsidiaries *(continued)*

The French and Dutch subsidaries companies are set up to hold investment property. The value of the companies and their underlying assets, and any changes in that value, is wholly attributable to policyholders. These companies are listed below:

	Nature of Business	Percentage Owned	Country
Weesperplein 6 Holding BV	Holding Company	100%	Netherlands
Weesperplein 6 BV	Property Company	100%	Netherlands
Life Fund Syndication Holding BV	Holding Company	100%	Netherlands
Life Fund Syndication BV	Property Company	100%	Netherlands
SCI Jupiter Immeuble	Property Company	100%	France
SCI Immeuble Saint George	Property Company	100%	France
SCI Sang Rouge	Property Company	100%	France
New Ireland Real Estate France	Property Company	100%	France

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

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

31. Holding Company

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

32. 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.

33. 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.

34. Approval of Financial Statements

The financial statements were approved by the Directors on 12 April 2019.