Chesnara

Annual Report & Accounts
2014

Cautionary statement

This document may contain forward-looking statements with respect to certain of the plans and current expectations relating to the future financial condition, business performance and results of Chesnara plc. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Chesnara plc including, amongst other things, UK domestic, Swedish domestic, Dutch domestic and global economic and business conditions, market-related risks such as fluctuations in interest rates, currency exchange rates, inflation, deflation, the impact of competition, changes in customer preferences, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Chesnara plc and its subsidiaries operate. As a result, Chesnara plc's actual future condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements.

SECTION A

OVERVIEW

SECTION B

STRATEGIC REPORT

SECTION C

CORPORATE GOVERNANCE

SECTION D

IFRS FINANCIAL STATEMENTS

SECTION E

EEV SUPPLEMENTARY INFORMATION

SECTION F

ADDITIONAL INFORMATION

NOTE ON TERMINOLOGY

As explained in Note 7 to the IFRS financial statements, the principal reporting segments of the Group are:

CA	which comprises the original business of Countrywide Assured plc, the Group's original UK operating subsidiary, and of City of Westminster Assurance Company Limited, which was acquired by the Group in 2005 and the long-term business of which was transferred to Countrywide Assured plc during 2006;
S&P	which was acquired on 20 December 2010. This business was transferred from Save & Prosper Insurance Limited and Save & Prosper Pensions Limited to Countrywide Assured plc on 31 December 2011 under the provisions of Part VII of the Financial Services and Markets Act 2000;
PL	which was purchased on 28 November 2013 from Direct Line Insurance Group plc. Protection Life Company Limited is included within the Group's UK business. On 31 December 2014 the long-term business of PL was transferred into CA plc under Part VII of the Financial Services and Markets Act 2000; and
Movestic	which was purchased on 23 July 2009 and comprises the Group's Swedish business, Movestic Livförsäkring AB and its subsidiary and associated companies.

In this Report & Accounts:

- **i.** The **CA**, **S&P** and **PL** segments may also be collectively referred to as the 'UK Business';
- **ii.** The **Movestic** segment may also be referred to as the 'Swedish Business';
- **iii.** '**CA plc**' refers to the legal entity Countrywide Assured plc, which includes the long-term business of **CA**, **CWA, S&P** and **PL**;
- **iv.** '**CWA**' refers to City of Westminster Assurance Company Limited or to its long-term business funds transferred to Countrywide Assured plc;
- **v.** '**S&P**' may also refer collectively to Save & Prosper Insurance Limited and Save & Prosper Pensions Limited, as the context implies. Where it is necessary to distinguish reference to Save & Prosper Insurance Limited and Save & Prosper Pensions Limited, or to the businesses subsisting in those companies prior to the transfer referred to above, they are designated '**SPI**' and '**SPP**' respectively;
- **vi.** '**PL**' refers to the long-term business that was, prior to the Part VII transfer into CA plc on 31 December 2014, reported in Protection Life Company Limited;
- **vii.** '**PL Ltd**' refers to the legal entity Protection Life Company Limited; and
- **viii.** '**Movestic**' may also refer to Movestic Livförsäkring AB, as the context implies.
- **ix.** **'Acquisition of Waard Group'** refers to the purchase of the Waard Group, based in the Netherlands. At the date of signing this Annual Report & Accounts the acquisition remained subject to Dutch regulatory approval.

SECTION A
OVERVIEW

IN THIS SECTION

AN INTRODUCTION

Chesnara plc is a Life Assurance and Pensions company consolidator. It currently has books of business in the UK and Sweden. It expects to add a third territory in 2015 with the acquisition of a Dutch Group which is due to complete in the near future. The Dutch business mainly consists of term-life policies, is closed to new business, and has c74,000 policies. The UK business is predominantly closed to new business whereas our Swedish subsidiary continues to run a profitable new business operation.

Who we are

Chesnara plc, formed in 2004, is listed on the London Stock Exchange. The Group initially consisted of Countrywide Assured, a closed Life and Pensions book demerged from Countrywide plc, a large estate agency group. Since incorporation the Group has grown through the acquisition of three predominantly closed UK businesses, CWA, S&P and PL plus Movestic, an open Swedish Life and Pensions business.

What we do

- We administer c.860,000 Life and Pension policies (c.380,000 in the UK and c.480,000 in Sweden).

c.860,000 Life and Pension policies.

- We manage £4.8 billion of funds (£3.0 billion in the UK and £1.8 billion in Sweden).

£4.8bn of total assets under management.

- We operate to high regulatory standards, ensure we offer high service levels and aim to maximise returns to policyholders.
- We provide value to shareholders primarily by way of an established and attractive dividend strategy but also by value enhancement through acquisitions and the writing of profitable new business in Sweden.

Chesnara is a responsible and profitable company engaged in the management of Life and Pension policies in the UK and Sweden. The Group remains committed to delivering competitive returns to both its shareholders and policyholders, and continues to focus on:

- the core business of maximising value from the in-force life and pensions book.
- value enhancement through the writing of profitable new business in Sweden.
- making further life and pensions acquisitions where they meet stringent assessment criteria.

How we operate

- We maintain a professional corporate governance team responsible for ensuring regulatory compliance, risk and capital management, and oversight of both our Swedish subsidiary and our predominantly outsourced UK business.
- We maintain a robust regulatory, compliance and risk management regime.
- The governance team has significant experience and a proven track record in acquiring and successfully integrating Life and Pension businesses. The team engages professional partners and advisors to support the acquisition model, as required.
- Acquisitions are funded by a combination of cash, debt and equity as appropriate. We have tried and tested support from debt providers and from our established and supportive shareholder base.
- We maintain strong solvency levels.

How we create value

Policyholder

Effective customer service operations together with competitive fund performance, whilst always adopting exacting standards with regard to all regulatory matters ensures policyholders receive good returns in line with policy, industry and market expectations.

Shareholder

Efficient management of the policy base and good capital management practices means that surpluses emerge from the in-force books of business. These surpluses enable dividend transfers to be made from the subsidiaries to Chesnara, which fund the attractive dividend strategy.

In addition, growth from both the proven acquisition model and from writing profitable new business in Sweden has had a positive impact on the embedded value of the business (as shown below).

GROUP EEV DEVELOPMENT HISTORY

The Embedded Value of the Group has grown significantly since incorporation. The reported growth is net of £170m of cumulative dividend payments. The chart illustrates Embedded Value growth and the impact of the acquisition strategy.
Values quoted are as at 31 December of the relevant year.

'04 £126M
Chesnara lists on the London Stock Exchange, following its acquisition of CA plc.

'05 £176M
Chesnara acquired CWA from Irish Life and Permanent plc. EEV gain of £30.3m arising on acquisition and £22.0m new share capital issued.

'06 £189M
The long-term business of CWA was transferred to CA plc.

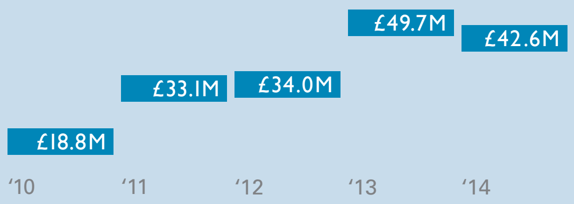
'07 £187M
Steady operating profit on covered business to support dividend payment.

'08 £183M
Steady operating profit on covered business supports dividend payment in year.

'09 £263M
Chesnara acquired Movestic Liv, an open Swedish Life and Pensions business, resulting in an EEV gain of £54.2m on acquisition.

GROSS CASH GENERATION £42.6M IN 2014

(2013: £49.7m).



Note 1: Cash generation is defined on page 34. The figures exclude any impact from acquisition funding arrangements including cash utilised to directly fund acquisitions.

TOTAL SHAREHOLDER RETURN

5 year TSR of 145%

2014 TSR of 11%

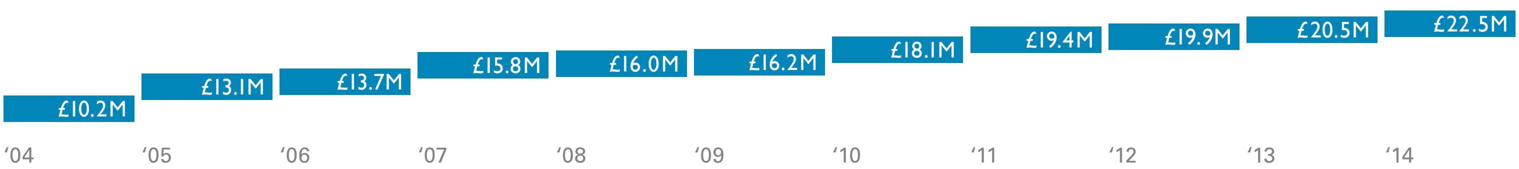
The Chesnara investment proposition is largely dependent upon cash emerging from the in-force books of business at levels sufficient to fund the dividend strategy, support future acquisitions, and provide adequate surplus to protect against the potential for earnings volatility in the future.

The gross cash generated in 2014 exceeds the full year dividend by 88%, continuing the recent trend of strong dividend coverage.

Capital management actions including Part VII transfers and regulator approved capital extractions ensure the cash generated is available for distribution to the fullest extent possible.

In addition to the attractive dividend yield, growth is delivered through Swedish new business and value adding acquisitions. As a result Chesnara has consistently provided a greater TSR than the FTSE 350 higher yield index.

PROVEN ATTRACTIVE DIVIDEND HISTORY



'10 £355M

Chesnara acquired SPI and its subsidiary, SPP, from JPMorgan and Movestic acquired the business of Aspis Liv, a small Swedish life and health insurer. These purchases resulted in a combined gain on acquisition of £41.0m. £25.7m new share capital issued in the year.

'11 £295M

The long-term business of SPI and SPP were transferred to CA plc under the provisions of Part VII of FSMA. Falls in both equity markets and bond yields result in a reduction in EEV in the year.

'12 £311M

SPI and SPP were de-authorised from conducting activities regulated under the provisions of FSMA 2000. Investment market factors support the increase in EEV in the year.

'13 £376M

Chesnara acquired Protection Life (formerly Direct Line Life Insurance Company Limited) from Direct Line Group plc, with an EEV gain on acquisition of £12.3m. Strong investment markets drive EEV growth.

'14 £417M

The long-term business of Protection Life was transferred into CA plc under the provisions of Part VII of FSMA. £34.5m of new equity raised for the pending acquisition of the Waard Group.

2014 HIGHLIGHTS

FINANCIAL

£28.8M
IFRS PRE-TAX PROFIT

IFRS pre-tax profit for the year ended 31 December 2014 of £28.8m (year ended 31 December 2013: £60.6m).

Financial Review Page 30

£42.6M
GROSS CASH GENERATION

Gross cash generated in the year of £42.6m (year ended 31 December 2013: £49.7m).

Cash Generation Page 34

£417.2M
EEV INCREASE OF £40.8M TO £417.2M

Increase in EEV from £376.4m at 31 December 2013 to £417.2m at 31 December 2014, stated after dividend distributions of £20.7m, and new equity of £34.5m in the year.

Financial Review Page 37

£44.2M
EEV EARNINGS AFTER TAX

EEV earnings net of tax of £44.2m (year ended 31 December 2013: £82.7m, before modelling adjustments).

Financial Review Page 35

Throughout the Annual Report & Accounts the following symbols are used to help distinguish between the various financial and non-financial measures reported:

- IFRS
- Cash generation
- EEV
- EEV earnings
- Solvency
- Dividend/Total Shareholder Return
- Part VII
- Operational performance
- Compliance
- New business market share
- Acquisitions

£8.9M
MOVESTIC EEV NEW BUSINESS CONTRIBUTION

Movestic has generated a new business contribution of £8.9m in the year (year ended 31 December 2013: £7.2m), representing an increase of 23.6% year on year.

Financial Review Page 35

284%
GROUP SOLVENCY

Strong Insurance Group Directive solvency cover of 284% (31 December 2013: 194%), stated after the impact of £34.5m of new equity raised during the year.

Financial Management Page 25

2.9%
FULL YEAR DIVIDEND INCREASE

Total dividends for the year increased by 2.9% to 18.40p per share (6.42p interim and 11.98p proposed final). This compares with 17.88p per share in 2013 (6.25p interim and 11.63p final).

OPERATIONAL AND STRATEGIC

ANNOUNCEMENT TO ACQUIRE THE ENTIRE SHARE CAPITAL OF THE WAARD GROUP

During December 2014 Chesnara announced its intention to purchase the entire share capital of the Waard Group which will add further value to the Group.

£34.5M OF EQUITY RAISED TO FUND THE WAARD GROUP ACQUISITION

During December 2014 the Group issued £34.5m of new equity share capital (stated after issue costs) to support the acquisition of the Waard Group, due to complete in 2015. This has contributed to an increase in Group solvency at 31 December 2014. Waard Group numbers will be reported once the acquisition has completed.

PART VII TRANSFER OF PROTECTION LIFE INTO CA PLC

In line with our plans the insurance business of Protection Life was successfully transferred into Countrywide Assured plc on 31 December 2014 under Part VII of FSMA 2000.

EXTENSION OF CORE OUTSOURCE CONTRACT WITH HCL

We have extended our core outsource contract with HCL which ensures continuity of service and certainty of cost over a further 10 year period.

MANAGEMENT ACTIONS TAKEN TO ENHANCE THE PROFITABILITY OF NEW BUSINESS

Revised funding structures, including "white-labelling" initiatives, delivered during the year, contributing to a 17% increase in new business margins.

CHAIRMAN'S STATEMENT

> "During 2014 there have been significant developments to the Chesnara Group. In particular we have announced the acquisition of the Waard Group in the Netherlands. Whilst the deal offers attractive returns in terms of both cash generation potential and embedded value growth, perhaps the most significant aspect is the opportunity we see to repeat the ongoing success of the UK consolidation model in a new territory. As always the ongoing development of the Group's acquisition strategy will never be at the expense of ensuring we continue to maximise the value emerging from our existing business and doing so in a responsible manner. In light of this, I am particularly pleased to report continued strong financial and regulatory performance in the year across all our businesses.

Peter Mason, Chairman

Notes

1. Throughout the Chairman's Statement, Business Review and Financial Review sections, all results quoted at a business segment level exclude the impact of consolidation adjustments. These consolidation adjustments are analysed by business segment on page 33.
2. Net cash generation in the year is defined as the net amount of the following items:

i. Gross cash generation, defined as:
  a. the change in the excess of actual regulatory capital resources over target capital resources in respect of the CA, S&P and PL operating segments;
  b. less capital contributions made by the Group to the Movestic operating segment;
  c. less cash utilised by Parent Company operations.

ii. Plus the cash impact of one-off management actions coupled with movements in the restrictions of policyholder funds to shareholder funds.

As such, the cash generation KPIs defined above do not align to the Cash Flow Statement as included in the IFRS Financial Statements.

CHAIRMAN'S STATEMENT (CONTINUED)

I start my Chairman's statement by reviewing how Chesnara has delivered against its three core strategic objectives and how it has done so remaining true to its well established culture and values of treating customers fairly and adopting a robust approach to regulatory compliance.

1 Maximise value from the in-force book

£71.1m of net cash generation including the benefits of the Protection Life Part VII transfer

Reference & page number:
Business review page 19

2 Enhance value through new business

Increasing new business profits in Sweden have significantly added to its franchise value.

Reference & page number:
Business review pages 22 to 23

3 Acquire life and pension businesses

Acquisition of the Waard Group in the Netherlands. Note 1

Reference & page number:
Business review page 24

Note 1: Subject to Dutch regulatory approval.

Chesnara culture and values

Improved Group solvency of 284% (31 December 2013: 194%), stated after the impact of £34.5m of new equity raised in the year. We expect an element of the increase since last year to reverse on completion of the Waard Group acquisition in 2015. On-going sound regulatory record.

Reference & page number: Business review page 25

Maximise value from the in-force book

Despite generally adverse investment market conditions, in particular a relatively sharp reduction in the yield curve, the UK in-force book has continued to provide a reliable and resilient source of cash. The variable element of our financial model, namely S&P, has been adversely affected by a reduction in the yield curve, as would be expected, such that the increased exposure to policy guarantees has resulted in a cash strain. Reassuringly the more stable element of the financial model, consisting of CA, CWA and Protection Life, has generated levels of surplus broadly in line with expectations. Also, during the year there have been two key developments which will have a positive impact in terms of the emergence of value from the existing book in the future. We have extended our core outsource contract with HCL which ensures continuity of service and certainty of cost over a further 10 year period. Also, we have migrated the actuarial services that HCL used to provide to Towers Watson. As a more specialist actuarial operation, Towers Watson will offer a more flexible solution better suited to respond to future reporting and capital management requirements.

The embedded value of Movestic has increased during the year. However, this increase has been dampened by the depreciation of the Swedish Krona against Sterling during 2014.

Cash available for distribution

2014: £71.1m* 2013: £36.7m

*including Part VII impact of £27.4m

Enhance value through new business

New business profits in Movestic have continued to increase during the year. At the 2014 level of new business profit of £8.9m, I believe that, although we primarily retain a closed book consolidation focus, the franchise value of our Swedish new business operation has become a significant aspect to the valuation of the Chesnara Group.

Movestic new business contribution in 2014

£8.9m 2013: £7.2m

Acquiring Life and Pension Businesses

Before I comment on the recently announced acquisition of the Waard Group in the Netherlands I would like to provide an update on the status of the acquisition of Protection Life. The business has contributed significantly to the cash generation of the Group. IFRS pre-tax profits of £5.5m are broadly in line with expectations. In addition, the Part VII transfer was completed in December and the resulting capital efficiencies will enable a one-off cash transfer of £27.4m to Chesnara plc.

During December we announced our intention to acquire the Waard Group in the Netherlands. The move into a third geographical market received strong investor support. The positive equity raise process was consistent with the level of potential we see in the acquisition in its own right but also the strategic opportunity arising from entering a new territory in which closed book consolidation has yet to reach levels historically seen in the UK.

Our market intelligence suggests significant market consolidation potential in the Netherlands and we are pleased to be in a position to apply our acquisition and consolidation expertise, together with Waard Group management's local knowledge, in the Dutch market.

Investment proposition

The strong performance referred to on the previous page has resulted in continued strong returns to shareholders. The results have enabled us to continue our attractive dividend strategy whilst also ensuring we retain sufficient cash resources to support our growth strategy. The effective balance between dividend payments and the retention of capital to invest in acquisitions has been a key reason why Chesnara has out performed the FTSE 350 higher yield index.

	2014	5 year
Chesnara	11%	145%
FTSE 350 higher yield index	1%	47%

Chesnara culture and values

Delivery of our objectives is underpinned by our well established culture and values which are based on an ethos of responsible management. All our business decisions are made so as to ensure policyholders are treated fairly and both policyholders and shareholders are not exposed to levels of risk beyond our risk appetite. More information about the Group's culture and values is included within the Strategic Report on pages 25 to 27.

Before I move on to consider the outlook for the Group I would like to take the opportunity to comment on the recent change in CEO. Graham Kettleborough had been CEO for 10 years from the initial listing of Chesnara plc. He has been at the heart of the Chesnara success story to date and I would like to thank him for his significant contribution to the Group. During that period shareholders, many of whom have been loyal investors from day one, have received extremely competitive total returns. As importantly however, shareholder returns have never been delivered to the detriment of ensuring policyholders are treated fairly and the Group has continued to be highly compliant in all regulatory matters.

It is easy to talk about matters such as culture and values but in reality it is only possible to maintain standards if the senior decision makers truly share the same cultural values. With this in mind a key priority in appointing Graham's replacement was to ensure any new CEO had a strong cultural fit and shared values. I strongly believe that following a rigorous recruitment process, Chesnara has managed to achieve this key objective of cultural continuity.

John Deane was appointed as Group CEO on 1 January 2015 and I am confident he will build upon all that is good about Chesnara and also drive it forward to ensure we take maximum advantage of the opportunities the strategic move into the Netherlands will present.

In addition to providing momentum to our new venture in the Netherlands John has demonstrated from a very early stage that sound governance remains at the heart of any long term success. He has developed a revised Governance model that adopts best practice, implemented in a pragmatic fashion. This will ensure any future development of the Chesnara Group continues to be built upon solid regulatory, risk appetite and culturally responsible foundations.

Regulatory

About the time of writing my statement in last year's Report & Accounts the UK Government had just announced proposed changes to the annuity market. Shortly after, the FCA announced its intention to undertake a full review of legacy closed book operations. Our early assessment of the potential impact of these two issues was that Chesnara would not be materially affected. We have worked to support the FCA legacy review and our assessment of these two issues remains unchanged. That said, the fact is that until the FCA concludes on the scope of the legacy review a degree of uncertainty of impact remains and management will manage the risk through the general governance and risk management framework.

Outlook

The acquisition of the Waard Group creates a three territory business model. This gives Chesnara wider reach, optionality and flexibility thereby improving the outlook for the continuation of our successful acquisition strategy. In addition to the benefits of a wider target market, my confidence in our acquisition strategy is underpinned by three key factors:

i) Strong financial foundations
We have the financial strength to fund future acquisitions. In particular we are modestly geared, have healthy solvency margins and have own cash available. We also continue to receive strong support from shareholders and lending institutions.

ii) Good regulatory track record
We continue our good regulatory track record in the UK and Sweden and there are positive signs and a strong intent to build similarly good relations with regulators in the Netherlands. Strong regulatory focus will mean regulators see Chesnara as a responsible buyer who will ensure the interests of policyholders are protected.

iii) Expertise and experience
Our recent track record demonstrates that the management team has the required drive and capabilities to deliver all aspects of successful acquisitions. The management team of the Waard Group will further enhance this capability into the Dutch market. We demonstrate diligent assessment of the risks and benefits of any opportunity, we have the commercial experience to effectively price for risk and importantly we have the technical and operational expertise to integrate acquired businesses into the Chesnara Group, thereby ensuring risks are managed and the benefits emerge as required.

In addition to my positive assessment of the acquisition strategy, the robustness of the UK in-force business and the continued growth in the Movestic new business results both contribute to my overall conclusion that the Chesnara Group is well positioned to continue to provide value to our shareholders and policyholders.

Peter Mason
Chairman
30 March 2015

SECTION B

STRATEGIC REPORT

IN THIS SECTION

OUR VISION & STRATEGY

MISSION

Our mission is to deliver value for shareholders, while maximising returns to policyholders. Underpinning everything we do is a desire to maintain regulatory and legal compliance. Meeting these aims is achieved through attracting and retaining highly talented people who not only bring expertise and quality thinking into our business and industry, but also have a passion for improving outcomes for our customers and shareholders. All members of the Chesnara team share a common value in recognising their responsibility to shareholders and policyholders.

VISION

To be recognised as a responsible and profitable company engaged in the management of life and pensions books in the UK and Western Europe. The Group remains committed to delivering competitive returns to both its shareholders and policyholders, and continues to focus on:

- the core business of maximising value from the in-force life and pensions book;
- value enhancement through the writing of profitable new business in Sweden; and
- making further life and pensions acquisitions where they meet stringent assessment criteria.

While we focus on delivering value to shareholders primarily through dividend streams arising from strong cash generation as the UK life and pensions books run off, we also consider the acquisition of open businesses where there is clear value enhancement and where the scale is such that our core proposition of being principally a closed book consolidator and manager does not become unbalanced.

STRATEGIC OBJECTIVES

At Chesnara the strategic objectives, which support the fulfilment of our mission and the realisation of our vision, are embedded in day-to-day business operations and underpin Management decisions. At the core of the business is the recognition by the Board and Management Team of their responsibilities to policyholders and shareholders, so that the values and principles of management wholly align with strategic objectives. This value of responsibility is at the heart of the Chesnara business model. Our core strategic objectives are explained and evidenced on the following pages.

STRATEGIC OBJECTIVES, CULTURE AND VALUES

Introduction

Chesnara is engaged in the ownership of life assurance and ancillary company assets in the UK and Western Europe. The Group's aim is to deliver a reliable and attractive income stream to its shareholders. The aim is to extend this and/or take the opportunity to increase shareholder value through the acquisition of financial services companies and/or the development of existing Group businesses.

Chesnara has a clear aim to unlock value for our shareholders through the acquisition, restructuring and development of financial services companies domiciled in Western Europe.

This aim is captured in our three core strategic objectives:

1 Maximise value from the in-force book
2 Enhance value through new business in selected markets
3 Acquire life and pensions businesses

In endeavouring to achieve the strategic objectives, Chesnara will always be mindful of the need to preserve a strong responsible culture and set of common values across the Group. The culture and values underpin the delivery of our core strategic objectives. It should be self-evident in the way the Group conducts business and more specifically, how it treats customers, employees, investors and regulators.

1 Maximise value from the in-force book	2 Enhance value through new business	3 Acquire life and pension businesses

Chesnara culture and values

General business conduct	Treatment of customers	Treatment of employees	Treatment of investors	Relationship with regulators

The following pages describe our strategic objectives and core culture and values in more detail.

1 MAXIMISE VALUE FROM THE IN-FORCE BOOKS

Why is this of strategic importance?

Chesnara is primarily a "closed book" operation and as such generating surplus and cash from the existing in-force books is at the heart of its investment proposition.

How do we deliver this strategic objective?

We proactively manage continuing financial exposures. Significant financial exposures in life and pensions portfolios typically arise from onerous policy options and guarantees, and compensation claims for past misselling of products. For example the S&P segment brings exposure to the impact of investment market performance due to a portion of the policies containing options and guarantees to policyholders. Furthermore, the Group continues to have exposure to market weakness by way of the impact on policyholders' linked funds, from which surplus is generated. We seek to minimise this exposure by regular review of investment asset holdings and by adjusting investment manager guidelines where appropriate and within the boundaries of our obligations to policyholders.

We operate in a manner that aims to ensure that policy attrition is as low as possible, as this is a key determinant of our future profitability and of the level and longevity of the emergence of surplus, which underpins our dividend-paying capacity. As such we continue to maintain a focus on the retention of policies where it is in the interest of customers to continue with their arrangements.

We continue to manage investment performance so as to provide a competitive level of return to our policyholders. The CA funds are primarily managed by Schroder Investment Management Limited; the CWA funds are managed by Irish Life Investment Managers Limited and the S&P funds are managed by JPMorgan Asset Management (UK) Limited. We meet formally with fund managers on a quarterly basis to assess past performance and future strategy.

The Movestic funds are managed by a carefully selected range of fund managers who have strong performance records in the relevant sector. Performance is monitored very closely and regular meetings are held with fund managers. Should under-performance continue then an alternative manager is sourced and appointed to manage the relevant assets. Where a new market niche or specific opportunity is identified new funds may also be added.

We adopt a business operating model which ensures unit expenses remain appropriate for the scale of the in-force book.

UK operations are predominantly outsourced, with contract charging structures that ensure a significant element of the cost base varies in line with the run-off of the business.

Acquisitions are integrated into the Chesnara Group in a manner to ensure optimum operational and financial synergies.

Risks associated with this strategic objective

- Sustained adverse investment market conditions challenge our ability to manage financial risks inherent in the in-force portfolio.
- Despite the effective cost management model, in the absence of further acquisitions or management action, there remains a risk that unit costs will increase in the long-term.
- A number of factors including economic recession, adverse investment performance and a deterioration in customer servicing standards could lead to an increase in policy attrition.
- Regulatory change can affect the value emerging from the in-force books.

STRATEGIC OBJECTIVES, CULTURE AND VALUES (CONTINUED)

2 ENHANCE VALUE THROUGH NEW BUSINESS IN SELECTED MARKETS

Why is this of strategic importance?

- The Chesnara business model primarily focuses on "closed book" consolidation. However, where acquisitions offer the potential to write new business with adequate return on capital we will continue to invest in the new business operations so as to maximise value for the Group.
- Maintaining a flexible position regarding the willingness to remain open to new business will potentially increase the number of acquisition targets and indeed our attractiveness to such targets.

How do we deliver this strategic objective?

The only part of the Chesnara Group writing material levels of new business is Movestic, our Swedish business. Movestic has a new business operation that delivers a positive new business contribution. There are detailed business plans in place that aim to increase new business profits through a combination of new product launches and improvements to operational effectiveness. Local and Group management continually assess Movestic's performance to ensure being open to new business continues to enhance value.

Risks associated with this strategic objective

- New business volumes fall below levels required to ensure sufficient return on the acquisition cost base.
- Product margins fall to unsustainable levels due to factors including; market price pressures, reduced investment growth, increased policy lapse rates and increasing maintenance unit costs.
- Regulatory change may impact the profitability of writing new business.

3 ACQUIRE LIFE AND PENSIONS BUSINESSES

Why is this of strategic importance?

- As with any business, it is important that we use our capital efficiently to provide optimum returns to shareholders.
- As a primarily "closed book" operation, further acquisitions can maintain and increase the Group's cash flow and operational economies of scale.

How do we deliver this strategic objective?

Ultimately we rely on acquisition opportunities being available in our target market of the UK and Western Europe.

We actively engage with various investment advisers to ensure we are aware of acquisition opportunities.

We leverage our proven track record in the consolidation market. Past experience suggests we maintain a high degree of credibility with regulators, policyholders, lenders and shareholders. All prior acquisitions have been delivered with no adverse impact in terms of treating customers fairly, regulatory standing or our reputation in the life and pensions consolidation market.

We will only pursue opportunities which meet very stringent assessment criteria.

Risks associated with this strategic objective

- If Chesnara makes no further acquisitions there will be a potential strain on the per policy unit costs of the existing business, with the potential impact on dividend sustainability.
- Any departure from the current, stringent acquisition assessment criteria and due diligence procedures could result in an acquisition that, under certain stress scenarios, adversely impacts the financial strength of the Group.
- Regulatory demands can act as a barrier to delivering this objective.

CHESNARA CULTURE AND VALUES

Why is this of strategic importance?
Continuing to maintain a strong responsible culture is imperative in delivering the three core strategic objectives of the Group. Not doing so could compromise the ability to deliver this strategy.

The culture and values should be self-evident in the way the Group conducts business and more specifically, how it treats customers, employees, investors and regulators.

General business conduct
Chesnara embraces the UK Corporate Governance Code and its associated guidance and the Group will:

- conduct business with professionalism and integrity.
- conduct business with due care, skill and attention and in accordance with accepted business practices followed in the industries and territories within which we are operating.
- take care to organise and control our affairs responsibly and effectively, with adequate risk management systems.
- maintain adequate financial resources.
- observe proper standards of market conduct.
- manage conflicts of interest fairly.
- pay regard to corporate social and environmental responsibilities.

The Group operates in accordance with high legal, moral and ethical standards. Whenever an employee deals on behalf of any part of the Group with a supplier, customer, regulator or other third party, that employee is required to act in the best interests of the Group whilst maintaining these overall standards.

Treatment of customers
The majority of customers of the Group have not been sold a policy by a Group subsidiary but have been acquired by Chesnara following the acquisition of a subsidiary that sold them their policy. They have a right to expect that a Group subsidiary will honour these terms. On occasions these terms will be amended by court orders or local legislation. Guidance from local regulators on the application or removal of policy conditions will be taken into account in the treatment of our customers while balanced with the interests of our shareholders. Each subsidiary will:

- pay regard to the interests of customers and treat them fairly, maintaining an appropriate Treating Customers Fairly policy, or equivalent for each regulatory jurisdiction, and monitor the adherence to that policy.
- pay regard to the information needs of customers and communicate information to them in a way which is clear, fair and not misleading.

Treatment of employees
Chesnara is committed to ensuring all employees across the Group, whether temporary or permanent, full time or part time, and regardless of race, disability, gender, gender reassignment, pregnancy and maternity, religion or belief, marriage or civil partnership, sexual orientation or age are treated fairly and are offered access to opportunities on an equitable basis.

In support of this commitment, subsidiaries throughout the Group will:

- pay regard to employees and treat them fairly, including ensuring that they are fairly rewarded for the contribution that they make to the Group.
- create an open culture where issues and concerns of employees can be raised.
- maintain an appropriate whistle blowing policy.
- not tolerate harassment, victimisation or discrimination.
- ensure that employees are adequately trained and supported for the roles they undertake.

Treatment of Investors
Chesnara seeks to protect the interests of its investors at all times by operating its business within a controlled governance and risk management environment. It also follows the fundamental principles of making fair disclosure of information to investors and conducting open and honest communication with them.

In support of this:

- The Board is responsible for maintaining an ongoing dialogue with shareholders, and regularly reviewing the shareholders' communication process to ensure its effectiveness.
- Chesnara maintains a policy of frank communication, and delivers information to shareholders and investors through various channels, including:
  - The financial reports, including interim and annual reports.
  - Annual General Meetings and other Extraordinary General Meetings that may be convened.
  - Making available on the Chesnara website all the disclosed information submitted to the London Stock Exchange, Chesnara's public communications and other Chesnara publications.

Relationship with regulators
The Group operates in a number of jurisdictions. It will:

- deal with regulators in an open and co-operative way and disclose anything relating to the Group, Divisions or individual subsidiaries of which the regulators would reasonably expect notice.
- comply with the regulations for any areas of activity in which we operate.

THE CHESNARA BUSINESS

> The history of the development of the Chesnara Group, together with a description of the characteristics of our operating businesses, illustrates how we have endeavoured to achieve our strategic objectives and how we have created the platform for their ongoing realisation.

The successive acquisitions made by Chesnara have progressively increased the overall longevity of its run-off portfolio, while diversifying the policy base. At 31 December 2014, the Group had 246,000 (2013: 254,000) pension policies and 612,000 (2013: 613,000) life policies in force.

> Chesnara continues to seek to participate in the consolidation of life assurance and pensions businesses in the UK and Western Europe.

We primarily target acquisitions with a value of between £50m and £200m, although other opportunities are considered. All opportunities are assessed against a number of key criteria including size, risk (including actual or potential product and financial liabilities), discount to embedded value, capital requirements, the pattern and quality of predicted profit emergence and future strategic opportunities. Our strategic approach, however, remains that such potential acquisitions should not detract significantly from, and should contribute to, the primary aim of delivering an attractive dividend yield, although opportunities which present a significant value uplift or growth opportunity will also be evaluated.

History (2004 – 2014)

'14

Chesnara announces the intention to purchase the Waard Group, an insurance group based in the Netherlands, for €67.8 million. The acquisition is to be part-funded by £34.5m of new equity share capital that was issued during the year and is awaiting regulatory approval.

The insurance business of Protection Life Company Limited is transferred into Countrywide Assured plc under Part VII of the Financial Services and Markets Act 2000 (FSMA).

'13

Chesnara acquired Direct Line Life Insurance Company Limited (subsequently renamed Protection Life Company Limited) from Direct Line Group plc for £39.3m, funded by a mixture of bank debt and internal cash resources. PL is closed to new business, with a portfolio containing non-linked products, including mortgage life cover, fixed term life cover (both with and without critical illness cover) and over 50s life cover to UK customers.

'12

SPI and SPP were de-authorised from conducting activities regulated under the provisions of the Financial Services and Markets Act 2000, thereby releasing £7.0m of solvency capital.

'11

The long-term business funds and part of the shareholder funds of SPI and SPP were transferred to CA plc under the provisions of Part VII of FSMA, thereby realising significant financial and operational synergies.

'10

Chesnara acquired SPI and its subsidiary, SPP, from JPMorgan Asset Management Limited for a consideration of £63.5m, funded by a mixture of debt and new equity capital. SPI and SPP are also closed UK Life and Pensions businesses whose portfolios predominantly comprise pensions policies (both unit-linked and with-profits), endowments (some with-profits) and protection policies.

Movestic acquired the in-force business, personnel, expertise and systems of Aspis Försäkrings Liv AB, a small Swedish life and health insurer, thereby complementing Movestic's existing focus on pensions and savings contracts.

'09

Chesnara acquired Movestic Liv, an open predominantly unit-linked Swedish Life and Pensions business, for £20m, representing a significant discount to its embedded value. Subsequently a new subsidiary, Movestic Kapitalförvaltning was established to separate out fund selection and management activities from Movestic Liv and to develop these services in the wider marketplace.

'06

The long-term business of CWA was transferred to CA plc under the provisions of Part VII of the Financial Services and Markets Act 2000 ('FSMA'), thereby realising significant financial and operational synergies.

'05

Chesnara acquired CWA from Irish Life and Permanent plc for a consideration of £47.8m, funded principally by a mixture of debt and new equity capital. CWA is also a substantially closed UK Life and Pensions business. Its portfolio, which is also predominantly unit-linked, comprises endowments, protection and pensions policies.

'04

Chesnara listed on the London Stock Exchange, following its acquisition of CA plc on the latter's demerger from Countrywide plc, a large estate agency group. CA is a substantially closed UK Life and Pensions business whose portfolio predominantly comprises unit-linked endowment and protection policies.

BUSINESS MODEL

Business model

The following sets out the key operating characteristics of the Chesnara business:

Chesnara plc and the UK business activities are based in Preston, Lancashire, while Movestic is based in Stockholm in Sweden. Chesnara has 25 (2013: 21) full-time equivalent employees in its corporate governance team in the UK. In Sweden, the headcount is 131 (2013:123).

UK

- The primary focus of the business is the efficient run-off of its existing life and pensions portfolios. This gives rise to the emergence of surplus which supports our primary aim of delivering an attractive dividend yield to our shareholders. By the very nature of the life business assets, the surplus arising will deplete over time as the policies mature, expire or are the subject of a claim.
- We maintain a professional corporate governance team which is responsible for both the regulatory and operational requirements of the listed entity Chesnara and those of the UK business. Our team is intentionally small and focused in the interests of keeping the overall expense base tight. It has the capability to manage the UK business and to assess acquisition opportunities, and is supplemented from time to time by temporary resource if justified by operational or strategic demands.
- The operating model of our UK business is directed towards maintaining shareholder value by outsourcing all support activities to professional specialists. This typically embraces policy administration, systems, accounting, actuarial and investment management and reduces the impact of potential fixed and semi-fixed cost issues which would otherwise occur as the income streams arising from a declining in-force portfolio diminish. By securing long-term contracts to support these activities we aim to enhance the variability of the expense base with the size of the in-force policy portfolio. This also leads to the avoidance of the full weight of systems development costs, as these will, where possible, be shared with other users of the outsourcers' platforms.
- Oversight of the outsourced functions is a significant part of the responsibility of the central governance team. The maintenance of service and performance standards, and thereby the core interests of shareholders and policyholders, is maintained through a strict regime of service level agreements and through continuous monitoring of performance. This is reinforced by adherence to the principles and practice of treating customers fairly.

Sweden

- The primary focus of the Swedish business is to profitably grow market share in the company-paid and individual pensions market, whilst developing further profitable business in other areas, in particular in the risk and health market. Writing new business requires funding to support the initial costs incurred: this is provided by way of external financial reinsurance or cash contributions from Chesnara. As the in-force business portfolio grows in scale the income generated by it eventually allows the business to self-fund and become a net generator of cash.
- As the Movestic book is open and in a growth phase, we retain a broader-based management and operational team. Rather than outsource core functions, we believe that it is important that the drive and team ethic of Movestic is preserved as it seeks to grow profitable market share in our target markets. Whilst Movestic manages the selection of appropriate investment funds, investment decisions are made solely by the fund managers.

BUSINESS REVIEW

Introduction

The Business Review is structured to report on how we have performed against each of our three stated strategic objectives and our culture and values. Where relevant the review reports separately for our UK and Swedish operations. The review focuses on:

– How we have performed generally

– Key developments or challenges

– Key performance indicators

– Risks associated with each objective

Our strategic objectives, culture and values are reassessed on an annual basis as part of the Group business planning process. Their continued relevance gives consideration to recent performance, emerging risks and future opportunity. They are assessed giving full regard to both internal and external influences e.g. changes to regulatory requirements.

In the 2013 Report & Accounts we reported five core strategic objectives. This year, to reflect the way the Group manages itself, the objectives "Maintain a strong solvency position" and "Adopt good regulatory practice at all times" have been re-presented to be included within our overall Chesnara culture and values. This better reflects the fact that these are a "given" and underpin the delivery of our three core strategic objectives.

The governance framework seeks to ensure that controls and procedures are in place to protect all stakeholders. The control environment has remained effective and robust throughout the year. Further details of the operation of the governance framework, and its future development, are included in Section C – Corporate Governance, including a governance overview from the Chairman.

1 Maximise value from the in-force book	2 Enhance value through new business	3 Acquire life and pension businesses

Chesnara culture and values

General business conduct	Treatment of customers	Treatment of employees	Treatment of investors	Relationship with regulators

BUSINESS REVIEW

1 MAXIMISE VALUE FROM THE IN-FORCE BOOK | UK

> Strong cash generation continues despite adverse investment market conditions. Operational cash is complemented by exceptional cash emerging from the Part VII transfer of Protection Life.

Highlights
- £50.9m of gross cash generation (2013: £54.1m), excluding Chesnara parent company cash.
- £27.4m exceptional cash release due to the Part VII transfer of PL into CA plc, contributing to net cash generation of £79.4m (2013: £41.1m).
- Funds under management resilient to book run off.
- Positive EEV development.
- Solid fund performance.
- Improved policy attrition levels.

Review of the year

Operational performance has been strong across the three key areas of focus for the in-force book, namely: management of the assets, regulatory compliance and ensuring we continue to provide a high quality service to policyholders in terms of administration service levels and investment return.

Our administration and asset management outsource partners have all performed well during the year and generally exceeded service level arrangements and relevant benchmarks. In light of this we are pleased to have extended our outsource contract with HCL for a further 10 year period. The financial terms are in line with revised expense assumptions recognised in 2013. We have also transferred the actuarial services that HCL used to provide to Towers Watson. As a specialist actuarial service consultancy Towers Watson are better placed to respond to the changes imposed by business development and regulatory change.

The CA plc Investment Committee has continued its oversight of policyholder funds through regular meetings with the investment managers. We continue to work with our managers in order to ensure the underlying investment mix is the most appropriate for policyholders. All our primary managed funds have outperformed benchmarks during 2014.

> **£50.9m** (2013: £54.1m) of gross cash generated from business as usual operations

Gross cash generation during the year has remained strong in light of generally adverse investment market conditions. This is primarily due to the core product based surpluses being sufficiently resilient to market conditions to compensate for a reduction in cash emerging from the more volatile

> During the year we have progressed the integration of Protection Life which will ensure we maximise the potential value from the acquisition. In particular, the successful Part VII transfer has created a more capital efficient model thereby enabling a one-off significant cash transfer.

business segment, namely S&P. This is consistent with the fact that the S&P surplus is sensitive to investment market performance, which was generally adverse during the year.

Unit-linked funds under management

The levels of unit-linked funds under management continue to support the on-going level of profitability of the UK business, as fund-related charges are an important component of profit.

The movement in the value of unit-linked funds under management is a function of:

i) performance of the funds across UK equities, international equities, property and fixed interest securities;

ii) received and invested premiums; and

iii) policies closed, due to surrender, transfer or claim. Good performance by our administration and investment management business partners has contributed positively to all three of the above factors.

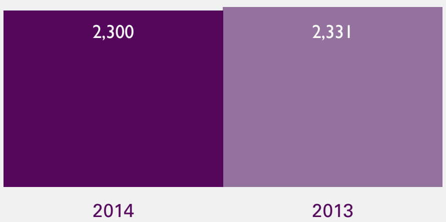
> Unit linked funds under management remain constant at £2.3bn despite book run off.

Risks associated with the strategic objective

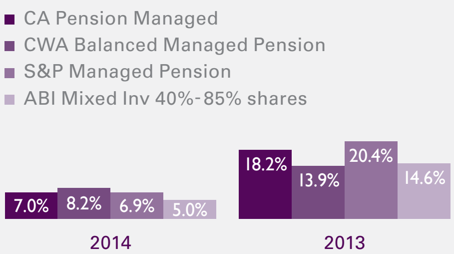
S&P has a proportion of its product base that provides guaranteed returns. The probability of guarantees being of value to policyholders increases when the value of assets held to match the policy liabilities falls or when, particularly for those guarantees expressed as an amount of pension, bond yields fall. To mitigate this risk, to some extent, assets held by shareholders to provide security for these guarantees are invested in cash and long bonds. As a consequence, our results will be negatively affected by falls in equity and property values, which impact assets backing policyholder liabilities, and/or falls in bond yields, which impacts the cost of providing the guarantees were they to occur. Conversely, increasing markets and yields will positively affect the results. Close management of the portfolio backing these liabilities continues.

Increased lapses on cash generative products are also a risk to the delivery of this strategic objective. We manage this risk through:
- Close monitoring of persistency levels.
- Active investment management to aim to deliver competitive policyholder investment returns.
- Outsourcer service levels that ensure strong customer service standards.
- Customer retention processes.

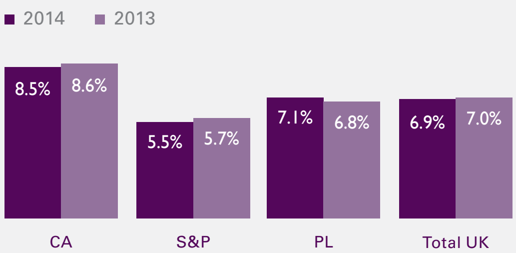
Unit-linked funds under management (£m)



Fund performance



Policy attrition, based on policy count



BUSINESS REVIEW

I MAXIMISE VALUE FROM THE IN-FORCE BOOK | SWEDEN

Following a favourable investment market performance, good new business levels and the impact of transfers creating a net inflow, Movestic's funds under management have increased by 23.0% during 2014.

Highlights

- Strong growth in funds under management; increase of 23.0% during 2014.
- Positive EEV development.
- Stable policy attrition levels.
- Competitive fund performance.
- Transfer-in levels exceed transfer outflows thereby reversing a recent trend for net outflows.
- Krona depreciation against Sterling in the year reduces reported results.

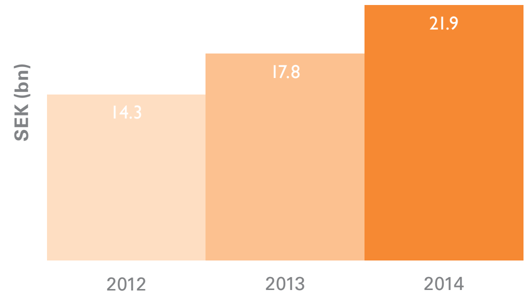
Review of the year

During 2014 continued IFA support, good service and support and strong investment performance led to increasing new sales, a large amount of transferred in business and a stabilised position for transferred out business. The focus to ensure that we continue to provide a high quality service to IFAs and policyholders in terms of administration service levels and investment return continues and independent market surveys show continuing positive ratings. This has resulted in the further growth in the Pensions and Savings business on all key measures including funds under management, profitability and policy numbers.

The Life & Health book of business remains stable and the portfolio continues to deliver high quality in terms of claims development with a gross loss ratio of 56.5% for 2014 (2013: 50.3%). An element of the increase in loss ratio is due to increasing claims on health contracts. As a result we no longer write new health business.

The scale of the Pension and Savings in-force book in Sweden is such that profits emerging from it are relatively modest in comparison to UK equivalents. As such, the challenge is to increase the value of the funds under management from which we earn income in the form of management charges and fund rebates. The following matrix illustrates the factors that directly influence the growth of the in-force book:

The general performance on all four factors has been positive resulting in strong fund growth, as illustrated by the chart below:



The factors are considered in more detail below:

New business

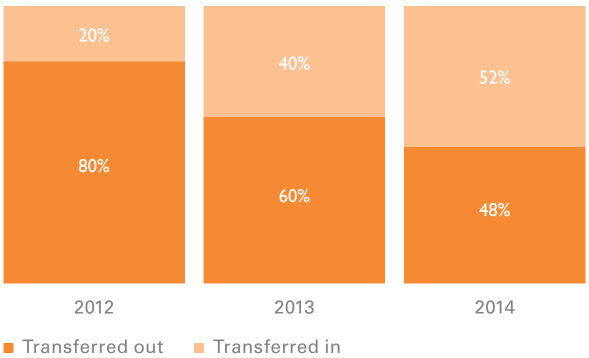
The review of the new business operation is covered in the "Enhance value from new business" objective review on page 22.

Policy attrition (fig 1 & fig 2 on the following page)

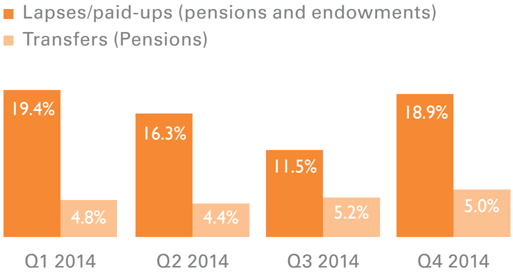
Policy attrition levels during 2014 have been relatively stable. The most significant measure is the level of pension transfers. Pension transfers out have improved. The levels experienced are deemed to be an inherent feature of the broader dynamics of the IFA market, rather than being a direct reflection of any Movestic specific issues. In light of this, the embedded value assumes no material improvement in persistency levels in the future. Management continually seeks to improve service levels, with a view to positively impacting the longer term persistency levels. Any positive impact will only be recognised if improvements are seen in actual attrition rates.

Despite there being only modest improvements in transfer-out levels, the ratios of transferred in business to transferred out has improved further during 2014 to an extent that transfer inflows now exceed outflows.

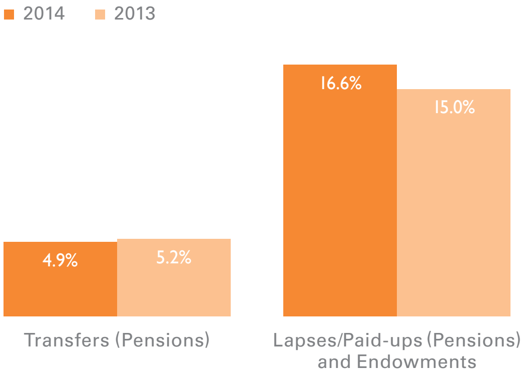
> The ratio of transferred-in business to transferred-out business has reached a milestone during 2014 in that transfers created a net inflow of funds during the year.



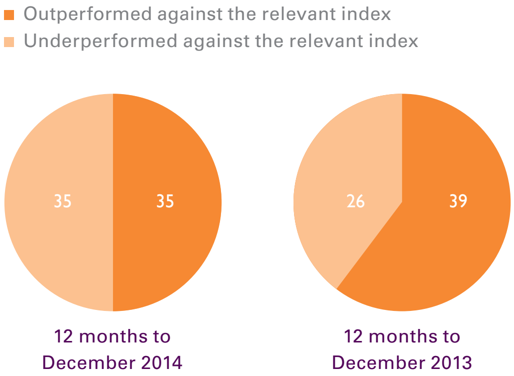
Policy attrition trend analysis (fig 1)



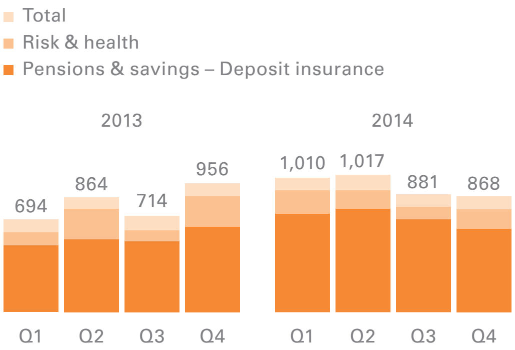
Policy attrition 2014 vs. 2013 (fig 2)



Fund performance (fig 3)



Total premium income (SEK(m))(fig 4)



Fund performance (fig 3)

One of Movestic's key differentiators is its approach to selecting the funds available to investors. Rather than adopt mainstream funds, which, in Sweden, are those predominantly managed by subsidiaries of banks which also have life assurance subsidiaries, we select a limited number of funds from a wide range of independent fund managers.

The funds selected are, in general, actively managed funds with a value approach. The performance of all funds is closely monitored and regular contact is made with managers to ensure that the underlying reason for fund performance, whether positive or negative, is fully understood. Funds that do not perform favourably compared with the relevant index are wholly replaced if there are no acceptable strategies for improvement. Where applicable we continue to add further funds to fill perceived gaps in the range. Activity during 2014 included the development of a Movestic sustainability fund which is deemed to be an attractive investment proposition in light of the strong ecological political agenda in Sweden. Three new 'white label' Movestic funds were also launched during the year together the "Movestic Sustainability Portfolio", which is suitable for customers who wish to draw down money to fulfil their retirement needs.

The relative fund performance measure (fig. 3) focuses on the number of funds under or over performing their relevant indices. It does not recognise the level of over or under performance nor does it reflect the relative size of each fund. An alternative and well established fund performance measure, produced by a respected industry magazine, compares the value of savers' average fund holdings. This measure best reflects the investment performance from a policyholder perspective. According to that measure, Movestic's fund range performed competitively during 2014 when compared with our peer group, which maintains our strong market position.

Premium income (fig 4)

The increase in premium income is predominantly due to an increase in new business levels. The recurring regular premiums have increased marginally year on year for the Pensions and Savings business which is key to achieving sustained growth. Regular premiums for the Life and Health business have remained broadly flat year on year.

Risks associated with the strategic objective

There remains a risk from high levels of lapses. It is evident that there is inherent risk in the Swedish market where customer awareness of the ability to transfer their pension is a feature with increasing influence as a consequence of ongoing public discussion. The Movestic product proposition already offers significantly more portability for transferring pensions than the general market. As such, although higher transfer rates would create challenges, an increased right to transfer would be beneficial to customers and to Movestic in terms of its market position with other more traditional competitors.

Profit emerging from the in-force book is dependent upon the size of the funds under management. Adverse investment market conditions would therefore adversely impact this strategic objective.

From a Group perspective we are exposed to foreign currency fluctuations which impacts the Sterling value emerging from the Swedish operations.

BUSINESS REVIEW

2 ENHANCE VALUE THROUGH NEW BUSINESS | SWEDEN

New business profits have increased further in 2014 as the result of continued improvement in IFA support together with an improvement in average margins.

Highlights
- Modest increase in new business volumes compared with 2013.
- Improved average profit margins despite increasingly competitive market conditions.
- The development of innovative product concepts continues.

Review of the year

After a successful 2013, growth in new business has continued in 2014, with continued support being provided by the IFA market. The business is deemed to have reached a realistically sustainable level of new business volumes and hence focus in the year has partly been on developing products and fund commercial structures so as to increase the average profitability of the new business written. The 17% increase in gross new business margin (before acquisition costs) compared to 2013 illustrates the rewards from management's focus on profitability.

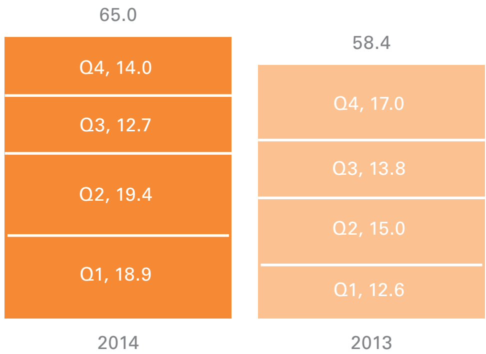
The approach taken by Movestic to focus on profitability and sustainability rather than having an inappropriate expectation of volume growth beyond a sensible natural level for the size of the business and the market competition, is very much in accordance with the Chesnara Group strategy regarding writing new business. It is very reassuring to see Movestic demonstrate how this sensible approach can continue to generate significant new business franchise value in the Group.

New business premium income

As expected the strong growth in new premium income in 2013, which was a year of recovery, has not continued in 2014. Volumes have, however, continued to increase, albeit at a more sustainable rate. They are in line with plan and are deemed to be positive in context of the market size and the scale of the Movestic operation. More importantly the volume is sufficient to provide a competitive return on capital and to create significant franchise value for the Chesnara Group.

The quarterly trend analysis shows a relatively marked reduction in the second half of 2014. This is partly a reflection of the general seasonality of new business levels and the inherent variability in new business over short timeframes. In addition, during the second half of 2014 there has been a general market shift from unit-linked products to more traditional products offering more certainty of returns. Whilst in the short term any preference for the benefits of more traditional contracts puts an inevitable strain on Movestic's sales, the view remains that unit-linked investments will become increasingly attractive over time as the sustainability of the returns being offered on traditional contracts becomes unviable.

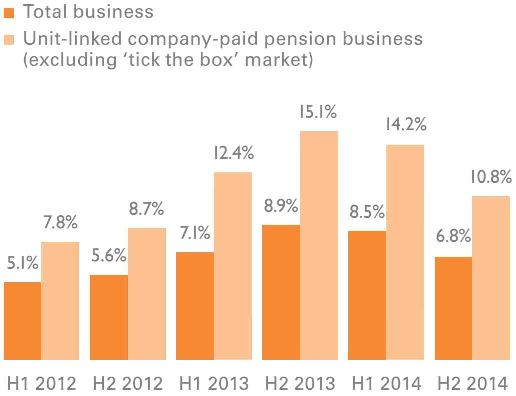
Trend analysis of new business premium income (£m)



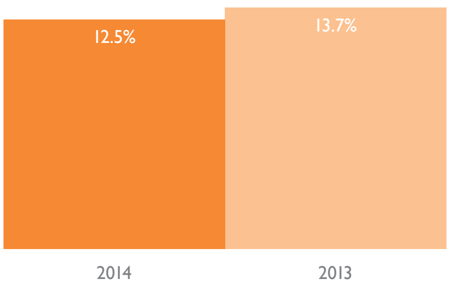
Market share
The market share of our specific target market, namely the company paid unit-linked market was 12.5% for 2014. This remains above our internal benchmark expectation for a company of Movestic's scale in relation to the scale of the market competition.

The downturn in the second half of the year is not reflective of any systematic concerns or deficiencies in the product offering. The second half results are also slightly understated as a result of a change in how Movestic interfaces with a particular broker leading to a tranche of new business being omitted from our Q4 sales volume submission. This was solely a market share reporting issue with no implications on policy processing and accounting routines.

Trend analysis of Movestic's share of new business



Movestic's share of new unit-linked company-paid pension business (excluding 'tick the box' market)



Development of innovative product concepts and margin enhancement
A differentiating feature of Movestic is the carefully selected fund range which over time has proven to perform very well compared to similar offerings. The work to further develop and improve the fund range is continually given high priority. During 2014 there has been significant activity in this including the launch of three new funds white labelled as Movestic funds and the introduction of a Movestic Sustainability portfolio. The benefits of the new "white labelled" funds, enabled through the set-up of a new SICAV (fund structure) during the year, in addition to being well matched to policyholder requirements, is that Movestic receives a higher proportion of the product value chain thereby improving new business margins. The sustainability fund is very much required to meet the increasingly ecologically focused demands of the Swedish consumer.

Risks associated with the strategic objective
Economic conditions in Sweden have been mixed during 2014. The Swedish OMX all-share index has increased by 11.9% during the year whilst interest rates were reduced to zero in late October 2014, and now stand at negative 0.1%, effective at the start of February 2015. As a result, there remains a general sense of uncertainty that has led to some consumers preferring more traditional investment products to equity-based unit-linked investments. Whilst recent improvements in confidence and good equity market performance has ensured the unit-linked market has remained attractive to many investors, there is a risk that returns being offered on traditional products will adversely impact the relative attractiveness of Movestic's unit-linked proposition. We continue to believe that as equity market confidence continues to recover and that as the traditional investment offerings become less sustainable for providers, there will be a gradual shift back towards unit-linked investments. New business volumes remain sensitive to market preferences and continued IFA support. New business volumes are also sensitive to the quality of service provided to IFAs and the end customer. Movestic continues to score highly in internal and external service level assessments.

New business remains relatively concentrated towards several large IFAs. This is inevitable to some extent but the fact that Movestic has extended the breadth of IFA support in the year has reduced the concentration risk. Whilst Movestic has further broadened its coverage of the broker market, the fact remains that a large proportion of new business comes from two large brokers thereby creating a level of concentration risk. In light of this risk, Movestic takes comfort from the fact they are assessed very favourably on an internal product provider assessment scorecard maintained by one of the major brokers. The second large broker has a proven strong level of support for the Movestic proposition as demonstrated by its continued support of Movestic during and subsequent to the servicing difficulties experienced in 2011.

The competitive market puts pressure on new sales margins and even though Movestic's margins have held up well, these external pressures have led to management focussing on achieving better terms in the fund operation.

BUSINESS REVIEW

3 ACQUIRE LIFE AND PENSION BUSINESSES

"During the year we announced the acquisition of the Waard Group in the Netherlands. The deal scores highly on our financial assessment criteria and is expected to be cash generative. The purchase price represents a healthy discount to embedded value. Perhaps of even more relevance is the opportunity to progress further value adding deals in the Dutch market.

Highlights

- Successful acquisition of the Waard Group in the Netherlands for €67.8m (subject to regulatory approval).
- Entry to a third market assessed as having significant further market consolidation potential.
- Benefits have accrued from the Protection Life acquisition in line with expectations.

Review of the year

There has been a continued increase in general market activity in the UK and across Europe. The activity is due to a number of factors including larger financial organisations wishing to re-focus on core activities and the desire to release capital or generate funds from potentially capital intensive Life and Pension businesses. Despite the improving general M&A environment, regulatory review programmes and legislative changes, have to an extent dampened the actual level of Life and Pension sector deals progressed in the UK. We are therefore mindful that there may be a slight short term hiatus in activity in the UK. As a result we have increased our focus on Western Europe. This has resulted in our move into the Dutch market through the acquisition of the Waard Group.

Acquisition of the Waard group

During November 2014 we announced the acquisition of the Waard Group in the Netherlands for €67.8m. To finance the deal we raised £34.5m of equity through a well supported share placing exercise. The acquisition creates a great opportunity to enter a new market within which consolidation has not yet begun. The deal was assessed positively on all four elements of our assessment scorecard:

CASH GENERATION
High solvency levels will enable material cash distributions.

EMBEDDED VALUE Note 1
26% discount to embedded value supports our growth proposition.

STRATEGIC OPPORTUNITY
Market intelligence indicates that significant consolidation potential exists. Early indications post announcements are generally supportive of our expectations.

RISK CONSIDERATIONS
The deal has been structured such that residual risks are deemed to be low. The potential impact on the risk profile of the Group going forward is minimal.

Note 1: The discount to embedded value, in terms of the Group balance sheet expressed in Sterling, will have deteriorated compared with the initial deal assessment of 26% as a result of the Euro depreciation during 2015. However, it remains suitably positive and of course would recover should the Euro subsequently recover against Sterling.

At the date of publishing the 2014 Report & Accounts the purchase of the Waard Group remains subject to Dutch regulatory approval.

Protection Life

The PL business has been successfully transferred into CA plc during 2014, resulting in £27.4m of additional cash available to transfer to Chesnara plc. When PL Ltd was purchased we made plans to migrate the day to day servicing to HCL. This process is ongoing and is envisaged to complete during the first half of 2015. This is slightly later than planned but broadly in line with the plans made at acquisition. The first full year set of results have been reassuring and are broadly in line with expectations.

Acquisition process and approach

Chesnara is an established Life and Pensions consolidator with a proven track record. This, together with a good network of contacts in the adviser community, who understand the Chesnara acquisition model and are mindful of our good reputation with the regulator, ensure we are aware of most viable opportunities in the UK and many opportunities in Europe. Despite our proven market presence, we have recently implemented a revised acquisition process framework in order to ensure we continue to identify and assess all potential value adding deals across our widening geographical markets.

We assess the financial impact of potential acquisition opportunities by estimating the impact on three financial measures namely; the cash flow of the Group, the incremental embedded value and the internal rate of return. The financial measures are assessed under best estimate and stress scenarios.

The measures are considered by the Board and Audit & Risk Committee, in the context of other non-financial measures including the level of risk and the degree of strategic fit and opportunity.

We engage specialists to support stringent due diligence procedures and the actual acquisition process.

Risks associated with the strategic objective

The risk of not effectively delivering this objective is two-fold. Firstly, there is the risk that Chesnara makes no further acquisitions and secondly there is the risk that we make an inappropriate acquisition that adversely impacts the financial strength of the Group.

The acquisition of the Waard Group opens a new territory and hence increases our options thereby reducing the risk that no further value adding deals are done. Also, the broader target market will also reduce the risk of inappropriate opportunities being progressed on the ground that better optionality will enable us to identify better fit deals at a more competitive price. As our acquisition strategy focuses more on non-UK markets we become increasingly exposed to currency risk. Where appropriate, as was the case with the Waard acquisition, we protect the Sterling value of the purchase price. Flexibility over the timing of subsequent capital extractions and dividend flows provide an element of management control over the Sterling value of cash inflows. We accept the short-term fluctuations in the reporting of embedded value that can arise.

During recent years we have enhanced our financial deal assessment modelling capabilities which improves the quality of financial information available to the Board. This strongly mitigates the risk of inappropriate opportunities being pursued. In addition, the increased financial strength of the Group means that any perceived risk that pressure to do a deal could result in a departure from the stringent assessment criteria will have reduced.

Acquisition outlook

Despite some short term challenges in the UK due to the uncertainty created by regulatory review programmes, we remain confident that all the commercial and economic drivers for consolidation remain positive and hence the market will become more active in due course. In the meantime, the acquisition of the Waard Group will provide significant potential in the Dutch market. We are well positioned to take advantage of any value adding opportunities that may arise. Our financial foundations are strong and we continue to have strong support from shareholders and lending institutions to progress our acquisition strategy. In addition our operating model which consists of well established outsource arrangements plus efficient, modern in house solutions, means we have the flexibility to accommodate a wide range of potential target books. With all the above in mind, we are confident that we are well positioned to continue the successful acquisition track record in the future.

BUSINESS REVIEW

CHESNARA CULTURE AND VALUES

General business conduct

The principles of general business conduct are illustrated below:

Conduct Business with professionalism and integrity	Conduct business with due care, skill and attention	Responsible management, with adequate risk management systems
Maintain adequate financial resources		

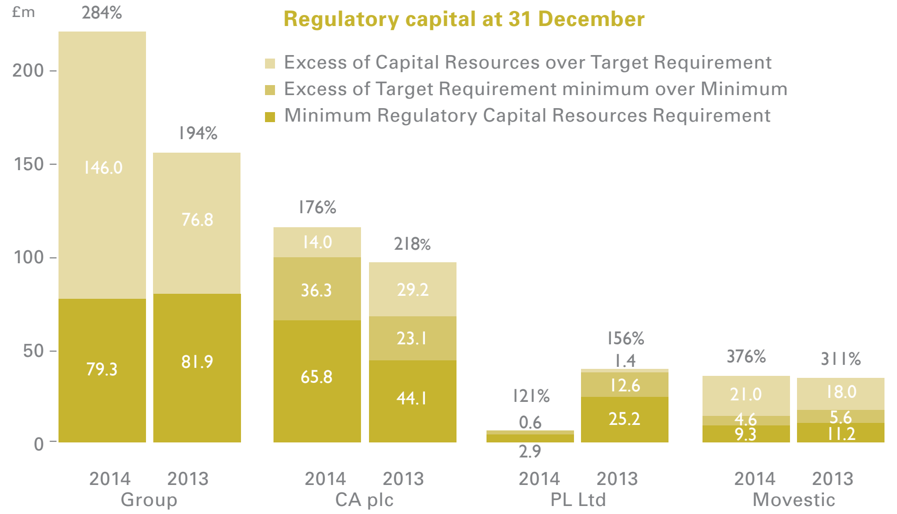
Good business conduct is in many ways a matter of behavioural or cultural practice and principles. Chesnara has always maintained high standards with regards to ensuring the business is managed on a risk based, fair and responsible basis. To further reinforce and embed this culture of responsibility revised Governance procedures and processes ("Governance Map") are being developed which are due for full implementation during 2015. The Governance Map will ensure Chesnara's cultural values and good business conduct are effectively applied across the enlarged Group. It will also create consistency of approach and transparency of policy both of which are fundamental requirements of the Solvency II regime.

A critical element of good business conduct in a regulated financial services business is the need to maintain adequate financial resources which in turn is managed by governing our solvency position. In recognition of this, as part of the day to day conduct of our business we regularly monitor the solvency position of the Group. This demonstrates our commitment to maintaining a strong, but not excessive, solvency position.

This brings a number of benefits, including supporting:

- one of our key financial management objectives of safeguarding policyholder interests.
- delivering to the dividend expectations of our shareholders.
- potential acquisition opportunities.
- our ability to absorb volatility created by external economic conditions.

Highlights – Group solvency continues to be strong at 284% (2013: 194%). This is stated after a proposed final dividend of £15.1m, and also reflects the benefit of the £34.5m equity raise in December 2014. Completion of the Waard Group acquisition in 2015 will reverse some of the increase in Group Solvency that has been seen in 2014.



Notes

- The percentages in the chart to the left represent the excess of the capital resources over the minimum regulatory capital resources requirement.
- The target capital requirements stated are based on the Board's internal minimum targets, and are set as follows:
  - Group – 100% of minimum regulatory capital resources requirement.
  - CA plc – 162.5% of the minimum long-term insurance capital requirement plus 100% of the resilience capital requirement.
  - PL – the European minimum long-term insurance capital requirement.
  - Movestic – 150% of the capital resources requirement.

Group solvency (IGD)

The IGD represents the solvency of the Group, and is calculated using requirements imposed by the PRA. The IGD ratio at 31 December 2014 is 284% (2013: 194%) with the surplus having moved from £76.8m at 31 December 2013 to £146.0m at 31 December 2014. IGD is stated after the final dividend of £15.1m (2013: £13.4m). The movement in IGD this year is a function of the following key items:

- **Equity share raising;** £34.5m was raised from a share placing for the acquisition of Waard Group.
- **The Group regulatory surplus in the year.** The Group Regulatory surplus in 2014 has been strong, amounting to £44.5m. This has resulted in a significant benefit to the IGD, outweighing the impact of the 2014 total dividend of £22.5m (interim dividend of £7.4m plus the proposed final 2014 dividend of £15.1m).

Solo solvency

The Board sets internal solvency targets for each of its regulated subsidiaries, which have remained unchanged when compared with the prior year. The graph above shows that the solvency positions of each regulated subsidiary continue to exceed the internal targets imposed by the Board:

- **CA plc solvency** has reduced from 218% to 176%, with the surplus over the requirement reducing from £52.3m to £50.3m. This is stated after proposed dividends of £65.0m (2013: £48.0m), thereby showing that strong solvency is still being achieved whilst delivering strong cash flows to the Chesnara parent company. The position at 31 December 2014 includes the impact of the Part VII transfer from PL into CA plc.
- **PL Ltd solvency** is 128% at 31 December 2014. The reduction when compared to the prior year is a result of the successful Part VII transfer of PL into CA plc. The remaining capital is due to be transferred in 2015 following de-regulation of PL Ltd.
- **Movestic** had a solvency ratio of 376% at 31 December 2014. Whilst it has a very strong solvency ratio, Movestic does not currently pay dividends to Chesnara due to an additional liquidity constraint that is imposed by the Swedish regulator.

Solvency II

The introduction of Solvency II on 1 January 2016 will change the capital position of both the Group and its regulated subsidiaries. The final impact of Solvency II continues to be uncertain although we expect the Group will not be adversely impacted. Solvency II may also result in the Board re-assessing the internal targets imposed on each regulated entity. Further detail on the status of our Solvency II programme is included on page 47.

BUSINESS REVIEW

CHESNARA CULTURE AND VALUES (CONTINUED)

Treatment of customers

UK

Treating customers fairly

We have embedded the principle that we aim to treat all customers fairly within all our people, processes and procedures. This aim has been shared with all our outsourcing partners. The principle goes beyond the way we answer telephone calls and deal with the regular service that we provide to our customers. It is also considered when we deal with complaints from our customers or where we identify an error within our systems that affects policyholder outcomes.

Complaints

The general downward trend in the overall volume of complaints received has continued although we continue to receive a number of complaints from complaint management companies in respect of endowment policies surrendered or lapsed many years ago. The Financial Ombudsman Service continues to agree with our decision on the majority of complaints referred to them for adjudication.

Policyholder investment funds

Through the auspices of the CA plc Investment Committee we have continued our oversight of policyholder funds through regular meetings with the investment managers. With them we continue to review the funds to ensure the underlying investment mix is the most appropriate for policyholders. A critical factor that has a bearing on the customer experience is the level of investment return on their assets. Whilst unit linked customers are naturally directly exposed to the volatility of investment markets outside of Chesnara's direct influence, it is important that we ensure the investment performance of our policyholder funds is competitive against market benchmarks. In light of this we are pleased to confirm that our main managed funds have all out-performed their benchmarks during 2014.

Sweden

Movestic has received high scores in external surveys conducted within the insurance industry in Sweden. Furthermore and in relation to the size of the operations, Movestic's complaints function receives very few customer complaints and cases brought to the Public Complaints Board are very rare. The Swedish Consumer Agency has recently completed a review regarding marketing of funds. The review of Movestic's information and marketing activities was closed without remarks.

Treatment of employees

We recognise that management and staff are at the heart of Chesnara's success. Our continued flexible and supportive approach has contributed to another year of low staff turnover throughout the Group.

The Waard Group has been through a period of significant uncertainty over recent years following the bankruptcy of its parent company. Throughout this period the staff and management have remained focussed, professional and loyal. Chesnara are keen that our new Dutch colleagues are rewarded for their professionalism and loyalty by being positively involved in our future plans for the development of the Waard Group.

Treatment of investors

As a listed company, clearly one of our core responsibilities is to continue to provide a competitive return to our shareholders. We are aware that for many of our shareholders continuity of our historically strong dividend performance is a core requirement. In light of this we are pleased that the financial performance of the Group during 2014 enables us to increase our full year dividend by 2.9% compared to 2013. The 2014 full year dividend of 18.4p per share represents a yield of 5.4% (based on the share price as at 31 December 2014 of 339.25p per share). Total shareholder returns over a 5 year and 1 year period are competitive in comparison to the FTSE 350 higher yield index.

In addition to providing financial returns to our investors we also recognise the importance of engaging with our investors in an effective way so as to ensure they are appropriately informed about the performance of the company. To this end, we produce Report and Accounts that aim to be as open and informative as is reasonable. We also ensure we are available to meet with investors and hold ad hoc presentations as appropriate.

The ongoing investor satisfaction is evidenced by the support received for the recent equity raise required to enable the Group's acquisition in the Dutch market.

Relationship with regulators

UK

As ever in this highly regulated industry there have been a number of new and ongoing initiatives that have led to various levels of attention and challenge. It is pleasing to report that none of these have given rise to significant issues. The commentary below sets out a list of the key activities during the year.

Legacy review

During the year CA plc has participated in a review by the FCA that looked at legacy investment linked business. This review has looked at a number of areas including company governance, customer correspondence and policyholder charges. A report on the findings of this review is expected in the second quarter of 2015.

Independent Governance Committees (IGCs) on pensions

The government has announced that there will be new requirements for the governance of both Workplace Personal Pension schemes and Occupational Pension schemes. The company has taken external legal advice on the impact of these changes and will be ensuring that the governance of these schemes going forward meets the requirements of the regulations and legislation. The changes are likely to result in the appointment of an external Governance Advisory Arrangement to oversee the Workplace Personal Pensions and report on their value for money whilst the Trustee arrangements for the occupational schemes will need to be reviewed and they will also need to report on value for money.

Pension changes

The government has passed legislation that has changed the pensions rules with effect from April 2015 to allow policyholders to take their retirement benefits in a variety of ways, including as a lump sum. In order to comply with these new rules it has been necessary to update our systems and correspondence with customers. Following its introduction in April there is an expectation that there will be a peak in demand for this new benefit, we have therefore planned additional resources to meet this expected demand.

PRA visit

As part of its regular monitoring of CA plc the PRA carried out its annual Periodic Summary Meeting. This meeting helps it understand the business and identify its monitoring requirements over the year.

Sweden

Movestic has an active dialogue with the regulator on business as usual matters, in conjunction with interactions on any specific regulatory affairs. The relationship with the regulator is good and no complaints or concerns have been expressed regarding Movestic's operations.

Netherlands

We have forged an encouraging initial relationship with the Dutch regulator (DNB) which builds upon a strong pre-existing relationship between the existing Waard Group management team and the DNB. The Declaration of No Objection (DNO) application, which the regulator is required to give before the transaction can complete, is pending at the point of issuing these Report & Accounts.

FINANCIAL REVIEW

The key performance indicators illustrate how effectively we have delivered against our three strategic objectives. The strong net cash generation of £71.1m together with the significant embedded value earnings in the year clearly demonstrates how effectively we continue to deliver against our core objective of "maximising value from the in-force book". Within the embedded value earnings there is a £9.7m new business profit item which reflects the positive performance against our objective to "Enhance value through new business". Finally, whilst not recognised in any of the 2014 figures, the impending acquisition of the Waard Group is forecast to have a positive impact on all of the financial measures in 2015, continuing to deliver our objective to add value by acquiring Life and Pension businesses.

IFRS PRE-TAX PROFIT

£28.8M 2013: £60.6m

What is it?

The presentation of the results in accordance with International Financial Reporting Standards (IFRS) aims to smooth the recognition of profit arising from written business over the life of insurance and investment contracts.

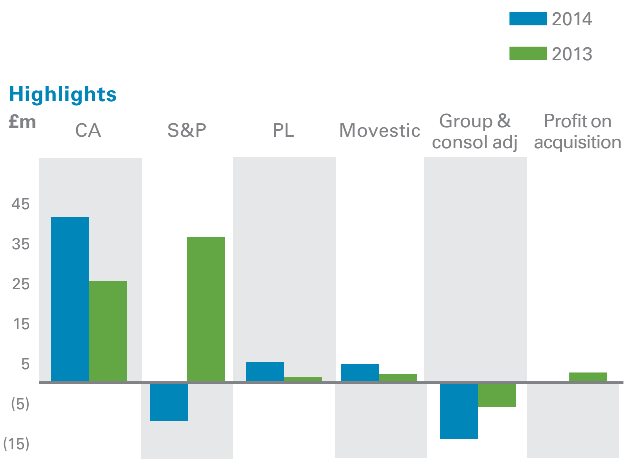
Why is it important?

For businesses in run-off the reported profit is closely aligned with, and a strong indicator of, the emergence of surplus arising within the long-term insurance funds of those businesses. The emergence of surplus supports the payments of dividends from the regulated insurance businesses to Chesnara plc, which in turn enables the payment of dividends to our shareholders. IFRS pre-tax profit is a strong indicator of how we are performing against our stated strategic objective of "maximising value from the in-force book".

Risks

The IFRS profit can be affected by a number of our principal risks and uncertainties as set out on pages 45 to 46. In particular, a significant reduction in Government bond yields during 2014 has had a material effect on the IFRS pre-tax profit in the year. Equity and property markets in the UK have been broadly flat during 2014, but had a more marked impact on the 2013 results, following strong performance in that year.

Highlights



- Overall reduction in IFRS pre tax profit of £31.8m is driven by a £45.6m adverse swing in S&P result.
- S&P loss in the year is driven by reducing bond yields, which has resulted in the requirement to increase reserves held for policies with options and guarantees.
- This loss is off-set by a strong CA segment result, which has provided an expected hedge against this dynamic, with bond yields having had a positive impact.
- Movestic result is stronger than the prior year.

NET CASH GENERATION

£71.1M 2013: £36.7m

What is it?

Net cash generation is a measure of how much distributable cash the subsidiaries have generated in the period. The dominating aspect of cash generation is the change in amounts freely transferable from the operating businesses, taking into account target statutory solvency requirements which are determined by the boards of the respective businesses. It follows that cash generation is not only influenced by the level of surplus arising but also by the level of target solvency capital.

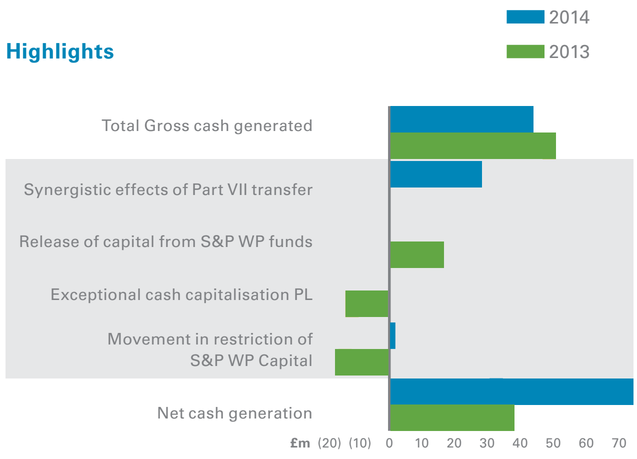
Why is it important?

Cash generation is a key measure, because it is the net cash flows to Chesnara from its Life and Pensions businesses which supports Chesnara's dividend-paying capacity and acquisition strategy. Cash generation can be a strong indicator of how we are performing against our stated objective of "maximising value from the in-force book". However, our cash generation is always managed in the context of our stated value of maintaining strong solvency positions within the regulated entities of the Group.

Risks

The ability of the underlying regulated subsidiaries within the Group to generate cash is affected by a number of our principal risks and uncertainties as set out on pages 45 to 46. Whilst cash generation is a function of the regulatory surplus, as opposed to the IFRS surplus, they are closely aligned, and therefore factors such as yields on fixed interest securities and equity and property performance contribute significantly to the level of cash generation within the Group. In addition to this, regulatory change, such as the introduction of Solvency II, can also materially affect the levels of cash, both positively or adversely, generated by our regulated subsidiaries.

Highlights



- Gross cash generation across the Group continues to be strong, driven by strong and stable UK cash generation.
- Net cash generation is supported by the Part VII transfer of PL into CA plc on 31 December 2014.
- The cash generated during 2014, coupled with the strong parent company cash position of £80.1m at 31 December 2014 and the expected cash generative nature of the Waard Group acquisition leaves us in a good position to continue our attractive dividend policy and acquisition strategy.

EEV EARNINGS, NET OF TAX

£44.2M

2013: £82.7m (excluding modelling adjustments of £4.1m)

What is it?

In recognition of the longer-term nature of the Group's insurance and investment contracts, supplementary information is presented in accordance with European Embedded Value 'EEV' principles.

The principal underlying components of the EEV result are:

- The expected return from existing business (being the effect of the unwind of the rates used to discount the value in-force).
- Value added by the writing of new business.
- Variations in actual experience from that assumed in the opening valuation.
- The impact of restating assumptions underlying the determination of expected cash flows.

Why is it important?

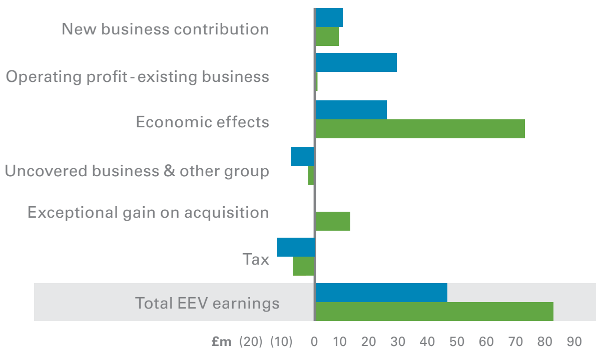
By recognising the net present value of expected future cash flows arising from the contracts (in-force value), a different perspective is provided in the performance of the Group and on the valuation of the business. EEV earnings are an important KPI as they provide a longer-term measure of the value generated during a period. The EEV earnings of the Group can be a strong indicator of how we have delivered to our strategic objectives, in particular the new business profits generated from "enhancing our value through new business in selected markets", coupled with "maximising our value from the in-force book".

Risks

The EEV earnings of the Group can be affected by a number of factors, including those highlighted within our principle risks and uncertainties as set out on pages 45 to 46. In addition to the factors that affect the IFRS pre-tax profit and cash generation of the Group, the EEV earnings can be more sensitive to other factors such as the expense base and persistency assumptions. This is primarily due to the fact that assumption changes in EEV affect our long-term view of the future cash flows arising from our books of business.

Highlights

2014
2013



- Although a reduction year on year, the EEV result for 2014 remains a positive indicator of the growth of the business.
- Economic items continue to contribute a significant portion of the overall EEV result, albeit at lower levels than in 2013.

EEV

£417.2M

2013: £376.4m

What is it?

The European Embedded Value (EEV) of a life insurance company is the present value of future profits, plus adjusted net asset value. It is a construct from the field of actuarial science which allows insurance companies to be valued.

Why is it important?

As the EEV takes into account expected future earnings streams on a discounted basis, EEV is an important reference point by which to assess Chesnara's intrinsic value. A life and pensions group may typically be characterised as trading at a discount or premium to its embedded value. Analysis of EEV, distinguishing value in-force by segment and by product type, provides additional insight into the development of the business over time. The EEV development of the Chesnara Group over time can be a strong indicator of how we have delivered to our strategic objectives, in particular the value created from acquiring life and pensions businesses and enhancing our value through new business in selected markets. It ignores the potential of new business to be written in the future (the franchise value of our Swedish business) and the value of the Company's ability to acquire further businesses.

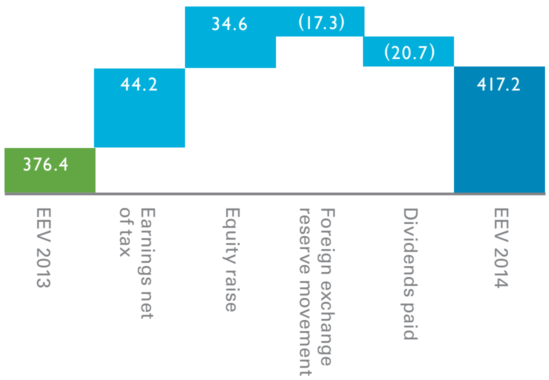
Risks

The Embedded Value of the Group is affected by economic factors such as equity and property markets and yields on fixed interest securities. In addition to this, whilst the other KPIs (which are all "performance measures") remain relatively insensitive to exchange rate movements (largely due to the proportion of IFRS pre-tax profit generated by Movestic compared with the other UK businesses) the EEV of the Group can also be materially affected by exchange rate fluctuations between Swedish Krona and Sterling. For example a 10.0% weakening of exchange rates between Swedish Krona and Sterling would reduce the EEV of the Group by 3.0%, based on the composition of the Group's EEV at 31 December 2014.

Highlights

£m

2014
2013



- Group EEV has increased by £40.8m, or 11% during the year.
- Post-tax EEV earnings have contributed £44.2m of the movement.
- The equity raise of £34.5m during Q4 2014 has added to the EEV. This is being used to acquire the Waard Group during 2015.
- Off-setting the above positive movement is a foreign exchange loss of £17.3m on the re-translation of the Movestic EEV, as a result of the weakening of the Swedish Krona against Sterling during the year, coupled with the reduction in EEV arising from dividends paid in the year.

IFRS PRE-TAX PROFIT

£28.8M 2013: £60.6m

Executive summary
The IFRS results by business segment reflect the natural dynamics of each line of business. In summary the current financial model has three major components which can be characterised as: the "stable core", the "variable element", and the "growth operation". The results and financial dynamics of each segment are analysed further as follows:

Stable core
At the heart of surplus, and hence cash generation, are the CA and PL segments. The requirements of these books are to provide a predictable and stable platform for the financial model and dividend strategy. As a closed book, the key is to sustain this income source as effectively as possible. The IFRS results during the year support this objective, with a strong IFRS pre-tax surplus of £41.2m for CA (2013: £25.0m) and a PL pre-tax surplus of £5.5m. Assets under management within the CA segment, a key driver of surplus, have reduced from £1,736m at the start of the year to £1,702m at 31 December 2014. Whilst this represents a 2% reduction during the year, the reduction is less than the policy attrition levels in the year, despite slightly negative equity markets.

Further detail of the results of the CA and PL segments can be found on pages 31 and 32 respectively.

Variable element
The S&P component brings an element of earnings volatility to the Group, with the results being particularly sensitive to investment market movements. This is illustrated by a material increase in the reserve for costs of guarantees since the start of the year, of £17.8m in 2014. During 2013 the S&P segment included a surplus arising from movements in reserves for products with guarantees of £24.4m thereby representing a year on year adverse swing of some £42.2m.

Product based deductions continue to remain strong, at £17.1m (2013: £17.1m).

Further detail of the results of the S&P segment can be found on page 32.

Growth operation
The long-term financial model of Movestic is based on growth, with levels of new business being targeted to more than offset the impact of policy attrition, leading to a general increase in assets under management and, hence, management fee income. There has been an increase in funds under management of 23.5% (on constant exchange rates) since 31 December 2013.

As a result the underlying IFRS profit after adjusting for non-recurring items (the deferred acquisition cost charge in 2013 of £3.0m and the Modernac profit of £1.2m) has increased from £4.4m to £4.9m, or 11.4%.

The 2014 Movestic results have also been suppressed, to some extent, by the deterioration in strength of the Swedish Krona against Sterling, which has witnessed a 13.9% fall during 2014.

Further detail of the results of the Movestic segment can be found on page 33.

IFRS results
The financial dynamics of Chesnara, as described above, are reflected in the following IFRS results:

Year ended 31 December	2014 £m	2013 £m	Note
CA	41.2	25.0	1
S&P	(9.2)	36.4	2
PL	5.5	0.2	3
Movestic	4.9	2.6	4
Chesnara	(7.6)	(4.9)	5
Consolidation adjustments	(6.0)	(1.5)	6
Total profit before tax and exceptional item	**28.8**	**57.8**	
Profit arising from PL acquisition	–	2.8	7
Total profit before tax	**28.8**	**60.6**	
Tax	(3.2)	(11.2)	
Total profit after tax	**25.6**	**49.4**	

Note 1 – The CA segment has reported strong results for 2014. This is largely driven by the positive impact of reserve changes, driven by both economic and non-economic factors. Further detail is provided on page 31.

Note 2 – The S&P segment has reported a pre-tax loss in the year, largely as a result of a strain arising from an increase in reserves required for products with options and guarantees. These reserves are sensitive to market movements, in particular the reduction in bond yields during 2014.

Note 3 – The 2014 results include a full year of the PL business. For 2013 the results that were reported were for the period post acquisition, being 28 November 2013.

Note 4 – The Movestic result has improved when compared with 2013. The 2013 result was adversely impacted by a one-off deferred acquisition cost charge that has not been repeated in 2014. Further detail is provided on page 33.

Note 5 – The Chesnara result represents holding company expenses. 2014 costs are higher than 2013 primarily due to the costs associated with the Part VII transfer of PL into CA plc. Both 2014 and 2013 included costs associated with acquisition activity, being PL Ltd and the Waard Group respectively.

Note 6 – Consolidation adjustments relate to items such as the amortisation of intangible assets. More detail is provided on page 33.

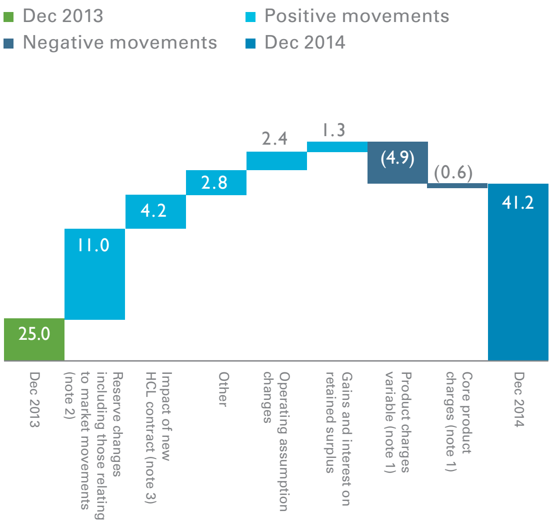
Note 7 – The 2013 Group profit before tax was stated after recognition of a £2.8m gain arising as a result of the purchase of PL Ltd. There have been no adjustments to this during 2014.

The IFRS results by business segment are analysed in more detail as follows:

CA

The CA segment has reported a strong result for the year. This is driven predominantly by product deductions and the positive impact of reserve changes in the year. The waterfall graph below bridges the IFRS profit for 2013 and 2014 and shows that the movement in surplus is driven by the aforementioned positive impact of reserve reductions in the year.

Profit before tax movement
Year ended 31 December 2013 to year ended 31 December 2014 (£m)



The key components of the IFRS result for the year are as follows:

Pre-tax IFRS profit	2014 £m	2013 £m	Note
Product-based charges	23.2	28.7	1
Administration expenses	(8.4)	(7.0)	1
Returns on retained surplus	4.8	3.5	1
Operating assumption changes	0.7	(1.7)	
Reserve changes, including those due to market movements	14.3	3.3	2
Impact of new HCL contract	4.2	–	3
Complaint costs	(1.4)	(1.5)	
Other	3.8	(0.3)	4
Total	**41.2**	**25.0**	

Note 1 – Product-based charges and returns on retained surplus remain significantly in excess of recurring administration expenses. The level of product-based charges in 2014 has reduced when compared with 2013; the core charges have remained stable year on year (2014: £17.3m, 2013: £17.9m), although the variable product charges have reduced from £10.8m to £5.9m. This is caused by a reduction in mortality and morbidity charges as a result of higher than expected mortality experience during the year.

Note 2 – The surplus in 2014 has arisen due to a number of items, with the two main ones being a positive movement in tax reserves of c£4m and an economic surplus of c£6.0m, driven by reducing Government bond yields in the year. This compares with the prior year where tax reserves were strengthened by c£2m.

Note 3 – The CA surplus includes the effect of modelling the new HCL contract which, as explained on page 19 of the Business Review, has not had a financial impact on the overall UK results in the period. This has, however, contributed a surplus of £4.2m to the CA result, with an equal and opposite impact being seen in the S&P segment results, which are analysed on page 32.

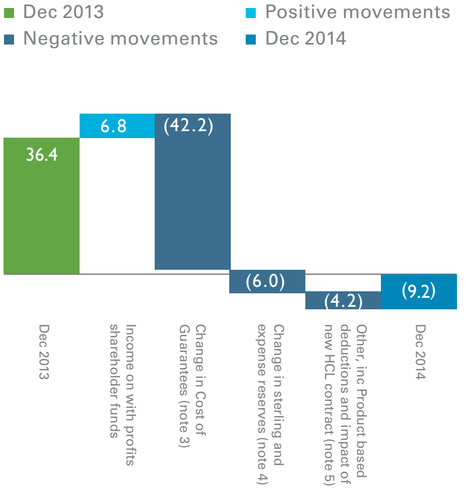
Note 4 – The CA result in the period includes £3.8m of "other" items. This predominantly (£3.4m) relates to a one off item arising from the reserving impact of a change in practice associated with policies that can accrue bonus units in certain circumstances.

IFRS PRE-TAX PROFIT (CONTINUED)

S&P

The S&P segment has posted a pre-tax loss for the year, compared with a profit in the prior year. The change in profitability can be highlighted by the following waterfall graph:

Profit before tax movement
Year ended 31 December 2013 to year ended 31 December 2014 (£m)



S&P posted a pre-tax IFRS loss of £9.2m for year, the key components of the result being:

Pre-tax IFRS profit	2014 £m	2014 £m	Note
Product based deductions	17.1	17.1	1
Administration expenses	(9.7)	(9.9)	1
Income on S&P shareholder funds	6.4	(0.4)	2
Change in cost of guarantees in with-profit funds:			3
Asset valuation movements	15.7	8.6	
Change in yield curve	(23.2)	19.9	
Lapse experience	(4.0)	(3.7)	
Other	(6.3)	(0.4)	
Total	(17.8)	22.4	
Change in sterling and expense reserves	(0.6)	5.4	4
Impact of new HCL contract	(4.2)	-	5
Other	(0.4)	(0.2)	
Total	**(9.2)**	**36.4**	

Note 1 – Product-based deductions continue to hold up as the book runs-off. These are supported by assets under management, which have remained broadly constant year on year, having moved from £1,113m at the start of the year to £1,146m at 31 December 2014. Product deductions exceed administration expenses by £7.4m and £7.2m in 2014 and 2013 respectively.

Note 2 – The income on with-profits shareholder funds is driven by investment market performance. The 2014 result has benefited significantly from the impact of increases in the capital value of government bonds during the year. Such a dynamic did not exist in the 2013 financial year.

Note 3 – During 2014 the S&P segment has reported a strain of £17.8m arising from its policies that contain options and guarantees. The strain has arisen primarily due to the significant reduction in government bond yields that has been witnessed in 2014, most notably during the last quarter of the year. Whilst equity values can also affect the reserves that are required for these policies, the fact that equity performance has been only slightly negative in 2014 has resulted in no significant changes in the reserves required. Included within the change in the costs of guarantees is a lapse experience loss of £4.0m, driven by observed lapses being slightly less than assumed at the start of the year.

Note 4 – Sterling and expense reserves are sensitive to both the expense base and to investment market movements. As investment markets improve, the level of sterling reserves (which provide against situations where future policy-based revenue does not cover future administration costs) reduces. 2013 witnessed a surplus emerging as a result of this dynamic, whereas equity market movements in 2014 have been more muted, resulting in no significant changes required to sterling reserves in the year.

Note 5 – As reported in the half year 2014 results there is a £4.2m strain that has arisen as a result of the effect of modelling the revised HCL contract. Whilst this has not impacted the overall Group results, the effect can be seen in the individual segments, with the CA segment reflecting a benefit of the same magnitude in its surplus.

PL

The PL segment has contributed a pre-tax IFRS surplus of £5.5m during 2014 compared with £0.2m during 2013. The main reason for the increase year on year is that PL Ltd was purchased in November 2013, and therefore the earnings as reported in 2013 only reflect the earnings of the business subsequent to Chesnara's ownership, and consequently the contribution in 2013 was not material.

The main contributor to the pre-tax IFRS profit in 2014 is the expected release of the prudence margins within the reserving basis, relating to mortality, persistency and investment returns from the book, amounting to £5.3m. Experience surpluses, representing the difference between the expected releases of margins and the actuarial experience, were not material in the period. Administration expenses of £2.1m, representing the ongoing costs of administering the PL book of business were incurred in the year. These costs are in line with the expectations that were derived from our due diligence process, prior to completing the acquisition on 28 November 2013.

Movestic

The IFRS pre-tax results of Movestic, before the impact of DAC model changes of £(3.0)m (see note 4 below) and a non-recurring profit share of £1.2m (see note 2 below), both of which occurred during 2013, have increased slightly year on year, from £4.4m in 2013 to £4.9m in 2014. The table below analyses the constituent parts of the pre-tax IFRS profit:

Pre-tax IFRS profit	2014 £m	2013 £m	Note
Pensions and Savings, before impact of DAC model change	2.4	2.2	1
Risk and health	0.4	2.2	2
Other	2.1	1.2	3
Total profit before impact of DAC model change	**4.9**	**5.6**	
Impact of DAC model change	–	(3.0)	4
Total profit before tax	**4.9**	**2.6**	

Note 1 – The Pensions & Savings business generates value through fee income that it receives from policyholders (management charges) and investment managers (fee rebates). These fees are a function of Assets under Management (AuM), which have grown from SEK 17.7bn at 31 December 2013 to SEK 21.9bn at 31 December 2014, representing growth of 23% during the year. This has led to fee and income growth of 15%, excluding the impact of exchange rates. The corresponding cost base (being brokerage costs and internal costs) has increased at broadly the same rate, resulting in a small growth in profit.

Note 2 – The Risk and Health business has generated a small profit in the year, amounting to £0.4m (SEK 4.8m), compared with a profit of £2.2m (SEK 22.5m) during 2013. The size of the business has remained broadly the same year on year, with net earned premiums, after reinsurance, of £15.6m (SEK 175.9m) in 2014 versus £16.7m (SEK 170.1m) in 2013. The number of policies in force at 31 December 2014 was 382,000, compared with 362,000 at 31 December 2013. The key drivers of the reduction in profit in this business are a slight increase in the net loss ratio in the year coupled with 2013 including the recognition of a one-off profit share of £1.2m that was not repeated in 2014.

Note 3 – The "Other" component includes; the results of Movestic's associated company, Modernac; investment income; the results of Movestic's investment management business and fair value adjustments on the financial reinsurance that Movestic uses to fund the writing of new Pensions & Savings business. The key reason that the result of this segment has increased when compared to the prior year is due to a swing in fair value adjustment on financial reinsurance, which was a loss of c£0.9m in 2013, versus a small fair value profit of c£0.3m in 2014.

Note 4 – During the prior year a one-off accelerated deferred acquisition costs charge was reported following a review of the amortisation profile of deferred acquisition costs. There was no such adjustment this year.

Consolidation adjustments

The adjustments arising on consolidation are analysed below:

Pre-tax IFRS profit	2014 £m	2013 £m	Note
CA – Amortisation of AVIF	(2.3)	(2.2)	
S&P – Amortisation of AVIF	(0.7)	(0.8)	
PL – Amortisation of AVIF	(2.4)	(0.2)	5
Movestic:			
Amortisation of AVIF	(3.9)	(4.4)	
Write back of DAC	3.3	6.1	6
Total	(0.6)	1.7	
Total	**(6.0)**	**(1.5)**	

Note 5 – As PL Ltd was purchased on 28 November 2013 the amortisation charge associated with the "value in force" intangible asset that was recognised on acquisition was small. The 2014 financial year includes a full year charge. The "value in force" intangible asset is being amortised over its estimated useful economic life.

Note 6 – Included within consolidation adjustments is an item in relation to Movestic that reverses the amortisation charge on DAC relating to policies that were written prior to Chesnara ownership. During 2013 this adjustment increased compared with previous years due to the additional charge that was booked as a result of the refinements made to the DAC amortisation model. See note 4 for further detail. For 2014 this consolidation adjustment is back in line with previous years.

NET CASH GENERATION

£71.1M 2013: £36.7m

The Group's cash flows are generated principally from the interest earned on capital, the release of excess capital as the life funds run down, policyholder charges and management fees earned on assets under management.

This information illustrates that gross and net cash generation within the Group continue to be robust. Key aspects underpinning the outcome are:

Highlights

- Gross cash generation in the UK run-off businesses has decreased by £3.2m in the year compared with 2013, largely due to the net impact of a large decrease in bond yields in the year.
- Net cash generation has benefitted from capital efficiencies of £27.4m arising from the Part VII transfer of PL into CA plc (see note 2).
- In 2013 the acquisition of PL Ltd had a short-term adverse impact on net cash generation as a result of a day one capital injection being required to increase the capital resources to 150% of the minimum regulatory capital requirement. As can be seen from the table to the right, £7.1m of cash has been generated by PL in its first full year, coupled with the synergistic impact of the Part VII transfer.
- Movestic required no additional funding during 2014 (2013: £nil).
- The increase in cash utilised by Chesnara in the year is due to a combination of costs associated with PL Part VII transfer, as well as initial transaction costs in relation to the acquisition of Waard Group.

The Group's closed life funds provide predictable fund maturity and liability profiles, creating stable long-term cash flows for distribution to shareholders and for repayment of outstanding debt. Cash flow generation will ultimately naturally decline over time as the UK businesses run-off. Despite this natural downward pressure gross cash generation in 2014 held up well when compared with 2013.

Although investment returns are less predictable, a significant portion of the investment risk is borne by policyholders. However, the S&P segment continues to demonstrate short-term volatility. This arises from the impact of investment market movements and the cost to shareholders of guarantees within the S&P with profits funds. Although the short-term measure of this cost follows the fortunes of investment markets, we manage the risk taking a longer-term perspective.

The following table identifies the source of internal gross and net cash generation within the Group, representing the net change in funds available to service debt (interest and loan principal repayment) and equity (dividends):

Year ended 31 December Cash generated from/ (utilised by):	2014 £m	2013 £m	Note
CA			
Surplus arising in the year	39.5	20.4	
Change in target capital requirement	(0.1)	3.2	
S&P			
Regulatory surplus arising in the year	3.7	25.1	1
Change in target capital requirement	(0.8)	4.3	
Increase/(decrease) in policyholder funds cover for target capital requirement	1.5	(0.5)	
PL			
Regulatory surplus arising in the year	4.3	0.2	
Change in target capital requirement	2.8	1.4	
Movestic			
Additional capital contributions	–	–	
Chesnara			
Cash utilised by operations	(8.3)	(4.4)	
Total gross cash generation	**42.6**	**49.7**	
Items affecting ability to distribute cash			
Synergistic effects of Part VII transfer	27.4	–	2
PL capital injection	–	(13.1)	3
Release of capital from S&P WP fund	–	15.5	4
Restricted surplus in S&P WP fund	1.1	(15.4)	4
Net cash generation available for distribution	**71.1**	**36.7**	**5**

Items affecting the cash available for distribution:

Note 1 – The S&P regulatory surplus is significantly lower than 2013 due to the impact of reducing Government bond yields in the year. The regulatory profit in 2014 compares with a loss on an IFRS basis. This difference is due to differing valuation bases, largely in respect of products that contain options and guarantees.

Note 2 – The Part VII transfer of the PL business into CA plc on 31 December 2014 has released £27.4m of cash that would otherwise have been unavailable. There is a further £3.5m of capital that will be released in 2015 when the company is de-regulated.

Note 3 – In 2013, PL was acquired at a solvency level lower than the target requirement. An immediate capital injection was made which had a one-off negative impact on cash available for distribution. This short term cash strain has been reversed during 2014 as a result of the cash benefit of the Part VII transfer, as highlighted in note 2 above.

Note 4 – An element of the statutory surplus in the year emerges in the S&P WP fund. In the absence of management action the majority of the surplus is not available for distribution and the net cash generated recognises this restriction. Periodically Chesnara, with regulatory approval, can apply a waiver to release some of the previously restricted surplus within S&P. This process was undertaken during 2013 resulting in a £15.5m capital release.

Note 5 – The net cash generation KPI is a useful indicator of the dividend paying capacity of the Group's regulated subsidiaries. This is monitored closely by Management as cash generated by the Group's regulated subsidiaries is used by the Chesnara Parent Company for corporate transactions such as the servicing of debt, payments of dividends and the funding of future acquisitions. It should be noted that this KPI is quite distinct from the Group's Cash Flow Statement as included in the Group's IFRS Financial Statements, which is intended to reflect the movement in cash held by Chesnara and its subsidiaries but does not reflect that most of the subsidiary cash balances are held in regulated insurance funds and are therefore not available for use by the Parent Company.

EEV EARNINGS

£44.2M 2013: £82.7m*

*excluding modelling adjustments

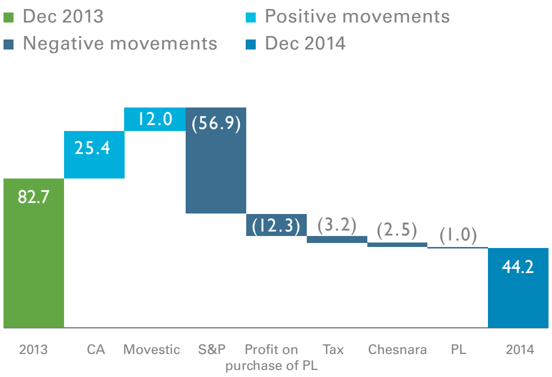
Summary

2014 has delivered a significant EEV result for the Group, with a strong operating profit supplemented by value emerging from the impact of economic conditions. The 2014 result is, however, lower when compared with the prior year, largely due to the significant profits arising from investment and economic conditions in 2013 not being repeated to the same level during 2014. Whilst we have reported an overall economic profit during the year, it is not as strong as 2013, largely due to UK equity performance being slightly negative in 2014, coupled with a significant reduction in UK Government bond yields. Swedish equities have performed slightly better than the UK, although their impact on the UK results is slightly diminished by the weakening of the Krona against Sterling in the year.

Off-setting the reduced economic profits in the year are strong operating profits on covered business, amounting to £37.5m (2013: £8.9m). Further detail has been provided below, although the key drivers are an increase in shareholder returns on net worth, which is driven by UK Government bond value appreciation in the year, coupled with c£12m of positive operating assumption changes, largely in the CA segment (see further detail on page 35).

The following tables analyse the Group EEV earnings after-tax by source and by business segment:

Profit after tax movement Year ended 31 December 2013 to year ended 31 December 2014 (£m)



Analysis of the EEV result in the year by business segment

	2014 £m	2013 £m
CA	50.0	24.5
S&P	(14.2)	42.7
PL	(0.9)	0.1
Movestic	27.5	15.5
Chesnara	(7.7)	(5.1)
Profit before tax and gain on acquisition	**54.7**	**77.7**
Gain on acquisition of PL Ltd	–	12.3
Profit before tax	**54.7**	**90.0**
Tax	(10.5)	(7.3)
Profit after tax	**44.2**	**82.7**

Analysis of the EEV result in the year by earnings source

	2014 £m	2013 £m
New business contribution	9.7	7.9
Return from in-force business		
Expected return	7.1	5.5
Experience variances	0.6	5.8
Operating assumption changes	11.0	(10.0)
Return on shareholder net worth	9.1	(0.3)
Operating profit of covered business	**37.5**	**8.9**
Variation from longer term investment return	32.0	54.7
Effect of economic assumption changes	(7.4)	16.4
Profit on covered business before tax and before gain on acquisition	**62.0**	**80.0**
Tax	(12.2)	(7.6)
Profit on covered business after tax and before gain on acquisition	**49.8**	**72.4**
Gain on acquisition of PL Ltd	–	12.3
Uncovered business and other group activities	(7.3)	(2.3)
Tax on uncovered business	1.7	0.3
Profit after tax	**44.2**	**82.7**

Economic conditions

The EEV result is sensitive to economic conditions. Economic experience and assumption changes contributed a profit of £24.6m in 2014 compared with a profit of £71.1m in the prior year. Key economic condition highlights are as follows:

- The FTSE All share has fallen by 2.1% during 2014, compared with a rise of 16.7% in 2013
- The Swedish OMX all share has increased by 11.9% during the year, compared with a 23.2% increase in the prior year
- 10 year gilt yields have reduced by 1.2% in year, compared with an increase of 1.26% in 2013.

These conditions have led to a large reduction in the EEV economic profits during the year. The following table analyses the economic conditions impact by segment:

Economic experience and assumption changes	2014 £m	2013 £m
CA	16.2	18.7
S&P	(11.7)	33.9
PL	1.6	–
Movestic	18.5	18.4
Total	**24.6**	**71.1**

The CA segment has benefited from a number of positive items in the period, the most significant being the impact of investment returns in the year, driven by Government bond values increasing (c£14m) and the positive impact of tax gains of c£5m. Off-setting this are negative economic assumption changes of c£5m.

The S&P segment reported a loss as a result of prevailing economic conditions. This is almost exclusively due to the impact that the reduction in Government bond yields in the year has had on the reserves required for those products which contain options and guarantees.

PL has reported positive economic profits in the year. This is largely due to the positive impact that increasing bond values has had on this segment during the year.

Movestic is sensitive to movements in equity markets, largely due to its core income stream being dependent upon management charges generated from policyholders. These management charges are based on the level of funds under management, which are primarily equity invested. Strong equity returns in Sweden have driven this positive change in EEV over the year.

EEV EARNINGS (CONTINUED)

New business contribution

The new business contribution relates primarily to the Movestic Pensions and Savings business. Movestic also writes Risk and Health policies, but due to its more short-term nature the Risk and Health business is reported as uncovered business and hence does not contribute to the new business result. Movestic has contributed £8.9m (2013: £7.2m) of the £9.7m (2013: £7.9m) new business profits. This is made up of profit on brand new contracts of £6.0m (2013: £4.5m) coupled with £2.9m (2013: £2.7m) which is attributable to increments on policies that were in force at the start of the year. The reason for the increase in new contract profits is as a result of a notable increase in the margins on new products, coupled with slightly higher volumes of new policies sold year on year.

Experience variances

	2014 £m	2013 £m
CA	6.1	7.6
S&P	(4.8)	4.7
PL	(0.7)	–
Movestic	(0.1)	(6.5)
Total	**0.5**	**5.8**

The CA segment has reported positive experience variances in the year. This is predominately due to positive lapse experience, which has benefitted the EEV result by c£5m. Off-setting this, the S&P segment has reported experience losses of £4.8m, the majority of which is due to better than expected policy attrition, resulting in additional strain arising from the reserves that are held to cover the associated policy options and guarantees. The PL result is driven by the allocation of additional central costs to the segment in the period. Regarding the Swedish business, it has reported a small negative experience in 2014. This is made up of a number of items, the most significant being positive lapse and transfers experience of c£2.3m, off-set by adverse expense variance of c£2.6m. The expense variance in the year has resulted in Movestic re-assessing its expense assumptions, leading to a small strengthening at the end of the year (see "Operating assumption changes" section below).

Operating assumption changes

	2014 £m	2013 £m
CA	23.7	(4.3)
S&P	(4.6)	4.5
PL	(2.9)	–
Movestic	(5.2)	(10.2)
Total	**11.0**	**(10.0)**

The CA segment has reported a strong assumption change profit in the year. This is primarily due to a one off positive item of £17.3m arising from a change around how the assumptions for future bonus units that are allocated to policyholders are determined. The EEV impact of this assumption change is higher than IFRS due to the positive impact on the VIF, an asset that is not recognised for IFRS reporting purposes. In addition to this the CA segment has benefited from the positive impact of the new HCL contract, amounting to £4.2m. An equal and opposite effect can be seen in the S&P segment.

The S&P segment has reported a negative operating assumption change in the period. As referred to above, the main item that contributes to this a £4.2m strain arising from the modelling of the new HCL outsource contract.

The PL segment has reported an operating assumption change loss of £2.9m. This is as a result of a number of items, the most significant being the impact of new expense assumptions which capture additional central costs that were not allocated in the prior year.

Movestic has reported an operating assumption change loss of £5.2m in the year. This is driven by the need to increase the maintenance cost assumptions at the end of the year, resulting in an adverse impact of £3.4m.

Gain on acquisition of PL Ltd

The EEV result in 2013 benefitted from the impact of one-off gain of £12.3m arising from the purchase of PL Ltd.

Uncovered business and other group activities

	2014 £m	2013 £m
Chesnara	(7.7)	(5.0)
Movestic	0.3	2.7
Total	**(7.4)**	**(2.3)**

The Chesnara segment of the uncovered business relates to Chesnara parent company costs, such as corporate governance and business development, that are not attributable to the covered business. The increase in costs when compared with 2013 largely relates to the costs associated with the Part VII transfer of the PL business into CA plc. Both 2013 and 2014 include similar amounts of costs associated with acquisition activities, being the Waard Group in 2014 and the purchase of PL Ltd in 2013.

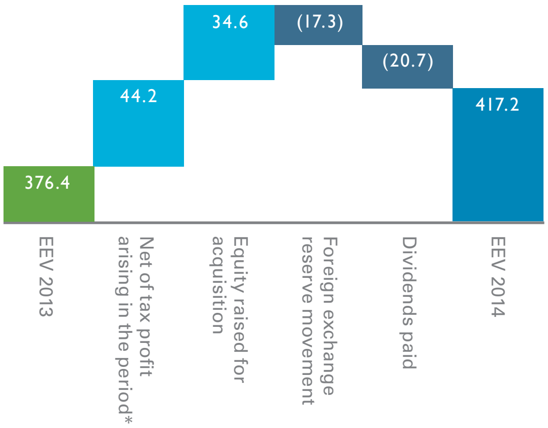
The Movestic result contains a number of components which are not modelled on an EEV basis. The main component is the Life and Health business, which has reported a profit of £0.4m during 2014, £1.8m lower than the prior year profit of £2.2m (see page 33 for further detail). In addition the Movestic segment includes the impact of financial reinsurance valuation movements and the results of Movestic's associate business, Modernac.

EUROPEAN EMBEDDED VALUE

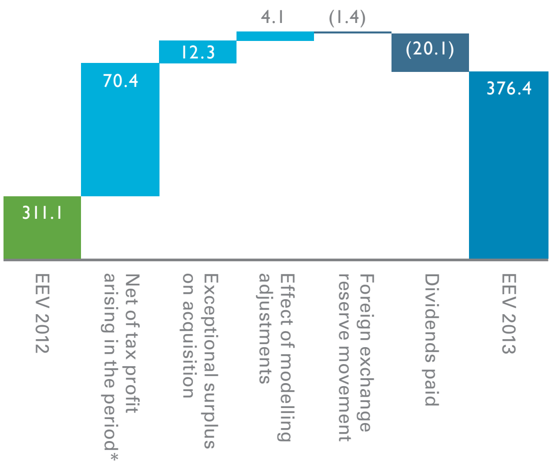
£417.2M 2013: £376.4m

EEV movement 31 December 2013 to 31 December 2014 (£m):

■ Dec 2013 ■ Positive movements
■ Negative movements ■ Dec 2014



EEV movement 31 December 2012 to 31 December 2013 (£m):



■ Dec 2012 ■ Positive movements
■ Negative movements ■ Dec 2013

***Stated before exceptional items**

Summary

The EEV of the Chesnara Group represents the present value of the estimated future profits of the Group plus an adjusted net asset value. Movements between different periods are a function of the following components:

- Net of tax profit arising in the period, pre exceptional items;
- Exceptional items, such as:
  - The impact of raising new equity;
  - the surpluses arising on acquisitions; and
  - Modelling adjustments;
- Foreign exchange movements arising from retranslating the EEV of Movestic into Sterling; and
- Dividends that are paid in the year.

More detail behind each of these components has been provided below:

Net of tax profit

The EEV profit arising during the year is analysed in more detail within the preceding section.

Equity raised for acquisition

During November 2014 we announced the acquisition of the Waard Group in the Netherlands for €67.8m. To finance the deal we raised £34.5m of equity through a well supported share placing exercise. With a Euro-denominated purchase price, to mitigate the downside risk of a strengthening Euro the capital raised was converted to Euros at the time of the capital raise.

Exceptional surplus on acquisition

The purchase of PL Ltd during 2013 resulted in an acquisition surplus of £12.3m. The surplus arose because the EEV of PL Ltd at the acquisition date amounted to £51.6m, which is £12.3m higher than the purchase price of £39.3m.

Effect of modelling adjustments

Year ended 31 December 2014

There were no modelling adjustments during the year.

Year ended 31 December 2013

Positive modelling adjustments during 2013 of £4.1m related entirely to the Movestic business. These arose due to refinements being made to the way in which commissions were modelled.

Foreign exchange reserve movements

The £17.3m foreign exchange reserve movement during 2014 has arisen as a result of a significant weakening of the Swedish Krona against Sterling by 14% since the end of 2013.

Dividends paid

Dividends of £20.7m were paid during 2014, being the final dividend from 2013 of £13.3m and the interim dividend from 2014 of £7.4m.

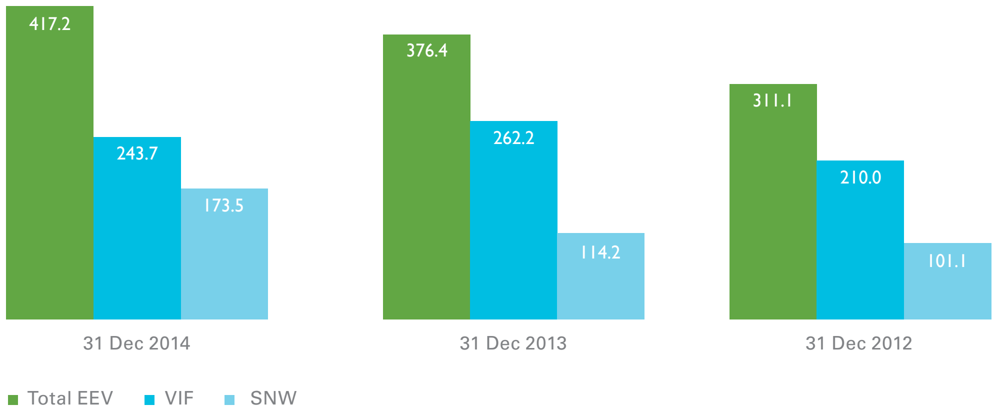
FINANCIAL
REVIEW

EUROPEAN EMBEDDED VALUE (CONTINUED)

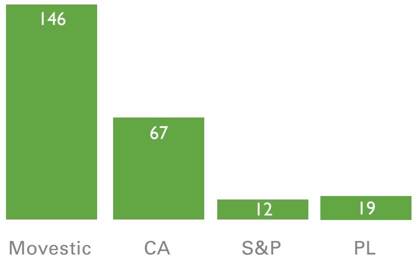
Analysis of EEV

The information on this page provides some further analysis of the EEV of the Group, both in terms of the split between different operating segments and also the split between the adjusted shareholder net worth and the value of the in-force (VIF) business. The adjusted shareholder net worth represents the IFRS net worth of the Group, but adjusted for items that are measured differently under EEV measurement rules and the VIF represents Management's best estimate of the present value of the future profits that will arise out of each book of business.

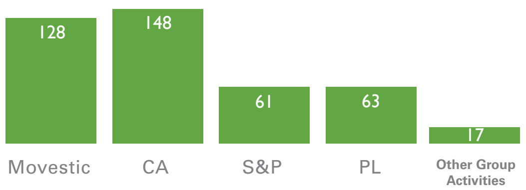
EEV – Value in force (VIF) and adjusted shareholder net worth (SNW) (£m)



Analysis of VIF at 31 December 2014 - £243.7m



Analysis of EEV at 31 December 2014 - £417.2m



In the above segmental analysis any outstanding debt in relation to the S&P and PL acquisitions is included in "Other Group Activities".

Highlights

- There is a good balance in EEV across the core business segments, with the UK businesses representing the majority (65%) of the total EEV, which includes the supplementary addition of the PL business last year. The value in-force component is dominated by the Swedish business which represents 61% of the total Group VIF.
- The Group EEV includes £17.1m in "Other Group Activities" which includes the £34.5m equity raised through a share placing to finance the acquisition of the Waard Group.
- There is a significant level of product diversification within the VIF. When adjusted to recognise the impact of the S&P cost of guarantees which are predominantly pension contract related, 64.0% of the total product level value in-force relates to pension contracts, 23.5% to protection business and 10.3% to endowments.

Analysis of VIF by policy type

The tables below set out the value of in-force business by major product line at each year end. Analysis of the composition of the VIF by business and major product category provides a useful insight into the commercial dynamics underpinning the value of Chesnara.

31 December 2014	Number of policies					Value of in-force business				
	CA 000's	S&P 000's	PL 000's	Movestic 000's	Total 000's	CA £m	S&P £m	PL £m	Movestic £m	Total £m
Endowment	29	3	–	10	42	19.0	4.1	–	8.3	31.4
Protection	36	4	136	–	176	45.8	2.4	23.2	–	71.4
Annuities	6	–	–	–	6	4.6	0.6	–	–	5.2
Pensions	37	115	–	88	240	37.8	39.1	–	147.0	223.9
Other	2	10	–	–	12	2.2	4.2	–	–	6.4
Total at product level	**110**	**132**	**136**	**98**	**476**	**109.4**	**50.4**	**23.2**	**155.3**	**338.3**
Valuation adjustments:										
Holding company expenses						(6.4)	(3.0)	(1.4)	(9.1)	(19.9)
Other						(12.4)	(34.6)	–	–	(47.0)
Cost of capital/ frictional costs						(1.1)	(1.3)	(2.8)	(0.1)	(5.3)
Value in-force pre-tax						**89.5**	**11.5**	**19.0**	**146.1**	**266.1**
Taxation						(22.4)	–	–	–	(22.4)
Value in-force post-tax						**67.1**	**11.5**	**19.0**	**146.1**	**243.7**

31 December 2013	Number of policies					Value of in-force business				
	CA 000's	S&P 000's	PL 000's	Movestic 000's	Total 000's	CA £m	S&P £m	PL £m	Movestic £m	Total £m
Endowment	33	4	–	11	48	24.1	2.9	–	8.0	35.0
Protection	39	5	146	–	190	46.2	3.9	36.0	–	86.1
Annuities	6	–	–	–	6	4.0	1.1	–	–	5.1
Pensions	39	120	–	82	241	29.7	44.6	–	140.0	214.3
Other	3	11	–	–	14	3.9	4.9	–	–	8.8
Total at product level	**120**	**140**	**146**	**93**	**499**	**107.9**	**57.4**	**36.0**	**148.0**	**349.3**
Valuation adjustments:										
Holding company expenses						(6.5)	(3.4)	–	(8.9)	(18.8)
Other						(16.5)	(21.2)	–	–	(37.7)
Cost of capital/ frictional costs						(1.0)	(2.3)	(4.0)	(0.1)	(7.4)
Value in-force pre-tax						**83.9**	**30.5**	**32.0**	**139.0**	**285.4**
Taxation						(16.7)	–	(6.5)	–	(23.2)
Value in-force post-tax						**67.2**	**30.5**	**25.5**	**139.0**	**262.2**

The policy numbers in the table at 31 December 2013 have been restated to capture a change in the definition of a policy, following on from the migration of some actuarial services to Towers Watson. Whilst the change in policy numbers is not significant using the new definition, not adjusting would have meant that the movement in policy numbers in the year would have been misleading.

The value-in-force represents the discounted value of the future surpluses arising from the insurance and investment contracts in force at each respective year end. The future surpluses are calculated by using realistic assumptions for each component of the cash flows.

Holding company expenses are apportioned across the segments pro-rata to the total product-based VIF.

'Other' valuation adjustments in CA principally comprise expenses for managing policies which are not attributed at product level. In S&P they represent the estimated cost of guarantees to with-profits policyholders.

Taxation in the value-in-force is modelled on a combined CA and S&P basis and, in the analysis above, is attributed wholly to the CA segment.

FINANCIAL MANAGEMENT

> The Group's financial management framework is designed to provide security for all stakeholders, while meeting the expectations of policyholders and shareholders.

The following diagram illustrates the aims, approach and outcomes from the financial management framework:

OBJECTIVES

The Group's financial management framework is designed to provide security for all stakeholders, while meeting the expectations of policyholders, shareholders and regulators. Accordingly we:

- Maintain solvency targets
- Meet the dividend expectations of shareholders
- Optimise the gearing ratio to ensure an efficient capital base
- Ensure there is sufficient liquidity to meet obligations to policyholders, debt financiers and creditors
- Maintain the Group as a going concern

HOW WE DELIVER OUR OBJECTIVES

In order to meet our obligations we employ and undertake a number of methods. These are centred on:

1. Monitor and control risk & solvency
2. Longer-term projections
3. Responsible investment management

OUTCOMES

Key outcomes from our financial management process, in terms of meeting our objectives, are set out below:

1. SOLVENCY	2. SHAREHOLDER RETURNS	3. CAPITAL STRUCTURE	4. LIQUIDITY AND POLICYHOLDER RETURNS	5. MAINTAIN THE GROUP AS A GOING CONCERN
Group Solvency Ratio of 284%	2014 TSR 11% 2014 dividend yield 5.4% Based on share price as at 31 December 2014 of 339.25p and full year 2014 dividend of 18.4p.	Gearing ratio of 23.1% following acquisition of PL This does not include the financial reinsurance that is held within the Swedish business.	Competitive fund performance Policyholders' realistic expectations maintained	Group remains a going concern (see Directors' Report pages 83 to 84)

HOW WE DELIVER OUR FINANCIAL MANAGEMENT OBJECTIVES

1. MONITOR AND CONTROL RISK AND SOLVENCY

The Board sets internal solvency targets that are based on solvency requirements imposed by our regulators. The targets are set with the intention of balancing the requirements of both our shareholders and policyholders.

- **i)** **a** Pillar 1 calculation, which compares regulatory capital resource requirements, based on the characteristics of the in-force life business, with an associated measure of capital as prescribed by regulation; and
- **ii)** **a** Pillar 2 calculation which compares a risk-based assessment of solvency capital with an associated measure of capital based on a realistic assessment of insurance liabilities; and
- **iii)** the amount of required regulatory solvency capital is then determined by the method which gives rise to the lower excess of regulatory capital over requirements.

These calculations are monitored regularly.

2. LONGER-TERM PROJECTIONS

Long-term projections are performed covering, as a minimum:

- **i)** Segmental earnings and surplus arising in the long-term insurance funds;
- **ii)** Chesnara holding company cash flows;
- **iii)** Regulatory solvency and capital resources and requirements; and
- **iv)** European embedded value.

The projections are prepared for a base case, using latest board-approved assumptions, and for various individual and multiple economic and non-economic sensitivities.

In addition:
Financial condition reports are prepared on an annual basis which includes assessments of the ability of the business to withstand key adverse events, including increased rates of policy lapse, expense overruns and unfavourable market conditions.

Reverse stress testing techniques are employed which assess events and circumstances which would cause the business to become unviable. In this context, unviable is defined as the point at which the market loses confidence in the firm being able to carry out its normal business activities.

3. RESPONSIBLE INVESTMENT MANAGEMENT

Investment management

We aim to promote customer retention by pursuing good relative investment performance across both our UK and Swedish businesses.

We use third party investment managers in both the UK and Sweden. They are charged with operating within pre-determined guidelines which are set having regard to the nature of the fund and to contractual obligations to policyholders. For the with-profits funds these are also in accordance with the published Principles and Practices of Financial Management. In Sweden a larger number of fund managers are used, which are subject to very stringent initial selection and ongoing monitoring criteria.

A conservative approach to the investment of shareholders' funds is also adopted within the Group.

FINANCIAL MANAGEMENT (CONTINUED)

OUTCOMES FROM IMPLEMENTING OUR FINANCIAL MANAGEMENT OBJECTIVES

Key outcomes from our financial management process, in terms of meeting our objectives are set out below:

1. Solvency
The solvency and regulatory capital of the Group and its regulated subsidiaries is monitored regularly. Further detail of the year end solvency positions has been summarised in the Business Review on page 25.

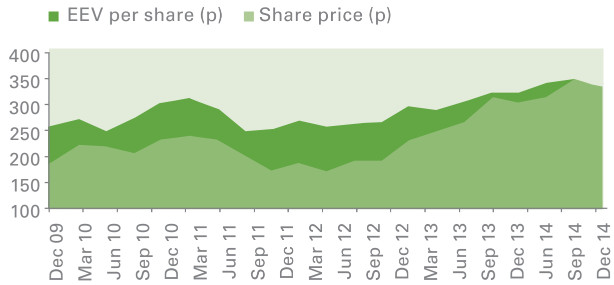
2. Shareholder returns
The Board's primary aim is to provide an attractive dividend flow to its shareholders. With Movestic in its growth phase, shareholder dividend flows are currently generated by CA plc, by way of the emergence of surpluses in, and transfer of surpluses from, its long-term insurance funds to shareholder funds and by the return on shareholder net assets.

Dividend flows from CA plc to Chesnara are utilised in the first instance for the repayment and servicing of debt, coupled with bearing central corporate governance costs which cannot be fairly attributed to the long-term insurance funds, and which arise largely in connection with Chesnara's obligations as a listed company.

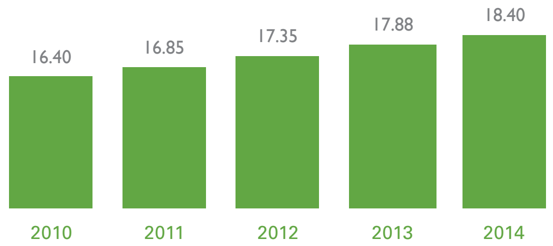
Returns to shareholders can be assessed by reference to many measures including the actual share price, the yields on the shares and the comparison of total market capital to embedded value. The graphs below illustrate:

– how the EEV per share has compared with the share price over recent years, up to 31 December 2014; and
– the dividend growth per share over this same period.

EEV per share versus share price:



Dividends (pence per share):



Throughout 2014 and up to 25 March 2015 there has been a general appreciation in the share price, having increased by 10% from 321.75p per share at 1 January 2014 to 355.0p per share at 25 March 2015. The combined impact of the share price growth throughout 2014 and the continuing attractive dividends means shareholders have achieved strong total shareholder return.

3. Capital structure
The Group's UK operations are financed through a combination of retained earnings and debt finance. Surplus emerging from the UK business is used:

i) to repay our debt obligations;
ii) to support dividend distributions to shareholders; and
iii) to support the medium-term requirements of Movestic to meet regulatory solvency capital requirements as it expands.

The borrowings in place that part-finance the UK operations arose as follows:

– S&P, which was purchased in December 2010 for £63.5m, was accomplished by way of debt: equity financing broadly in a ratio of 2:1.
– PL, which was acquired in November 2013 for £39.3m, was funded using a combination of debt and existing cash resources. The process for raising the debt to fund the purchase of PL also gave rise to a restructuring of the existing facilities that were initially arranged to fund the purchase of S&P. The result is that, at 31 December 2014 bank borrowings amounted to £64.3m. This is a five year loan that has four years remaining.

The purchase of Movestic was financed by internal cash resources. On an ongoing basis the Movestic business is financed by a combination of external financial reinsurance arrangements and capital contributions from Chesnara, if required.

With respect to acquisitions the Group seeks to finance these through a suitable mix of debt, existing cash resources, and equity, within the constraints imposed by the operation of regulatory rules over the level of debt finance which may be borne by Insurance Groups without breaching solvency requirements.

Other factors which may place a demand on capital resources in the future include the costs of unavoidable large scale systems developments such as those which may be involved with changing regulatory requirements. To the extent that ongoing administration of the UK life businesses is performed within the terms of its third-party outsourcing agreements, the Group is sheltered, to a degree, from these development costs as they are likely to be on a shared basis.

4. Liquidity and policyholder returns

Key aspects of policyholder fund performance in respect of the UK Business and in respect of the Swedish Business are set out in the Business Review.

The current profile and mix of investment asset holdings between fixed-interest securities and cash deposits is such that realisations to meet obligations to third parties and to support dividend distributions can be made in an orderly and efficient way.

5. Maintain the Group as a going concern

The Group's cash flow position, together with the return on financial assets in the parent company, supports the ability to trade in the short term. Accordingly, the underlying solvency position of the UK life business and its ongoing ability to generate surpluses which support cash transfers to shareholders' funds is critical to the ongoing ability of the Group to continue trading and to meet its obligations as they fall due.

The information set out on page 25 indicates a strong solvency position as at 31 December 2014 as measured at both the individual regulated life company levels in both the UK and Sweden and at the Group level. In addition, in respect of the UK business, the financial condition report and reverse stress testing assessments indicate that it is able to withstand the impact of adverse scenarios, including the effect of significant investment market falls, while the business's outsourcing arrangements protect it from significant expense overruns.

The Group is well capitalised, and has a healthy level of cash reserves to be able to meet its debt obligations as they fall due. The Group does not rely on the renewal or extension of bank facilities to continue trading – indeed, as indicated, its day to day operations are cash generative. The Group does, however, rely on cash flow from the maturity or sale of fixed interest securities which match certain obligations to policyholders, which brings with it the risk of bond default. In order to manage this risk we ensure that our bond portfolio is actively monitored and well diversified. Other significant counterparty default risk relates to our principal reassurers. We monitor their financial position and are satisfied that any associated credit default risk is low. It is noteworthy that we have negligible exposure to Euro-denominated sovereign debt.

In light of the above, our expectation is that the Group will continue to generate surplus in its UK long-term business sufficient to meet its debt obligations as they fall due, to continue to pursue an attractive dividend policy and to meet the short-term financing requirements of Movestic. The Director's Report on pages 83 to 84 provides confirmation that the IFRS Financial Statements have been prepared on the Going Concern basis.

RISK MANAGEMENT

Risk management processes

Overlaying all the day-to-day and development activity we undertake is a focused risk management culture and regime.

In both the UK and Swedish businesses we maintain processes for identifying, evaluating and managing the significant risks faced by the Group, which are regularly reviewed by the Group Audit & Risk Committee. Our risk processes have regard to the significance of risks, the likelihood of their occurrence and take account of existing controls and the cost of mitigating them. The processes are designed to manage rather than eliminate risk and, as such, provide reasonable, but not absolute, assurance against loss.

At the subsidiary level in the UK businesses we maintain, in accordance with the regulatory requirements of the PRA and FCA, a risk and responsibility regime. Accordingly, the identification, assessment and control of risk are firmly embedded within the organisation and the procedures for the monitoring and updating of risk are robust. As part of this we have a Risk Committee in CA plc, which comprises solely of Non-executive Directors. This Committee receives quarterly updates of the key risk registers, as maintained by the senior management, for review and challenge. The Committee reports directly to the CA plc Board which also reviews reports from the compliance and internal audit functions. The Chesnara plc Group risk register is updated on a quarterly basis for any material changes in the CA plc risk register, which is then presented to the Chesnara Audit & Risk Committee. Since its acquisition similar arrangements have been established for PL Ltd. The key risk registers have been designed to complement the production of Individual Capital Assessments, which we are required to submit to the PRA on request and maintain on an ongoing basis. We categorise all risks against the following relevant categories – insurance, market, credit, liquidity, operational and Group – and identify potential exposures and the necessary capital requirements accordingly.

In the Swedish business, at the Movestic subsidiary level, there is full compliance with the regulatory requirement in that its Board and Managing Director have responsibility for ensuring that the management of the organisation is characterised by sound internal control, which is responsive to internal and external risks and changes in them. The Board has responsibility for ensuring that there is an internal control risk function, which is charged with (i) ensuring that there is information which provides a comprehensive and objective representation of the risks within the organisation and (ii) proposing changes in processes and documentation regarding risk management. These obligations are evidenced by regular compliance, internal audit, general risk and financial risk reports to the Movestic Board. The latter is supplemented by quarterly returns to the Swedish regulator, Finansinspektionen, which set out estimated capital requirements in respect of insurance, market, credit, liquidity, currency and operational risks.

Risk management processes are enhanced by stress and scenario testing, which evaluates the impact on the Group of certain adverse events occurring separately or in combination. There is a strong correlation between these adverse events and the risks identified in ‘principal risks and uncertainties’ below. The outcome of this testing provides context against which the Group can assess whether any changes to its risk management processes are required.

Group and subsidiary auditors regularly report to management on identified control weaknesses together with suggested improvements.

We are currently reviewing and upgrading our risk management processes, so that Group-wide they will be enhanced in a uniform and consistent manner, embracing:

- articulation of risk appetite statements, following from documented strategic objectives;
- formulation and monitoring of associated risk metrics;
- risk identification and assessment;
- calculation of risk-based capital; and
- the embedding of risk management processes so that they are at the forefront of, and underpin, strategic and operating decisions.

These developments have continued during 2014 and are planned to continue during 2015 and into 2016.

Principal risks and uncertainties

Risks and uncertainties are assessed by reference to the extent to which they threaten, or potentially threaten, the ability of the Group to meet its core strategic objectives. These currently centre on the intention of the Group to maintain an attractive dividend policy.

The specific principal risks and uncertainties subsisting within the Group are determined by the fact that:

i) the Group’s core operations centre on the run-off of closed life and pensions businesses in the UK;

ii) notwithstanding this, the Group has a material segment, which comprises an open life and pensions business operating in a foreign jurisdiction; and

iii) these businesses are subject to local regulation, which significantly influences the amount of capital which they are required to retain and which may otherwise constrain the conduct of business.

The following identifies the principal risks and uncertainties, together with a description of their actual or potential impact and of the way in which the Group seeks to control these risks. The table below is based on the Chesnara Group at 31 December 2014. The acquisition of the Waard Group, as discussed on page 24 will result in a requirement for the following list of principal risks and uncertainties being reviewed.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Impact	Control
Adverse mortality/ morbidity/longevity experience	To the extent that actual mortality or morbidity rates vary from the assumptions underlying product pricing, so more or less profit will accrue to the Group.	– Effective underwriting techniques and reinsurance programmes. – Option on certain contracts to vary premium rates in the light of actual experience. – Partial risk diversification in that the Group has a portfolio of annuity contracts where the benefits cease on death.
Adverse persistency experience	Persistency rates significantly lower than those assumed will lead to reduced Group profitability in the medium to long-term.	– Active investment management to ensure competitive policyholder investment funds. – Outsourcer service levels ensure strong customer service standards. – Customer retention processes. – Close monitoring of persistency levels across all groups of business
Expense overruns and unsustainable unit cost growth	For the closed UK life and pensions businesses, the Group is exposed to the impact of fixed and semi-fixed expenses, in conjunction with a diminishing policy base, on profitability. For the Swedish open life and pensions business, the Group is exposed to the impact of expense levels varying adversely from those assumed in product pricing.	– For the UK businesses, the Group pursues a strategy of outsourcing functions with charging structures such that the policy administration cost is sensitive to book run off to the fullest extent possible. – The Swedish operations assume growth through new business such that the general unit cost trend is positive. – For both the UK and Swedish businesses, the Group maintains a strict regime of budgetary control.
Significant and prolonged equity market falls	A significant part of the Group's income and, therefore, overall profitability derives from fees received in respect of the management of policyholder and investor funds. Fee levels are generally related to the value of funds under management and, as the managed investment funds overall comprise a significant equity content, the Group is particularly exposed to the impact of significant and prolonged equity market falls, which may lead to policyholders switching to lower-margin, fixed-interest funds.	– Individual fund mandates may give rise to a degree of diversification of risk and within those funds, hedging techniques are used where appropriate. – Investment management costs fall in line with market falls and hence cost savings partially hedge the impact on income. – There is a wide range of investment funds and managers so that there is no significant concentration of risk.
Adverse Sterling: Swedish Krona exchange rate movements	Exposure to adverse Sterling: Swedish Krona exchange rate movements arises from actual planned cash flows between the Swedish subsidiary and its UK parent company and from the impact on reported IFRS and EEV results which are expressed in Sterling.	– The Group monitors exchange rate movements and the cost of hedging the currency risk on cash flows when appropriate.
Counterparty failure	The Group carries significant inherent risk of counterparty failure in respect of: – its fixed interest security portfolio; – cash deposits; and – amounts due from reinsurers.	– Operation of guidelines which limit the level of exposure to any one counterparty and which impose limits on exposure to credit ratings. – In respect of exposure to one major reinsurer, Guardian Assurance Limited ('Guardian'), the Group has a floating charge over the reinsurer's related investment assets, which ranks the Group equally with Guardian's policyholders.

RISK MANAGEMENT (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Risk	Impact	Control
Adverse movements in yields on fixed interest securities	The Group maintains portfolios of fixed interest securities **(i)** in order to match its insurance contract liabilities, in terms of yield and cash flow characteristics, and **(ii)** as an integral part of the investment funds it manages on behalf of policyholders and investors. It is exposed to mismatch losses arising from a failure to match its insurance contract liabilities or from the fact that sharp and discrete fixed interest yield movements may not be associated fully and immediately with corresponding changes in actuarial valuation interest rates.	– The Group maintains rigorous matching programmes to ensure that exposure to mismatching is minimised. – Active investment management such that, where appropriate, asset mixes will be changed to mitigate the potential adverse impact on declines in bond yields.
Failure of outsourced service providers to fulfil contractual obligations	The Group's UK life and pensions businesses are heavily dependent on outsourced service providers to fulfil a significant number of their core functions. In the event of failure by any of the service providers to fulfil their contractual obligations, in whole or in part, to the requisite standards specified in the contracts, the Group may suffer loss as its functions degrade.	– Rigorous service level measures and management information flows under its contractual arrangements. – Continuing and close oversight of the performance of all service providers. – The supplier relationship management approach is conducive to ensuring the outsource arrangements deliver to their obligations. – Under the terms of the contractual arrangements the Group may impose penalties and/or exercise step-in rights in the event of specified adverse circumstances.
Key man dependency	The nature of the Group is such that it relies on a number of key individuals who have particular knowledge, experience and know how. The Group is, accordingly, exposed to the sudden loss of the services of these individuals.	– The Group promotes the sharing of know-how and expertise to the fullest extent possible. – It periodically reviews and assesses staffing levels, and, where the circumstances of the Group justify and permit, will enhance resource to ensure that know-how and expertise is more widely embedded. – The Group maintains succession plans and remuneration structures which comprise a retention element. – The Group complements its internal expertise with established relationships with external specialist partners.
Adverse regulatory and legal changes	The Group operates in jurisdictions which are currently subject to significant change arising from regulatory and legal requirements. These may either be of a local nature, or of a wider nature, following from EU-based regulation and law. Significant issues which have arisen and where there is currently uncertainty as to their full impact on the Group include: **i)** the implementation of Solvency II requirements; and **ii)** the FCA's review of legacy business; and **iii)** the changes in pensions legislation planned for April 2015	The current opinion is that the implementation of Solvency II will strengthen the long-term risk management environment of Chesnara (as is its intention). The Solvency II programme is covered in more detail on the next page. The key risks are mitigated as follows: The Solvency II programme is covered in more detail on the next page. The key risks are mitigated as follows: – Proposed appointment of an external specialist Quality Assurance partner; – Dedicated internal resource; and – Robust programme governance framework. Management continually reviews the potential impact of any prospective regulatory changes.

SOLVENCY II

Our Solvency II programme remains on track for the planned implementation date of 1 January 2016.

Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry. It aims to establish a revised set of EU-wide capital requirements and risk management standards that will replace the current solvency requirements. Solvency II's primary objective is to strengthen policyholder protection by aligning capital requirements more closely with the risk profile of the company. The regime has a three pillar structure, with each pillar governing a different aspect of the Solvency II requirements and approach. As well as requiring firms to disclose their capital and risk frameworks, the Directive also asks firms to demonstrate how and where the requirements are embedded in their wider activities. The implementation date is 1 January 2016 and we remain confident that our SII projects in the UK and Sweden are on target to achieve SII-compliance by this date. Solvency II costs across the industry are considered to be significant and, for Chesnara, we expect to incur additional implementation costs of up to £2m during 2015. Our view remains that the introduction of Solvency II will not adversely impact the Group's solvency position.

Chesnara's approach

Pillar 1

Pillar 1 considers the quantitative requirements of the system, including the calculation of technical provisions and the rules relating to the calculation of the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR). Under Solvency II there are two prescribed methods for assessing an insurer's SCR; either a Standard Formula set by the regulator or an Internal Model specific to that insurer and which is subject to regulatory approval. Chesnara has opted for the Standard Formula approach for CA plc, PL and Movestic on the grounds that it is a good fit and appropriate for its businesses at the current time. However, we will continue to monitor our position on the choice of approach as our businesses evolve.

Progress update

All model development for Pillar 1 is materially complete and a full dry run for CA, PL and Movestic will be carried out in Q2 2015 with the Group, consolidated, dry run scheduled for Q3 2015. Outputs from these exercises will be subject to review and challenge by the respective boards. In December 2014, following Board review and approval, CA plc provided an assessment of the appropriateness of the Standard Formula for its business to the PRA whose response is expected during Q2 2015. For Movestic, this assessment was included as part of its 2014 FLAOR submission.

Pillar 2

Pillar 2 deals with two main areas: firstly, that our businesses have in place effective strategies and controls to assess and manage the risks it is exposed to and to assess and maintain its solvency capital based on its own risk profile and, secondly, that its strategies, controls and assessment of its solvency capital are subject to supervisory review. This pillar requires us to produce either, an Own Risk and Solvency Assessment (ORSA) for each subsidiary and one for the Group or a single Group-wide ORSA. We will be producing an ORSA for each subsidiary and the Group ORSA. Each ORSA is subject to review and scrutiny by the relevant regulator who will have the power to impose a higher capital requirement should it find any inadequacies in the approach to calculating the SCR or in the risk and governance controls in operation.

Progress update

A significant milestone was achieved during 2014 for both CA plc and Movestic who each produced a FLAOR (forward-looking assessment of own risks) report based on the own risk and solvency assessment ('ORSA') principles as required under the preparatory Solvency II guidelines. Following review and approval by the respective boards, the CA plc FLAOR was issued to the PRA and the Movestic FLAOR to the FI in December 2014 and feedback is expected from the regulators during the first half of 2015. With regard to the governance aspects of SII, Chesnara will be implementing a comprehensive Corporate Governance Map during the first half of 2015 which will consolidate and refine the existing governance structures in place within the Group, ensure they are SII-compliant and provide a platform for a consistent, cohesive governance approach across all group businesses going forward.

Pillar 3

Pillar 3 seeks to enhance market discipline on regulated firms by requiring them to disclose publicly key information that is relevant to market participants. As such, in choosing which information should be selected for disclosure under Pillar 3, supervisors will be guided by the actual needs of market participants rather than by their own information needs. The key reporting requirements are a Solvency & Financial Condition Report (SFCR) and a Regular Supervisory Report (RSR). The SFCR is for public disclosure and will follow a prescribed format. The RSR is not public and is only communicated to the relevant supervisor and, again, will largely follow a prescriptive format.

Progress update

The development work required to populate the Quantitative Reporting Templates (QRTs) is materially complete and a number of dry run exercises are planned for CA plc, Movestic and the Group during 2015. The dry runs will look to test and validate both the process and the outputs and will include; the Annual QRTs (based on year-end 2014 data), the quarterly QRTs (based on half-year 2015 data) and a consolidated set of Group QRTs (based on year-end 2014 data). Work is also ongoing in CA plc and Movestic to finalise the format and content of their Solvency & Financial Condition Report (SFCR) and Regular Supervisory Report (RSR) and the plan is to perform a dry run on these reports during Q3 2015.

CORPORATE AND SOCIAL RESPONSIBILITY

Social and environmental issues are taken seriously and by Chesnara, with particular emphasis given to developing and maintaining high standards.

We do not, however, consider that these aspects are critical to the achievement of our strategic aims or that they should form any significant element of remuneration or reward.

Equal opportunities

Chesnara is committed to a policy of equal opportunity in employment and it will continue to select, recruit, train and promote the best candidates based on suitability for the role and treat all employees and applicants fairly regardless of race, age, gender, marital status, ethnic origin, religious beliefs, sexual orientation or disability. Chesnara will ensure that no employee suffers harassment or intimidation.

The table below shows the gender split of employees of the Chesnara Group split across different categories:

	2014		2013	
	Male	Female	Male	Female
Directors of Chesnara plc	7	1	7	1
Senior management of the Group (other than Directors of Chesnara plc)	1	–	1	–
Heads of business units and Group functions	6	5	6	6
Employees of the Group	70	60	60	62
Total	**84**	**66**	**74**	**69**

Senior management includes employees other than Group Directors who have the responsibility for planning, directing or controlling the activities of the company, or a strategically significant part of the company. In Chesnara's case, this is the Managing Director of the Swedish subsidiary, Movestic Livförsäkringar AB.

The Board has not identified any senior management as defined by the Companies Act outside of the Board of Directors and subsidiary Directors. However, to give additional information in keeping with the spirit of the Company's focus on diversity we have provided additional disclosures to cover the employees within the Group. We have provided an analysis of diversity which shows "Heads of Business Units and Group functions" separately from the remainder of employees within the Group.

Disabled employees

Chesnara will provide employment for disabled persons wherever the requirements of the business allow and if applications for employment are received from suitable applicants. If existing employees become disabled, every reasonable effort will be made to achieve continuity of employment.

Health, safety and welfare at work

Chesnara places great importance on the health, safety and welfare of its employees. Relevant policies, standards and procedures are reviewed on a regular basis to ensure that any hazards or material risks are removed or reduced to minimise or, where possible, exclude the possibility of accident or injury to employees or visitors.

The policies, standards and procedures are communicated to employees through contracts of employment, the staff handbook and employee briefings and all employees have a duty to exercise responsibility and do everything possible to prevent injury to themselves and others.

Social, environmental and ethical issues

Chesnara aims to be sensitive to the cultural, social and economic needs of our local community and endeavours to protect and preserve the environment where it operates. To support this we allow each of our UK employees two days release on full pay each year where they can support a local charity project of their choice.

We seek to be honest and fair in our relationships with our customers and provide the standards of products and services that have been agreed.

Being primarily office-based financial services companies, the Directors believe that the Group's activities do not materially contribute to pollution or cause material damage to the environment. However, the Group takes all practicable steps to minimise its effects on the environment and encourages its employees to conserve energy, minimise waste and recycle work materials.

Greenhouse gas reporting

Disclosure of emissions

Global GHG emissions data for the period from 1 January 2014 to 31 December 2014:

	Tonnes of CO_2e	
	2014	2013
Emissions from:		
Combustion of fuel and operation of facilities (scope 1)–	–	–
Electricity, heat, steam and cooling purchased for own use (scope 2)	76.4	121.3
Travel (scope 3)	122.2	87.8
Company's chosen intensity measurement = tonnes of CO_{2e} per square metre of office space occupied	0.112	0.117
Emissions reported above normalised to per tonne of product output		

The above analysis shows that our emissions from travel have increased somewhat when compared with the prior year. This increase is predominantly as a result of the additional travel incurred as a result of the work performed during the year associated with the purchase of the Waard Group. Off-setting this is a decrease in the consumption of energy for own use. This is primarily as a result of decreases in the reported consumption within the Movestic business.

Methodology used to calculate emissions
We have followed the requirements of the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and the Defra Carbon Trust conversion factors to measure and report greenhouse gas emissions, as well as the disclosure requirements in Part 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The financial control method, which captures the sources that fall within our consolidated financial statements, has been used. Although we operate an outsourced model in the UK, these outsourcers do not work exclusively for the Group and therefore it is not deemed appropriate to include emissions outside of the Group consolidated financial statements. The Group's carbon reporting falls under three scopes as shown in the table on the previous page.

There are 16 company-leased vehicles in total in the UK and Sweden which are used primarily for commuting and not business-related activities. Commuting mileage is a personal expense of the employee and is not therefore included in the consolidated financial statements.

Approved by the Board on 30 March 2015 and signed on its behalf by:

Peter Mason	John Deane
Chairman	Chief Executive Officer

SECTION C

CORPORATE GOVERNANCE

IN THIS SECTION

GOVERNANCE OVERVIEW FROM THE CHAIRMAN

Good governance remains central to the ongoing success of the Group.

Introduction

This section of the Annual Report & Accounts provides me with an opportunity to provide insight into the governance of the Company.

The Corporate Governance Code

Chesnara remains committed to the principles of the UK Corporate Governance Code ('the Code') and has complied with the provisions of the Code during 2014.

2014 saw the introduction of an updated version of the Code which applies to accounting periods beginning on or after 1 October 2014 so is not applicable to these financial statements.

The updated version of the Code brings greater focus on the importance of the Board in setting the correct tone on corporate governance and emphasises the benefits of diversity on a Board.

Reporting on going concern status will be strengthened under the new provisions. Going concern statements will continue to evidence that going concern is an appropriate basis of accounting but a broader assessment of viability over a longer period will also be required.

The provision on Remuneration has been amended to make clear that remuneration policies must be designed to promote the long-term success of the company and that the performance-related elements of remuneration must be transparent.

The revised Code also includes a requirement to explain how a company intends to engage with shareholders where a significant percentage of them have voted against an AGM resolution.

None of the changes are expected to be an issue for the Company.

Remuneration reporting

The Remuneration Report details how our governance processes are applied in the area of Director remuneration. 2014 is the second year that we have reported under the "new style" reporting regime. Particular highlights of this year's report include:

- The results of our shareholder vote for the new remuneration policy that was tabled at the AGM in 2014.
- How this new remuneration policy has been applied during the year;
- The Remuneration Committee's activities regarding the change in the Chief Executive Officer of the Group, including:
  - Graham Kettleborough standing down; and
  - The Committee's involvement in the recruitment of John Deane as the Group's new CEO.

Governance of the Group

There have been no significant developments in the way in which the Group governs itself during the year. However, I would like to take this opportunity to expand a little on our Governance plans in the future. The planned addition of a Dutch division to our Group in 2015 will see us operating in three different territories, namely UK, Sweden and the Netherlands. At the time of announcing the Waard Group acquisition in December 2014 we made reference to our three-legged Group, and our thinking around the implications of this in the way we govern the Group has started to be developed in more detail. During 2015 we plan to implement a new Corporate Governance Map, which, amongst other things, will bring a more consistent divisionalised structure across the Group. The Group Board will delegate appropriate levels of authority to each divisional Board. I will report on its implementation in the 2015 Annual Report & Accounts.

Audit & Risk Committee Report

This report provides some insight into the key activities of the Audit & Risk Committee during 2014. The Committee has continued to provide excellent oversight and challenge to support the key judgments made by Executive Management, and has been involved in supporting a number of key activities during the year, such as the transfer of some of our core actuarial services from HCL to Towers Watson and the purchase of the Waard Group.

I trust that the various reports in the rest of this section of the Annual Report & Accounts show how important good governance is to the ongoing success of Chesnara.

Peter Mason
Chairman
30 March 2015

BOARD OF DIRECTORS

Peter Mason was appointed as Chairman of Chesnara plc and Chairman of the Nomination Committee on 1 January 2009 and was appointed as Chairman of Movestic Livförsäkring AB with effect from 23 July 2009. He is also a member of the Remuneration Committee. He was the Investment Director and Actuary of Neville James Group, an investment management company and was admitted as a Fellow of the Institute of Actuaries in 1979. He has over 40 years' experience in financial services and held several non-executive posts within the industry.

John Deane was appointed as a director of Chesnara plc on 3 December 2014. He assumed the role of CEO from 1 January 2015 on the resignation of Graham Kettleborough. John is a qualified Actuary and has over 30 years experience in the life assurance industry. John joined Century Life, a closed book acquisition company in 1993. As CEO, he oversaw the creation of the outsourcing company Adepta in 2000. He joined Old Mutual plc in 2003 becoming their Corporate Development Director later that year. In 2007 he joined the Board of Royal London with responsibility for their open businesses in the UK, Ireland and Isle of Man. Since 2013, John has been leading a financial services consultancy which has been advising UK and overseas companies on a variety of strategic projects. John is a non-executive Director of Crossco (1337) plc, which is seeking to become a challenger bank (Atom).

David Rimmington was appointed as Group Finance Director with effect from 17 May 2013. He trained as a chartered accountant with KPMG, has more than 17 years' experience in financial management within the life assurance and banking sectors and has had a significant role in a number of major acquisitions and business integrations. Prior to joining Chesnara plc in 2011 as Associate Finance Director David held a number of financial management positions within the Royal London Group including 6 years as Head of Group Management Reporting.

Frank Hughes is the Business Services Director of Chesnara plc. He joined Countrywide Assured plc in November 1992 as an IT Project Manager and was appointed to the Board as IT Director in May 2002. He has 27 years' experience in the life assurance industry gained with Royal Life, Norwich Union and CMG.

Peter Wright is an Independent Non-executive Director who was appointed to the Chesnara plc Board on 1 January 2009. At the same date he was appointed as Chairman of the Audit & Risk Committee. He was appointed as a member of the Nomination Committee with effect from 9 July 2009. He retired as a Principal of Towers Perrin on 1 January 2008 and is a former Vice President of the Institute of Actuaries, having been admitted as a Fellow in 1979. He is Chairman of the Risk Committee and of the With-profits Committee of Countrywide Assured plc.

Veronica Oak (née France) is an Independent Non-executive Director who was appointed to the Chesnara plc Board on 16 January 2013. She serves on the Nomination and Audit & Risk Committees and took over the role of Chairman of the Remuneration Committee on 17 May 2013. On 16 February 2015, Veronica was appointed to the Board of the Hanley Economic Building Society as a Non-Executive Director. She is also a Non-executive Director of Family Assurance where she is a member of their Risk & Audit and Nominations Committees and chairs their Remuneration Committee.

Having held a number of positions within life companies, including Marketing Director, in 1992, Veronica set up her own financial services consultancy business advising on strategy, business development, product development and related activities. Veronica was Chairman of the trade body, the Investment and Life Assurance Group in 2002/3 and served on its Management Committee for over ten years before stepping down in 2010.

David Brand is an Independent Non-executive Director who was appointed to the Chesnara plc Board and the Board of Movestic Livförsäkring AB on 16 January 2013. He serves on the Nomination, and Audit & Risk Committees. He is a Non-executive Director at Exeter Friendly Society, where he is Chairman of the Investment Committee and also sits on the Audit, Risk and Compliance and the Nomination and Remuneration Committees. He is a qualified actuary who, prior to his retirement in June 2012, had worked for the Hannover Re Group in the UK, acting as the Managing Director of the UK life reinsurance subsidiary since 2003. David had been with the company since 1988, and a Director since 1990. During his career David has also held various roles with the Institute of Actuaries, including being a member of Council and he also served on the ABI Health Committee from 2006 to 2012.

Mike Evans is an Independent Non-executive Director who was appointed to the Chesnara plc Board on 4 March 2013. He serves on the Audit & Risk, Nomination and Remuneration Committees. Mike became Senior Independent Director on 17 May 2013. He is currently Non-executive Chairman of Hargreaves Lansdown plc, a FTSE 100 listed company, a position he has held since 2009. He chairs their Nomination Committee and sits on their Remuneration Committee. He originally joined the Hargreaves Lansdown Board as a Non-executive Director in 2006. Mike is also the Non-executive Chairman of Zoopla Property Group plc. In this role he also chairs the Nomination Committee and is a member of the Remuneration Committee. Mike is also a Non-executive Director of esure Group plc. Mike is a qualified actuary and served in a number of Director level positions within Skandia UK between 1991 and 2006.

Graham Kettleborough was the Chief Executive of Chesnara plc throughout 2014 until his resignation from Chesnara plc and its UK subsidiaries on 31 December 2014. He joined Countrywide Assured plc in July 2000 with responsibility for marketing and business development and was appointed as Managing Director and to the Board in July 2002. He was appointed as a Non-executive Director of Movestic Livförsäkring AB and as Chairman of Movestic Kapitalförvaltning AB with effect from 23 July 2009. He has lifetime experience in the financial services industry, primarily in customer service, marketing and product and business development, gained with Scottish Provident, Prolific Life, City of Westminster Assurance and Target Life.

BOARD PROFILE

The Board's mix of skills and experience creates a solid platform to govern the Group and deliver its strategic objectives.

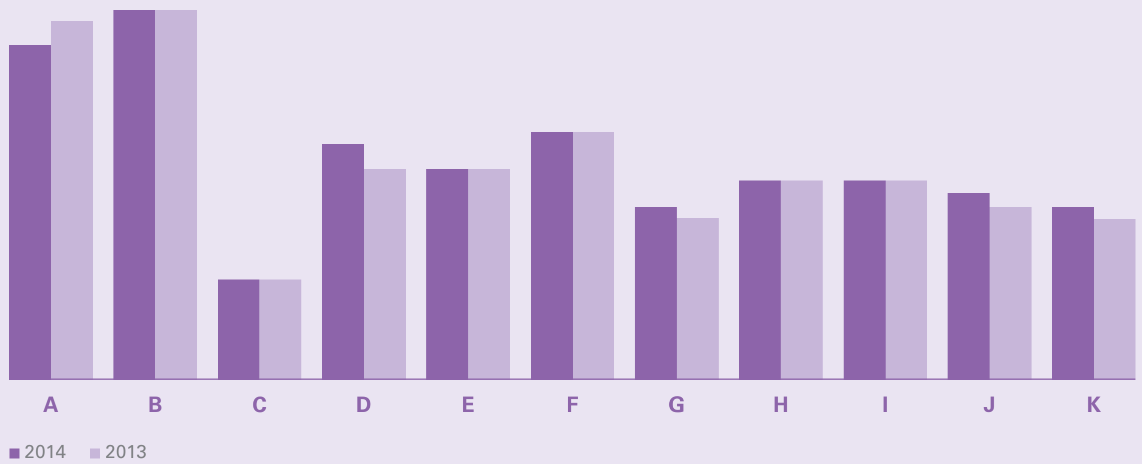
This part of the assessment focuses on ensuring the appropriate breadth and depth of competencies and experience.

A competency matrix is defined for the Board which is aligned to the strategic objectives set out on pages 13 and 14. Each Board member is assessed and scored against the core competencies and cumulative scores provide a competency profile for the Board as a whole, as set out below.

The profile is used to ensure that the Board as a whole possesses an appropriate skills and experience base for effective governance of the Group. The chart below compares the current assessment with the prior year assessment.

Highlights of the current profile changes compared with 2013 are:

- In general the slight changes as compared to 2013 relate to the impact of a change in CEO. In the short term the appointment of a new CEO has a slight adverse impact on the Chesnara company knowledge component. Certain other components are deemed to strengthen marginally.
- The level of knowledge of the Swedish Insurance market is adequate to enable effective Board oversight of the Swedish business for which the deeper specialist knowledge is devolved to the local Board and executive management team.



A Chesnara Company Knowledge
B Industry Knowledge – UK
C Industry Knowledge – Sweden
D Governance – Actuarial
E Governance – Financial
F Audit & Risk Management
G Investment Management
H M&A and Business Development
I Commercial Management
J Operational Change Management
K Operational Management

CORPORATE GOVERNANCE REPORT

> The Directors are committed to achieving a high standard of corporate governance including compliance with the principles and practices of the UK Corporate Governance Code (the 'Code'), as published by the Financial Reporting Council.

The following statement, together with the Directors' Remuneration Report on pages 60 to 79 and the Audit & Risk Committee Report on pages 80 to 82 describes how the principles set out in the Code have been applied by the Company and details the Company's compliance with the Code's provisions for the year ended 31 December 2014.

During the year under review the UK life and pensions businesses of the Group subsisted in two UK subsidiary companies being Countrywide Assured plc and Protection Life Company Limited. As at 31 December 2014, the business of Protection Life Company Limited was transferred into Countrywide Assured plc by means of a Part VII transfer of the business under FSMA 2000.

Compliance with the Code
The Company has complied throughout the year with all of the relevant provisions of the Code.

The Board
At the end of the year ended 31 December 2014, the Board comprised a Non-executive Chairman, four other Non-executive Directors and three Executive Directors.

During the year, there was one addition to the Board membership. On 3 December 2014, John Deane was appointed as a Director of Chesnara plc.

With effect from 1 January 2015, John was appointed as CEO of Chesnara plc following Graham Kettleborough's resignation on 31 December 2014.

Biographical details of all current Directors are given on page 53 and a Board Profile, which assesses the core competencies required to meet strategic objectives, is provided on page 54. The Board, which plans to meet eight times during the year, has a schedule, which it reviews annually, of matters reserved for its consideration and approval. These matters include:

- setting corporate strategy;
- approving the annual budget and medium-term projections;
- reviewing operational and financial performance;
- approving acquisitions, investments and capital expenditure;
- reviewing the Group's system of financial and business controls and risk management and setting risk appetite parameters;
- approving appointments to the Board and to its Committees;
- appointment of the Company Secretary; and
- approval of policies relating to Directors' remuneration.

In addition:

i) the Directors of the Company are also the Directors of Countrywide Assured plc, a UK-based life and pensions business subsidiary of the Group. Under PRA Regulation the Directors of CA plc have responsibility for maintenance and projections of solvency and for assessment of capital requirements, based on risk assessments, and for establishing the level of long-term business provisions, including the adoption of appropriate assumptions. Graham Kettleborough resigned from the Board of CA plc on 31 December 2014 and John Deane was appointed to that Board on 3 December 2014;

ii) five Directors of the Company Messrs Mason, Evans, Deane (appointed 3 December 2014) and Rimmington, and Ms Oak (née France) are also Directors of Protection Life Company Limited a UK-based life business subsidiary of the Group. Graham Kettleborough was also a director of PL Ltd until his resignation on 31 December 2014. Under PRA Regulation the Directors of PL Ltd have responsibility for maintenance and projections of solvency and for assessment of capital requirements, based on risk assessments, and for establishing the level of long-term business provisions, including the adoption of appropriate assumptions.

iii) three Directors of the Company, being Messrs Mason, Kettleborough and Brand, were also Directors of Movestic Livförsäkring AB throughout the year. In March 2015 Graham Kettleborough stood down from the Board of Movestic and John Deane was appointed. Under regulation by Finansinspektionen, the Directors of Movestic have responsibility for ensuring that Movestic complies with regulatory solvency requirements. John Deane has been approved by the Swedish regulator for his appointment as a Director of the company.

The responsibilities that the Board has delegated to the respective Executive Management teams, of the UK and Swedish businesses include: the implementation of the strategies and policies of the Group as determined by the Board; monitoring of operational and financial results against plans and budget; prioritising the allocation of capital, technical and human resources and developing and managing risk management systems.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board, and the Chief Executive is clearly defined and has been approved by the Board. The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives and is responsible for organising the business of the Board and supplying timely information, ensuring its effectiveness, encouraging challenge from Non-executive Directors and setting its agenda. The Chairman has no day-to-day involvement in the management of the Group. The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

Senior Independent Director

The Board has designated Mike Evans as Senior Independent Director. He is available to meet shareholders on request and to ensure that the Board is aware of shareholder concerns not resolved through the existing mechanisms for shareholder communication.

Directors and Directors' independence

The Board considers that Peter Mason was independent on his appointment as Chairman on 1 January 2009. In making this determination, the Board has carefully considered the fact that he is also a Non-executive Director of Countrywide Assured plc, a position which he has held since 1 October 1990, and a Non-executive Director of Countrywide Assured Life Holdings Limited ('CALHL'), the parent company of Countrywide Assured plc, a position he has held since 18 November 1991.

With regard to Peter Mason the Board considers that the characteristics, aims and mode of operation of the relevant activities of the Company are sufficiently different from those prevailing when he held the relevant position, that the judgement and independence of mind exercised on behalf of the Company are not adversely affected or circumscribed. The Board is of the view that his considerable specific experience and knowledge in the business of the Group outweighs any residual risk in the historical relationships described above.

The Board considers that all Non-executive Directors are independent. In making this determination, the Board has carefully considered that Peter Wright had, within the last three years prior to his appointment, held regulatory actuarial roles at Countrywide Assured plc and had otherwise provided actuarially-based consultancy advice, all such services being provided under an agreement with his employer at the time, Tillinghast Towers Perrin.

With regard to Peter Wright, the nature of the services he provided, being subject either to FSA regulation at that time or to professional standards and guidance prescribed or issued variously by the Institute of Actuaries or by the Financial Reporting Council Board of Actuarial Standards, was such that he was required to maintain a vigorous independence of mind and to prepare recommendations in accordance with the highest professional standards.

There were no comparable matters to consider in respect of Veronica Oak (née France), David Brand or Mike Evans.

The Board is satisfied that the overall balance of the Board continues to provide significant independence of mind and judgement and further considers that, taking the Board as a whole, the Independent Directors are of sufficient calibre, knowledge and number that they are able to challenge the Executive Directors and their views carry significant weight in the Company's decision making.

The Directors are given access to independent professional advice, at the Company's expense, when the Directors deem it necessary, in order for them to carry out their responsibilities.

Details of the Chairman's professional commitments are included in his biography on page 53. The Board is satisfied that these are not such as to interfere with his performance, which is based around a commitment of between fifty and sixty hours in any three-month period.

Professional development

The Directors were advised, on their appointment, of their legal and other duties and obligations as Directors of a listed Company. This has been supplemented by the adoption and circulation to each Director of a written Code of Conduct, covering all aspects of the specific operation of Corporate Governance standards and of policies and procedures within the Group. Throughout their period in office, the Directors have, through the conduct of business at scheduled Board meetings, been continually updated on the Group's business and on the competitive and regulatory environment in which it operates. Through their membership of the CA plc Board, and, where relevant, PL Board, all of the Directors who served during the period under review have considerable knowledge and experience of the UK-based businesses of the Chesnara plc Group. Similarly, Messrs Mason, Kettleborough, Deane and Brand, through their membership of the Movestic Board, have considerable knowledge and experience of the Swedish-based business of the Group.

Information

Regular reports and information are circulated to the Directors in a timely manner in preparation for Board and Committee meetings.

As stated above, the Company's Directors are also variously members of the Boards of CA plc, PL and Movestic. These Boards hold scheduled meetings, at least quarterly, which are serviced by detailed regular reports and information, which cover all of the key areas relevant to the direction and operation of that subsidiary including:

For CA plc and PL Ltd:

- Earnings report;
- Report from the Actuarial Function Holder and With-profits Actuary;
- Compliance report;
- Investment report; and
- Outsourcing reports.

CA and PL monitor risk management procedures, including the identification, measurement and control of risk through the offices of a Risk Committee. These committees are accountable to and report to their Boards on a quarterly basis.

In addition, annual reports are produced which cover an assessment of the capital requirements of the life assurance subsidiaries, their financial condition and a review of risk management and internal control systems.

For Movestic:

- Earnings report;
- Operating reports, including sales and fund performance;
- Financial risk report;
- General risk report, including an estimate of risk-based capital, in accordance with Swedish regulatory requirements;
- Compliance report; and
- Report on subsidiaries and the associated company.

In addition, Movestic is required to submit to the Chesnara Audit & Risk Committee a quarterly risk report, an annual report on risk management and internal control systems and all internal audit reports.

On a monthly basis, the Directors receive summary high level information, relating to total Group operations, prepared by the Group Chief Executive, which enables them to maintain continuing oversight of the Group's and management's performance against objectives.

In addition to these structured processes, the papers are supplemented by information which the Directors require from time to time in connection with major events and developments, where critical views and judgements are required of Board members outside the normal reporting cycle.

Performance evaluation

During the period under review the Chairman undertook a formal performance evaluation of the Board and Nomination Committees, and of individual directors. To that end he held in-depth discussions with each Director on a one-to-one basis.

The Chairmen of the Audit & Risk Committee and Remuneration Committee used a questionnaire approach in their respective performance evaluation of the Committees they chair.

In addition, and using similar methods to those described above, the Non-executive Directors, led by the Senior Independent Director, met to conduct a performance evaluation of the Chairman.

The Head of UK Internal Audit, reporting to the Chairman of the Group Audit & Risk Committee, monitors the assessment and follow through of any issues arising in the evaluation process. As stated previously the Board considers its approach to the evaluation of Board effectiveness on an annual basis.

Company Secretary

The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. For the period under review, Mary Fishwick held the position of Company Secretary. The Directors have access to the advice and services of the Company Secretary.

Board Committees

The Board has established the Committees set out below to assist in the execution of its duties. Each of these Committees operates according to written terms of reference and the Chairman of each Committee reports to the Board. The constitution and terms of reference of each Committee are reviewed at least annually to ensure that the Committees are operating effectively and that any changes considered necessary are recommended to the Board for approval. During the year the terms of reference of all the Committees were reviewed and changes made, where required, to reflect updated guidance on corporate governance. The terms of reference of each Committee are available on the Company's website at **www.chesnara.co.uk** or, upon request, from the Company Secretary.

The attendance record of each of the Directors at scheduled Board and Committee meetings for the period under review is:

	Scheduled Board	Nomination Committee	Remuneration Committee	Audit & Risk Committee
Peter Mason – Non-executive Chairman	7 (7)	2 (2)	4 (4)	n/a
Peter Wright – Non-executive Director	7 (7)	2 (2)	n/a	6 (6)
Graham Kettleborough - Executive Director	7 (7)	n/a	n/a	n/a
Frank Hughes – Executive Director	7 (7)	n/a	n/a	n/a
Veronica Oak (née France) - Non-executive Director	7 (7)	2 (2)	4 (4)	6 (6)
David Brand – Non-executive Director	7 (7)	2 (2)	n/a	6 (6)
David Rimmington – Executive Director	7 (7)	n/a	n/a	n/a
Mike Evans – Non-executive Director	7 (7)	2 (2)	4 (4)	6 (6)
John Deane – Executive Director (appointed 3 December 2014)	2 (2)	n/a	n/a	n/a

The figures in brackets indicate the maximum number of scheduled meetings in the period during which the individual was a Board or Committee member. The information above relates to the period from 1 February 2014 to 31 January 2015.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Nomination Committee considers the mix of skills and experience that the Board requires and seeks the appointment of Directors to ensure that the Board is effective in discharging its responsibilities.

Nomination Committee

During the period under review, the Nomination Committee comprised Peter Mason, who also served as Chairman of the Committee, Peter Wright, David Brand, Veronica Oak (neé France) and Mike Evans, all of whom served throughout the period. The Terms of Reference for the Committee can be found on the company website, **www.chesnara.co.uk**

The role of the Nomination Committee is to:

- review the balance and composition of the Board and its Committees, ensuring that they remain appropriate;
- be responsible for overseeing the Board's succession planning requirements including the identification and assessment of potential Board candidates and making recommendations to the Board for its approval; and
- keep under review the leadership needs of, and succession planning for, the Group in relation to both its Executive Directors and other senior executives.

This includes the consideration of recommendations made by the Chief Executive Officer for changes to the executive membership of the Board.

Change of Chief Executive Officer

The Nominations Committee led the process to select and appoint a new CEO to succeed Graham Kettleborough and ensure a smooth transition. With the interests of the organisation firmly in mind, the Committee sought to recruit a new CEO with extensive experience of our sector, strong leadership skills and an individual who provided a good cultural fit. Following an extensive recruitment process which utilised independent professional recruitment consultants the Nominations Committee recommended the appointment of John Deane. Following Board and regulatory approval, John was appointed as a Director on 3 December 2014, and was appointed CEO on 1 January 2015, following Graham giving notice on 2 December 2014 to resign as CEO on 31 December 2014. A short resume of John's career history and experience is shown on page 53.

During the period, the Committee met twice to consider the continuing mix of skills and experience of the Directors.

Remuneration Committee

Full details of the composition and work of the Remuneration Committee are provided in the Directors' Remuneration Report on pages 60 to 79.

Audit & Risk Committee

Full details of the composition and work of the Audit & Risk Committee are provided in the Audit & Risk Committee Report on pages 80 to 82.

Relations with shareholders

The Chief Executive and the Finance Director meet with institutional shareholders on a regular basis and are available for additional meetings when required. Should they consider it appropriate, institutional shareholders are able to meet with the Chairman, the Senior Independent Director and any other Director. The Chairman is responsible for ensuring that appropriate channels of communication are established between the Chief Executive and the Finance Director on the one part and the shareholders on the other and is responsible for ensuring that the views of shareholders are known to the Board. This includes twice yearly feedback prepared by the Group's brokers on meetings the Executive Directors have held with institutional shareholders.

Annual and interim reports are distributed to other parties who may have an interest in the Group's performance and those reports, together with a wide range of information of interest to existing and potential shareholders, are made available on the Company's website, **www.chesnara.co.uk**

Regular meetings are held with industry analysts and commentators so that they are better informed in formulating opinions and making judgements on the Group's performance.

Private investors are encouraged to attend the Annual General Meeting ('AGM') at which the results are explained and opportunity is provided to ask questions on each proposed resolution. The Chairmen of the Board Committees will be available to answer such questions as appropriate. Details of the resolutions to be proposed at the AGM on 16 May 2015 can be found in the notice of the meeting on pages 197 to 198.

Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. In establishing the system of internal control, the Directors have regard to the significance of relevant risks, the likelihood of risks occurring and the costs of mitigating risks. It is, therefore, designed to manage rather than eliminate the risks which might prevent the Company meeting its objectives and, accordingly, only provides reasonable, but not absolute, assurance against the risk of material misstatement or loss.

In accordance with 'Internal Control: Guidance for Directors on the Combined Code' (The 'Turnbull Guidance') the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, that this process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts, and that the process is regularly reviewed by the Board and accords with the guidance.

In accordance with the regulatory requirements of the PRA, CA has established and maintained a risk and responsibility regime. This ensures that the identification, assessment and control of risk are firmly embedded within the organisation and that there are procedures for monitoring and update of the same. The CA and PL Risk Management functions review and report quarterly on this regime to the relevant CA and PL Boards.

The Group also maintains a Key Risk Register which ensures that there is identification, assessment and control of the significant risks subsisting within the Company, CA, PL and Movestic. The maintenance of the key risk registers is the responsibility of senior management, who respectively report on them quarterly to the CA plc Risk Committee, PL Risk Committee and to each Chesnara Audit & Risk Committee meeting. In accordance with the requirements of the Swedish regulator, the Finansinspektionen, Movestic has also established and maintained a risk and responsibility regime, which requires inter alia that:

- the Movestic Board and Chief Executive have responsibility for ensuring that the organisation and management of the operation are characterised by sound internal control, which is responsive to internal and external risks and to changes in them;
- the Movestic Board has responsibility for the satisfactory management and control of risks through the specification of internal procedures; and
- there is an explicit risk control function, which is supported by compliance and internal control functions.

As an integral part of this regime Movestic also maintains a detailed risk register, which identifies, monitors and assesses risk by appropriate classification of risk.

As stated above, all of the Chesnara Directors are also members of the CA plc Board and the Company thereby has effective oversight of the maintenance and effectiveness of controls subsisting within CA plc. Regarding PL and Movestic, such oversight is exercised by way of the membership of a number of the Chesnara Directors on their Boards, together with quarterly reporting by PL and Movestic to the Chesnara Audit & Risk Committee.

In addition, the Chesnara Board confirms that it has undertaken a formal annual review of the effectiveness of the system of internal control for the year ended 31 December 2014, and that it has taken account of material developments between that date and the date of approval of the Annual Report and Accounts. The Board confirms that these reviews took account of reports by the internal audit functions on the operation of controls, internal financial controls, and management assurance on the maintenance of controls and reports from the external Auditor on matters identified in the course of statutory audit work.

The Board also confirms the continuing appropriateness of the maintenance of a UK Internal Audit Function, which reports to the Chairman of the Audit & Risk Committee. The Internal Audit function in Sweden is provided by external consultants who, in accordance with Swedish insurance regulations, must report formally to the Movestic Board. The Audit & Risk Committee has access to this work and speaks with them at least on an annual basis.

Financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. These controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes.

The Group has comprehensive planning, budgeting, forecasting and monthly reporting processes in place. A summary of the Group's financial results supported by commentary and performance measures is provided to the Board before each Board Meeting.

In relation to the preparation of the Group financial statements, the controls in place include:

- the finance governance team review new developments in reporting requirements and standards to ensure that these are reflected in Group accounting policies; and
- the finance governance team develop the Group's financial control processes and procedures which are implemented across the Group.

The reporting process is supported by transactional and consolidation finance systems. Reviews of the applications of controls for external reporting purposes are carried out by senior finance management. The results of these reviews are considered by the Board as part of its monitoring of the performance of controls around financial reporting. The Audit & Risk Committee reviews the application of financial reporting standards and any significant accounting judgements made by management.

Going concern

The Directors' Statement on going concern is included in the Directors' Report on page 84.

Directors

The present Directors of the Company and their biographical details are set out on page 53.

DIRECTORS' REMUNERATION REPORT

REMUNERATION COMMITTEE CHAIRMAN'S ANNUAL STATEMENT

Dear Shareholders

I am pleased to present Chesnara's Remuneration Report for the year ended 31 December 2014 which comprises:

- My report as Remuneration Committee Chairman and our Annual Remuneration Report, both of which are subject to an advisory shareholder vote at the AGM in May 2015; and
- Our Remuneration Policy, which is shown for your ease of reference and includes updates to dates and data although the policy remains unchanged from that approved by shareholders in May 2014.

Management's performance in 2014

During 2014 the Executive Directors have continued to deliver on key financial metrics and on a number of important strategic initiatives and regulatory requirements, notably progress towards Solvency II. The year finished with three important announcements:

- legal approval obtained to transfer the insurance business of Protection Life Company Limited into Countrywide Assured plc;
- purchase of the Waard Group in the Netherlands; and
- a change of CEO.

The main factors to influence the Committee's assessment of performance in 2014 were:

- Growth in the business – up 10.8% as measured by European Economic Value (EEV) after dividend distribution and profit before tax on an IFRS basis of £28.8m.
- Progress on preparations for the advent of Solvency II, effective from 1 January 2016.
- Effective management of the business with no significant regulatory breaches.
- Conclusion of the legal and regulatory proceedings to transfer Protection Life Company Limited (acquired November 2013) into Countrywide Assured plc and integration activity leading to Chesnara's outsourcers being ready to accept this business from Direct Line.
- Operational improvements in the UK and Sweden, including the conclusion of negotiations with Chesnara's main UK outsource partner to safeguard administration costs and services for the next 10 years.

Additionally management has identified, negotiated and successfully raised capital to fund the purchase of the Waard Group which extends Chesnara's geographic presence into the Netherlands and, we believe, creates an important strategic platform for future acquisitions.

I trust shareholders will agree that the performance of the Executive Team in 2014 has delivered on important initiatives that are aligned to shareholder's interests. Our performance assessment of the new 2014 Short-Term Incentive Scheme has resulted in an award for the three Executive Directors equivalent to 68.5% of salary (details on page 71).

Composition and activities of the Remuneration Committee

There have been no changes this year to the composition of the Committee. In addition to myself, Committee members are Peter Mason (Chairman of the Board) and Mike Evans (Senior Independent Director).

The Committee met four times in 2014 and dealt with the following matters in relation to Executive Remuneration:

- Following shareholder approval at the last AGM, the 2014 Short-Term Incentive Scheme (STI) and the 2014 Long-Term Incentive Scheme (LTI) for Executive Directors were implemented and the Committee discussed and set the performance targets for each. Additionally a minimum shareholding requirement for Executives (100% of salary) was also put into effect.
- 2013 Annual Bonus Plan – noted that the maximum pay-out under this plan had been reached in 2013 and hence there was no assessment and no further award under the LTIP element.
- When David Rimmington was promoted to Group Finance Director in May 2013 we awarded a salary appropriate to his experience. David's salary was increased in 2013, and we have done so again this year as result of his continued development in this role and good performance. His salary increased from £175,000 to £200,000 with effect from 1 July 2014.
- The Committee has reviewed various regulatory changes relevant to remuneration including that from the FRC which now expects incentive schemes to include provision for malus (the ability to withhold an award) and clawback (the ability to recover an award), unless an organisation has good reason not to. Our current incentive schemes contain a malus clause and we see no reason not to adopt the new FRC requirement. A clawback provision will be effective for awards made after 1 January 2015 under both the Short-Term and Long-Term Incentive Schemes (see page 60).
- A review of remuneration trends across the Group revealed that pay remains at appropriate levels and is not adversely affecting staff turnover or the ability to recruit new members of staff with the required skills and experience. In addition, the Committee reviewed salary and bonus awards to senior management within Movestic.
- Reviewed the Company's Remuneration Policy and concluded that no changes were necessary.
- Reviewed the Committee's Terms of Reference and concluded that they continue to be appropriate for the activities of the Committee.
- An evaluation of the Committee's performance suggested that the Committee is working effectively and that the composition of the Committee is appropriate at the current time.
- Where justified by the Company's results and the satisfactory performance of individuals, it is our normal practice to award Executive Directors, and indeed all employees, an annual salary increase broadly in line with inflation. This year, the Executive Directors, with the exception of the newly appointed CEO were granted an increase to their basic pay of 1.5%.

Change of Chief Executive Officer
The Committee worked closely with the Nominations Committee in the selection and appointment of a new CEO to succeed Graham Kettleborough and to facilitate a smooth transition. Execution of the Company's succession plans led to the appointment of John Deane on 3 December 2014. Taking account of the needs of the business and with the benefit of a four month handover period the Committee, with legal advice and in accordance with Graham's Service Contract and our Remuneration Policy, entered into a Settlement Agreement with Graham. This provides for pay-in-lieu of notice covering salary and benefits for eight of his twelve month notice period. Full details of the agreement and the discretion that the Committee has exercised was posted to the company's website in December 2014 and is also set out on page 74.

Again, with the interests of the organisation firmly in mind, we sought to recruit a CEO successor with extensive experience of our sector and strong leadership skills. We believe this has been achieved with the appointment of John Deane. John's services have been secured in line with our Remuneration Policy on a basic salary of £360,000 plus pension and benefits and without any compensatory bonus or LTI awards being made.

Looking ahead
One of the initial tasks for our new CEO will be to undertake a review of the company's corporate governance and organisational design to strengthen Chesnara's group function. This is particularly important with the advent of the PRA's new Senior Insurance Managers Regime and the expansion of the business into a new geographic territory. Should this give rise to any matters for the Remuneration Committee to consider we will consult or report next year, as appropriate.

Shareholder Voting
Last year we asked shareholders to vote on our Remuneration Report, Remuneration Policy and two new incentive schemes which sought to address a number of concerns that had been expressed about the previous incentive arrangements and to better align Executive and shareholder interests. I am pleased to report that these resolutions were well supported by shareholders with votes in favour being over 98% on each (full results on page 79). The support from shareholders is appreciated but we will continue to monitor and review our arrangements to ensure that they continue to help influence and reward the desired outcomes.

I hope my report together with our Remuneration Report provides you with a clear account of the operation of the Remuneration Committee during 2014 and how we have put our Remuneration Policy into practice. I'm very happy to talk to shareholders to discuss any aspect of our activities or decisions.

Veronica Oak (née France)
30 March 2015

DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY REPORT

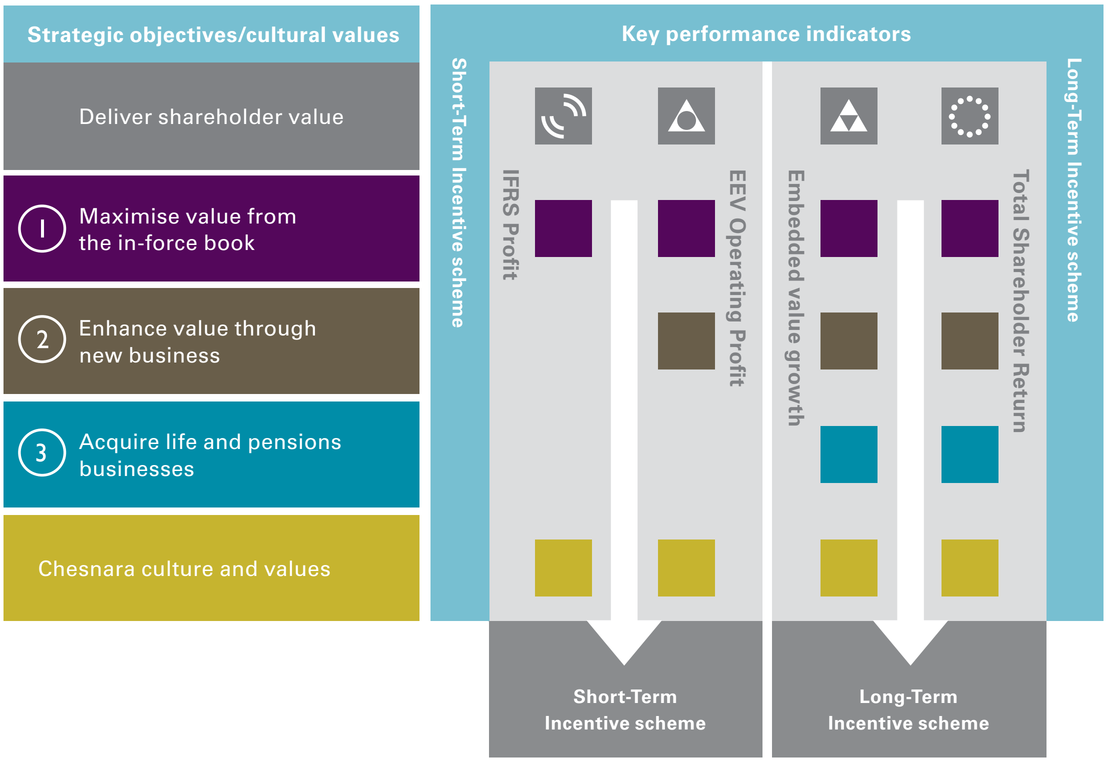
The Remuneration Policy was approved by our shareholders at the Annual General Meeting held on 16 May 2014. No changes are being made to the Policy this year requiring shareholder approval. The only change is the introduction of clawback provisions in line with the revisions to the Code of Corporate Governance. The Remuneration Policy will next be put to shareholders no later than the AGM in 2017. For shareholders' ease of reference key sections of the Policy with updated information (e.g. salary, dates etc.) is included in this section. The Policy as approved by shareholders can be found in last year's Report & Accounts and as a separate document on our website **www.chesnara.co.uk /corporate-responsibility/governance-reports**

Remuneration Policy

This section sets out the Company's policy on Directors' remuneration which was approved at the 2014 Annual General Meeting. The policy was developed by the Remuneration Committee (the Committee) to provide a clear framework for reward which is linked to the strategy of the Company and aligns the interests of executives and shareholders.

Chesnara plc is a holding company engaged in the management of life and pension books of business in the UK and Western Europe. With an operating model in the UK which extensively utilises the benefits of outsourcing, Chesnara has 25 employees in the UK including three Executive Directors. Chesnara has a wholly owned life insurance subsidiary in Sweden, Movestic which is open to new business and employs 131 people.

The schematic below illustrates how the Company's KPI's align to its strategic objectives and cultural values and in turn how those KPIs are recognised as key components of both the short and long-term incentive schemes. Reading across the chart shows how the KPIs cover the objectives. For example, "Maximise the value from the in-force book", "Enhance value from new business" and "Acquire life and pensions businesses" will all directly impact the EEV growth of the Group. Likewise all objectives should have an impact on the TSR to varying degrees. Strong performance in terms of "maximising value from the in-force book" should positively influence all three KPIs. The diagram below has been updated during 2014 to reflect how Chesnara articulates its strategy. Our three objectives are the Group's core strategic objectives. Underpinning the delivery of these three core objectives is the Group's culture and values, something that is pervasive in everything we do. This covers how we manage our investors, policyholders, employees and regulators, and how we conduct our business. As can be seen below adhering to our core culture and values is expected to benefit all KPIs that are used to assess the performance remuneration of the Executive Directors.



Overall remuneration policy aims are:

- to maintain a consistent remuneration strategy based on clear principles and objectives;
- to ensure remuneration structures do not encourage or reward excessive risk-taking which is outside the boundaries of our stated risk appetite;
- to link remuneration clearly to the achievement of our business strategy and ensure executive and shareholder reward is closely aligned;
- to enable the Company to attract, motivate and retain high-calibre executives; and
- for the policy to be easy to understand and communicate.

The implementation of this policy involves:

- paying salaries that reflect individual roles and sustained individual performance and contribution, taking account of the external competitive market;
- enabling executives to enhance their earnings by meeting and out-performing stretching short and long-term targets in line with the Group's strategy;
- requiring executives to build and maintain shareholdings in the Company;
- rewarding executives fairly and responsibly for their contribution and paying what is commensurate with achievement of these objectives; and
- including malus and with effect from 1 January 2015, clawback provisions, as appropriate in the short-term incentive scheme (including the deferred share award) and the long-term incentive scheme.

For the avoidance of doubt, the Directors' Remuneration Policy includes authority for the Company to honour any commitments entered into with current or former Directors that have been disclosed to shareholders in previous Remuneration Reports. Details of any payments to former Directors will be set out in the implementation section of this report as they arise.

The following tables give an overview of the Company's policy on the different elements of the remuneration package.

DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY REPORT (CONTINUED)

Future policy table

Executive Directors' remuneration

Purpose and link to strategy	Operation	Performance measures and maximum	Changes to policy approved at the 2014 AGM
Basic salary			
To recruit and retain individuals with the skills and experience needed for the role and to contribute to the success of the Group.	In setting salaries for new executive roles or reviewing the salaries for existing roles, the Committee will take into account, as it considers appropriate, some or all of the following factors: – assessment of the responsibilities of the role and the experience and skills of the jobholder – the Company's salary budgets and results – the jobholder's performance – with the use of periodic benchmarking exercises, the external market for roles of a similar size and accountability – inflation and salaries across the Company – balance between fixed and variable pay to help ensure good risk management. Where a new appointment is made, pay may be initially below that applicable to the role and then may increase over time subject to satisfactory performance. Salaries are usually reviewed annually. There may be reviews and changes during the year in exceptional circumstances (such as new appointments to executive positions). The table below has been updated to reflect the salaries for each Executive Director effective from 1 January 2015.	Personal and Group performance is taken into consideration when deciding whether a salary increase should be awarded – but salary increases may not be awarded on the strength of performance alone.	There have been no changes to the policy that was approved at the 2014 AGM.
Taxable benefits			
To recruit and retain individuals with the skills and experience needed for the role and to contribute to the success of the Group and to minimise the potential of ill health to undermine Executive's performance.	Executive Directors receive life assurance, a company car, fuel benefit and private medical insurance. A cash equivalent may be paid in lieu of a car. Benefits may be changed in response to changing circumstances whether personal to an Executive Director or otherwise subject to the cost of any changes being largely cost neutral.	No performance measures attached.	There have been no changes to the policy that was approved at the 2014 AGM.
Pensions			
To recruit and retain individuals with the skills and experience needed for the role and to contribute to the success of the Group and to encourage responsible provision for retirement.	The Executive Directors participate in a defined contribution pension scheme with employer contributions varying between 7.5% and 9.5% of basic salary. If regulatory maxima have been reached, the executive can elect to receive the balance of the contribution as cash.	No performance measures attached.	There have been no changes to the policy that was approved at the 2014 AGM.

Director	Increase	Basic salary from 1 January 2015
John Deane	N/A	£360,000
David Rimmington	8.3%	£203,000
Frank Hughes	1.5%	£205,856

Purpose and link to strategy	Operation	Performance measures and maximum	Changes to policy approved at the 2014 AGM
Short-Term Incentive (STI) scheme			
To drive and reward achievement of the Group's business plan and key performance indicators. To help retention and align the interests of Executive Directors with those of shareholders.	The 2014 STI Scheme is discretionary. Awards are based on the Committee's assessment and judgement of performance against specific performance targets and Group strategic objectives, assessed over a financial year. Provided the minimum performance criteria is judged to have been achieved then an award will be granted in two parts; at least 35% into deferred share awards in the shape of nil cost options which will vest after a three year deferral period and the balance in cash. Dividend equivalents accrue in cash with interest thereon in respect of the deferred share awards between the date the share award is granted and the date the options are exercised. It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Implementation Plan. The Committee can apply malus provisions to unvested awards, for example, in the event of misstated performance or misconduct and in line with new regulatory changes may apply clawback to awards made after 1 January 2015. As referred to on page 75 the Company has a minimum shareholding policy that requires each Director to hold shares in the Company up to the value of their annual salary. The Directors will only be able to sell the shares awarded under this scheme subject to meeting these rules.	Performance is measured based on the financial results of the Group and its strategic priorities, together with the performance of the Executives in relation to specific objectives. The main weighting is given to financial results – typically 80%. The targets may include costs, IFRS pre-tax profit, EEV operating profit, cash generation, Group strategic objectives and personal performance. STI Scheme targets are commercially sensitive and therefore, not disclosed. Actual targets and results will be disclosed in the Annual Report immediately following each performance period. For the 2015 STI award the measures and their weighting are: – IFRS pre-tax profit 50% – EEV operating profit 30% – Group Strategic objectives 20% The Committee may substitute, vary or waive the performance measures in accordance with the Scheme Rules. The maximum award is 100% of basic salary, however the STI Scheme award for 2015 is limited to 75%.	There have been no changes to the policy that was approved at the 2014 AGM, with the exception of clawback provisions that were introduced to awards made after 1 January 2015.

DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY REPORT (CONTINUED)

Future policy table (continued)

Executive Directors' remuneration (continued)

Purpose and link to strategy	Operation	Performance measures and maximum	Changes to policy approved at the 2014 AGM
Long-Term Incentive (LTI) scheme			
To incentivise the delivery of the longer-term strategy by the setting of stretching targets based on shareholder value, and to help retain key executives and increase their share ownership in the Company.	The 2014 LTI Scheme is discretionary. Awards are made under a performance share plan, with no exercise price. The right to receive shares awarded will be based on achievement of performance conditions over a minimum three-year period. It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Implementation Plan. The Committee may apply malus provisions to unvested awards, for example, in the event of misstated performance or misconduct and in line with new regulatory changes may apply clawback to awards made after 1 January 2015. As referred to on page 75 the Company has a minimum shareholding policy that requires each Director to hold shares in the Company up to the value of their annual salary. The Directors will only be able to sell the shares awarded under this scheme subject to meeting these rules.	For 2015 vesting is dependent on two equally weighted performance measures: 1. **Total Shareholder Return:** Performance conditions are based on total shareholder return of the Company when compared to that of the companies comprising the FTSE 350 Higher Yield Index. No payout will be made unless the Company achieves at least median performance. Full vesting will be achieved if the Company is at the upper quartile compared to the peer group. 2. **Group Embedded Value:** this target is commercially sensitive and therefore, not disclosed. Actual targets and results will be disclosed in the Annual Report for the year in which an award vests. The assumptions underpinning the calculations are subject to independent actuarial scrutiny. The Committee may substitute, vary or waive the performance measures in accordance with the Scheme Rules. The maximum award is 100% of basic salary, however the LTI Scheme award for 2015 is limited to 75%.	There have been no changes to the policy that was approved at the 2014 AGM, with the exception of clawback provisions that were introduced to awards made after 1 January 2015.

Non-executive Directors' remuneration

Purpose and link to strategy	Operation	Performance measures and maximum (where applicable)	Changes to policy approved at the 2014 AGM
Fees			
To recruit and retain independent individuals with the skills, experience and qualities relevant to the role and who are also able to fulfil the required time commitment.	Fees for the Chairman are determined and agreed with the Board by the Committee (without the Chairman being party to this). Non-executive Director fees are determined by the Chairman and the Executive Directors. Fees are reviewed periodically and in setting fees consideration is given to market data for similar roles in companies of comparable size and complexity whilst also taking account of the required time commitment. All Non-executive Directors are paid a base fee. Additional fees are paid to the Senior Independent Director, the chair of Board Committees and to other Non-executive Directors to reflect additional time commitments and responsibilities required by their role.	Fees for the Chairman and Non-executive Directors are not performance related. Reflecting the periodic nature of the fee reviews, increases at the time they are made, may be above those paid to Executives and / or other employees.	There have been no changes to the policy that was approved at the 2014 AGM.

Explanatory notes:

1. **Why these performance measures were chosen and how performance targets are set**
STI Scheme - The performance measures for the STI Scheme reflect the main financial contributors to sustaining returns for shareholders and the Group strategic objectives to ensure that management is incentivised on the important projects needed to support the strategy. The Remuneration Committee determines the measures, their weighting and the targets for each financial year. The measures will be based upon the most relevant taken from a selection of measures which may include costs, IFRS pre-tax profit, EEV operating profit, cash generation, Group strategic objectives and personal performance. The maximum potential award requires significant outperformance of budgeted targets.

LTI Scheme - The performance measures for the LTI Scheme have been selected for their alignment to shareholder interests using an absolute measure (growth in Group EEV) and a comparative measure (TSR). The measures and the targets are set by the Committee. The maximum potential award for the Group EEV measure requires significant outperformance of budgeted targets. The TSR measure uses the FTSE 350 Higher Yield Index over a three year period with averaging during the first and last month. The Committee currently considers this to be an appropriate comparator given Chesnara's strategic aims and focus on dividend payments.

In setting targets for both Schemes, the Committee exercises its judgement to try and ensure that there is a balance between stretch in the targets and the company's risk appetite. Details of the performance measures, weightings and targets and the corresponding potential awards are set out in the Implementation Plan. (For 2015 see page 77).

The Future Policy table notes that all the financial targets for the STI Scheme are commercially sensitive as is one of the measures for the LTI Scheme. The Committee has considered whether it could reasonably use transparent targets but concluded that transparency should not be sought at the expense of choosing the right ones for the alignment of Executive Director and shareholder interests even if these are not capable of being disclosed upfront.

2. **Changes to the Executive Directors' incentive schemes**
In 2013 the Committee undertook a wide ranging review of the Executive Directors' incentive schemes primarily to better align the interests of Executive Directors and shareholders; and to improve the balance of awards between short-term results and achievement of longer-term strategic initiatives. The review resulted in two new schemes being approved by shareholders at the 2014 AGM. Information explaining how the new and old schemes compare is set out in the approved Policy Report which is available on the Chesnara website.

3. **Differences in policy compared with other employees:**
The following note outlines any differences in the Company's policy on Executive Director remuneration from other employees of the Group.

- **Salary and fees:** Salary and fees: There are no differences in policy. The Committee takes into account the Company's overall salary budget and percentage increases made to other employees.
- **All taxable benefits:** There are no differences in policy although the benefits available vary by personnel and jurisdiction and with job role. For example cars and health insurance benefits are broadly consistent with the equivalent benefits when offered to UK Non-Director personnel. Executive Directors receive fuel allowances which is a benefit not offered to other grades receiving a car allowance.
- **Annual bonus:** This is an integral part of the Company's philosophy with all UK employees below Board level being eligible to participate in a bonus scheme which is based on service and achievement of financial targets. Senior managers in Sweden participate in annual bonus schemes which reflect the achievement of business targets and personal goals. In line with Swedish regulations part of the payment of this bonus is deferred. Other employees in Sweden participate in a scheme based on the achievement of company-wide business goals.
- **Long-term plans:** Only Executive Directors are entitled to participate in the long-term plans as these are the roles which have most influence on and accountability for the strategic direction of the business and the delivery of returns to shareholders.
- **Pension:** The level of contribution made by the Company to Executive Directors is similar to that offered to the majority of other UK employees. Certain employees do receive lower company pension contributions.

4. **Other**
The last SAYE expired in 2014. The Committee has the discretion to renew the SAYE scheme, a tax efficient all employee scheme in which Executive Directors are eligible to participate.

Approach to remuneration on recruitment
The following principles apply when recruiting Executive Directors:

- To offer a remuneration package that is sufficient to attract individuals with the skills and experience appropriate to the role to be filled whilst also being consistent with this Policy. In addition to salary and variable remuneration, this may include pension, taxable benefits and other allowances such as relocation, housing and education.
- Pay levels will be set taking account of remuneration across the company including other senior appointees, and the salary offered for similar roles by other companies of similar size and complexity.
- Each element of remuneration offered will be considered separately and collectively in this context.
- The maximum awards in respect of the STI Scheme and LTI Scheme as set out in the tables on pages 65 and 66 apply in recruitment situations, save that exceptionally the Company may award a one-off compensatory bonus or LTI award where the new joiner would lose a bonus or long-term award relating to his or her former role. In the event that such a payment is made, full details will be disclosed in the Annual Report on remuneration for the relevant year.

DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY REPORT (CONTINUED)

Service contracts and loss of office

Executive Directors

Our policy is for Executive Directors to have service contracts with a rolling twelve-month notice period.

The table below summarises the notice periods and other termination rights of the Executive Directors and the Company. The approach of the Company on any termination is to consider all relevant circumstances and to act in accordance with any relevant rules or contractual provisions. Typically, a leaving employee is classified as a 'Good Leaver' if they depart under 'Special Circumstances' (defined in the table below). An employee leaving under any other circumstances is classified as a 'Bad Leaver'.

The Committee has discretion to classify an employee as a Good Leaver or a Bad Leaver and to determine the treatment of their outstanding awards upon departure. Typical treatment in relation to salary, benefits and outstanding incentive awards for leavers under each scenario is shown below:

Nature of termination	Notice period	Salary and benefits	Short-Term Incentive scheme	Long-Term Incentive scheme	Pension
By Executive Director or company giving notice (excluding special circumstances see below).	12 months.	Cease on date employment ends. Payment may be made for any unused holiday entitlement.	No grants following service of notice. Right to cash payment and unvested deferred share awards cease on date employment ends. Outstanding options must be exercised within 6 months of date employment ends.	No grants following service of notice. Unvested awards lapse on date employment ends. Outstanding options must be exercised within 6 months of date employment ends.	Cease on date employment ends.
By Company summarily.	None.	Cease on date employment ends.	No further grants. Right to cash payment and unvested deferred share awards cease on date employment ends. Outstanding options must be exercised within 6 months of date employment ends.	No further grants. Unvested awards lapse on date employment ends. Outstanding options must be exercised within 6 months of date employment ends.	Cease on date employment ends.
Special circumstances: leaving by reason of death, injury or disability, redundancy, retirement with the agreement of the Remuneration Committee, the sale of employing business or company, or other special circumstances at the discretion of the Committee.	None prescribed.	Normally cease on date employment ends. Payment may be made for any unused holiday entitlement. Discretion to Company to pay salary and benefits in a single payment or in monthly instalments. Where payments are made monthly the executive is under an obligation to mitigate his or her loss and monthly payments will cease or reduce upon the executive accepting alternative employment.	Discretion to make further grants during a notice period where this is considered to be in the company's interests. Where employment ends before deferred share awards made, at the discretion of the Committee, the award may be retained. If retained, the Committee has discretion to allow the award to vest in accordance with original terms, or determine award is to vest on ceasing to be employed and will also assess the extent to which targets have been met. In either case the award will be pro-rated to reflect period of Performance Period that has been worked and will be paid in cash. Committee has discretion to pro-rate using a longer period. Where employment ends after deferred share awards made, the award will be retained and vest in accordance with original terms. The Committee has discretion to allow the award to vest on ceasing to be employed. All outstanding options must be exercised within six months of the date on which employment ends or on which they vest (whichever is later), unless the Committee specifies a longer period.	No further grants. Where employment ends before share awards vest, at the discretion of the Committee the award may be retained. If retained, the Committee has discretion to allow the award to vest in accordance with original terms or, may determine awards to vest on ceasing to be employed and will also assess the extent to which the targets have been met. In either case the award will be pro-rated to reflect the period of the Performance Period that has been worked. Committee has discretion to pro-rate using a longer period. All outstanding options must be exercised within 6 months of the date on which employment ends or on which they vest (whichever is later) unless the Committee specifies a longer period.	Cease on date employment ends.

Non-executive Directors

- Appointments are made under a contract for services for an initial term of three years subject to election by shareholders at the first Annual General Meeting following their appointment and annual re-election thereafter.
- Non-executive Directors are typically expected to serve two three-year terms but may be invited by the Board to serve for an additional period. Any renewal is subject to Board review and AGM re-election.
- The terms of an appointment are set out in a letter of appointment which can be terminated by either party with three months' notice.
- There are no compensation terms regardless of the circumstances that may lead to a contract being terminated.

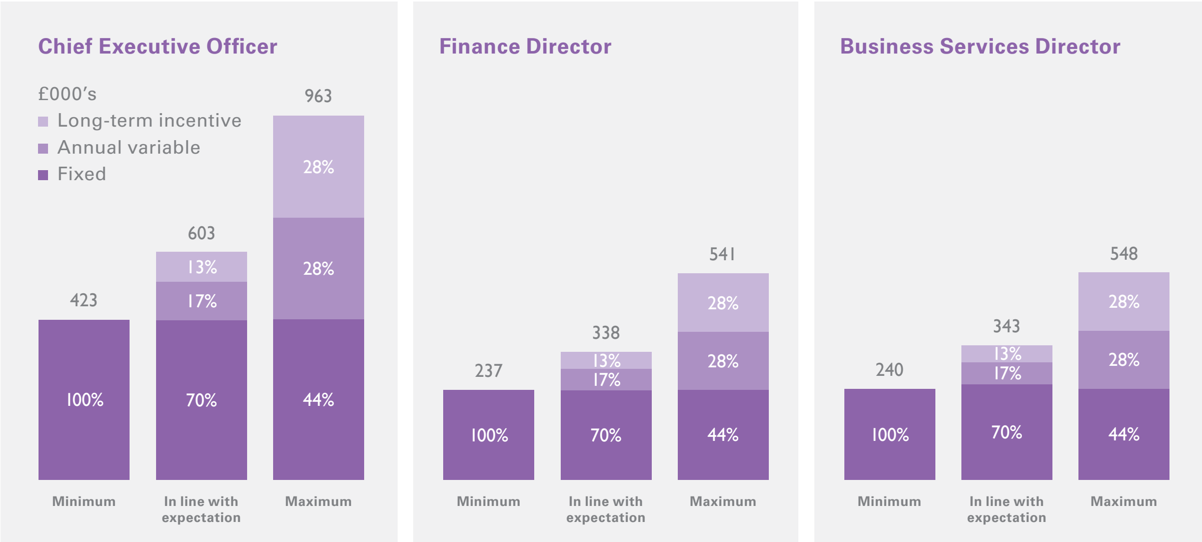
Other Directorships

Executive Directors may, if approved by the Board, accept appointments as non-executive directors of suitable organisations. Normally fees for such positions are paid to the Company, unless the Board determines otherwise.

Illustration of application of Remuneration Policy

The view of the Committee is that there should be balance between fixed and variable pay such that when stretching performance targets have been achieved in full around half of an Executive Directors' earnings are variable and half are fixed. The Committee believes that this is appropriate given the strategy of the Company and its risk appetite.

The charts below provide estimates of the potential future reward opportunities for each Executive Director, and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'In line with expectation' and 'Maximum'. The illustration assumes that the 2015 LTI and STI Schemes apply throughout the period.



Minimum

The table below analyses the constitution of the minimum remuneration projection for 2015:

Director	Salary and fees £000	Benefits £000	Pension £000	Total fixed pay £000
Chief Executive Officer	360	29	34	423
Finance Director	203	18	16	237
Business Services Director	206	18	16	240

The pension information above includes the employer contribution element of the pension value. This can vary by Director, and is between 7.5% and 9.5% of gross basic salary.

Statement of shareholder views

The review of Executive Director incentives carried out during 2013 by the Remuneration Committee took into account views expressed by shareholders in connection with the 2012 Remuneration Report. Following the strong support expressed by shareholders at the AGM in May 2014 for the Remuneration Policy, Remuneration Report and two new incentive schemes there has been no further shareholder engagement in connection with remuneration.

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION REPORT

Single total figure of remuneration for each Director (audited information)

The remuneration of the Executive Directors for the years ended 31 December 2014 and 31 December 2013 is made up as follows:

Executive Directors' remuneration as a single figure – year ended 31 December 2014

Name of Director	Salary and fees £000	All taxable benefits £000	Non taxable benefits £000	Annual bonuses £000	LTIP £000	Pension £000	Total for 2014 £000
Graham Kettleborough*	328	20	8	225	100	31	712
John Deane (appointed 3 December 2014)	30	2	–	–	–	3	35
David Rimmington	188	13	5	128	–	16	350
Frank Hughes	203	14	5	139	61	15	437
Total	**749**	**49**	**18**	**492**	**161**	**65**	**1,534**

*On 31 December 2014 Graham Kettleborough ceased to be a Director of the Company, and will leave employment during 2015. With the exception of the Annual Bonus and LTIP figures quoted above, the table does not reflect the payments that have been awarded to Graham as a result of ceasing to hold office. These have been disclosed on page 74.

Executive Directors' remuneration as a single figure – year ended 31 December 2013

Name of Director	Salary and fees £000	All taxable benefits £000	Non taxable benefits £000	Annual bonuses £000	LTIP £000	Total for Pension £000	2013 £000
Graham Kettleborough	320	21	8	320	–	33	702
Ken Romney (resigned 17 May 2013)	80	5	2	–	–	14	101
David Rimmington (appointed 17 May 2013)	98	9	2	98	–	8	215
Frank Hughes	198	14	5	198	–	19	434
Total	**696**	**49**	**17**	**616**	**–**	**74**	**1,452**

The remuneration of the Non-executive Directors for the years ended 31 December 2014 and 31 December 2013 is made up as follows:

Non-executive Directors' remuneration as a single figure – year ended 31 December 2014

Name of Director	Salary and fees £000	All taxable benefits £000	Total for 2014 £000
Peter Mason	100	–	100
Peter Wright	60	–	60
Veronica Oak (née France)	50	–	50
David Brand	45	–	45
Mike Evans	45	–	45
Total	**300**	**–**	**300**

Non-executive Directors' remuneration as a single figure – year ended 31 December 2013

Name of Director	Salary and fees £000	All taxable benefits £000	Total for 2013 £000
Peter Mason	90	–	90
Mike Gordon (resigned on 17 May 2013)	17	–	17
Terry Marris (resigned on 17 May 2013)	15	–	15
Peter Wright	60	–	60
Veronica Oak (née France - appointed 16 January 2013)	46	–	46
David Brand (appointed 16 January 2013)	43	–	43
Mike Evans (appointed 4 March 2013)	37	–	37
Total	**308**	**–**	**308**

The fees for Veronica Oak include an additional fee of £5,000 per annum, payable for two years only commencing in May 2013 for the increased workload for the Remuneration Committee Chairman in designing and implementing the new incentive schemes and adopting new regulatory requirements.

Single total figure of remuneration for each Director (continued)
Salary and fees
Basic salaries are usually reviewed annually by the Remuneration Committee. Assessments are made giving full regard to external factors such as earnings inflation and industry benchmarks and to internal factors such as changes to the role by way of either structural reorganisations or enlargement of the Group. In addition, basic pay levels reflect levels of experience. The single earnings figures demonstrate the application of this assessment process. David Rimmington's salary was reviewed in 2014 and, based on experience and performance in his role as Group Finance Director, he was awarded a salary increase of £25,000 per annum effective from 1 June 2014.

Taxable benefits
The taxable benefits relate to the provision of a car, fuel allowance and medical insurance.

Annual bonuses
The amount reported as Annual Bonuses in 2014 is entirely made up of awards made under the 2014 STI scheme. The amounts awarded to the Executive Directors under the 2014 STI scheme are based on performance against three core measures, being IFRS pre-tax profit, EEV operating profit and Group Strategic Objectives. The table below shows the outcome of each measure when compared with the target and the resulting 2014 STI award.

	Upper threshold for minimum performance	Percentage award for min performance	On target performance	Percentage award for on target performance	Minimum threshold for maximum performance	Percentage award for maximum performance	Actual result	Actual percentage total award	Actual percentage award as %age of salary
IFRS pre-tax result	≤£13.925m	0%	£18.566m*	15.0%	£37.132m	50%	£34.807m*	47%	34.2%
EEV operating result	≤£14.79m	0%	£16,436m	12.8%	£24.654m	30%	£37.522m	30%	22.5%
Group strategic objectives	≤60% of max	0%	80% of max	10.0%	100%	20%	91.4% of max	16%	11.8%

For results between the performance thresholds, a straight-line basis applies.
*Note – this is stated after certain adjustments, such as consolidation adjustments. The actual results are also adjusted in the same manner.

The Group strategic objectives outcome reflects progress of the Solvency II project in line with plans, operational improvements in the UK and Sweden and the Part VII transfer of Protection Life.

Name of Director	Salary on which award based £	Maximum potential award as %age of salary	Actual award as %age of salary	Total value of award £
Graham Kettleborough*	328,189	75.00%	68.47%	224,716
David Rimmington	187,500	75.00%	68.47%	128,384
Frank Hughes	202,814	75.00%	68.47%	138,870
Total				**491,970**

*Awarded as part of package following cessation of being a Director. Graham is not required to defer 35% of the award into shares.

35% of above awards are granted as deferred share awards that will vest at the end of a three year deferred period.

LTIPs
The bonus and incentive schemes included in the amounts reported for 2014 are as follows:

				Amount payable(£)*		
Scheme	EEV Target 31 Dec 2014	EEV Outcome 31 Dec 2014	% of salary awarded	Graham Kettleborough	Frank Hughes	Total
2012 LTIP	£279.9m	£417.2m	34%	£99,775	£61,151	£160,926

Under the 2012 Annual Bonus element the award was 66% of salary. The 2012 annual bonus and LTIP elements share a bonus cap of 100% of basic salary. The outcome of the LTIP element exceeded target and therefore the bonus cap has had the effect of limiting the LTIP bonus payment to 34% of salary which was paid in January 2015.

Pension
The pension component in the single figure table represents employer's contributions that form part of the Director's remuneration package. The employer's contribution is based on a fixed percentage of each Executive's salary, and can vary between Executives.

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION REPORT (CONTINUED)

Scheme interests awarded during the financial year (audited information)

Up until and including 2011 the LTIP schemes for Executive Directors were effectively based on single year performance measures with payments deferred for three years. As such any amounts due from pre-2012 LTIP schemes have been recognised within the single earnings figures for the original performance assessment year. That is, all awards have already crystallised prior to this financial year and have been reported.

The LTIP schemes for 2012 and 2013 depend upon three year EEV projection targets being met or exceeded. As such value in the 2012 scheme has crystallised during 2014, with the value for the 2013 scheme crystallising during 2015.

Note however that for 2012 and 2013 the total maximum combined bonus from the short term annual incentive plans and long term incentive plans is capped at 100% of basic salary. In light of the annual bonuses earned in 2012 and 2013, the maximum potential value from these schemes is relatively limited, as follows:

– 2012 LTIP - Annual bonus payments during 2012 represented 65.48% of the total basic salary and as such the maximum value for the 2012 LTIP scheme maturing this year is 34.52% of basic salary.

– 2013 LTIP - the annual bonus represented 100% of basic salary and hence the 2013 LTIP has no potential value on vesting.

The table below sets out potential long-term incentive scheme interests that have accrued during the year, and each Director's interest in that scheme:

Name of Executive Director	Name of scheme	Type and basis of award (note 4)	Face value (note 1)	Length of vesting period	Summary of performance measures and targets
Graham Kettleborough*	2014 LTI	Share options. 78,390 share options awarded equal to 75% of basic salary using the share price at close of business on 19 May 2014. Options have a nil exercise price.	£243,205 based on share price (310.25p) on date of grant (20 May 2014).	3 years – vesting date 31 December 2016.	**Total Shareholder Return** 50% of the award will vest subject to the TSR target being in a certain range, with the range being the ranking of the TSR of Chesnara against the TSR of the individual companies in the FTSE 350 Higher Yield Index. The award will be made on a sliding scale from nil if the Chesnara TSR is below the median to full if the Chesnara TSR is in the upper quartile. **EEV growth target** 50% of the award will vest subject to the EEV outcome being within a certain range of the Embedded Value target. The award will be made on a sliding scale with nil being paid out if the outcome is less than or equal to 89% of target, up to a maximum pay-out if the outcome is greater than or equal to 114% of target.
	2013 LTIP	Cash	–	3 years – vesting date 31 December 2015.	Based on achievement of a target share price at the end of 2015: Rewards on a sliding scale from 0% of basic annual salary on achievement of 75% of target to 21.05% of basic annual salary on achievement of target, continuing on a straight line basis if target is exceeded. (Note 2).
	2012 LTIP	Cash	£99,775	3 years - vesting date 31 December 2014.	Based on achievement of a target share price at the end of 2014: Rewards on a sliding scale from 0% of basic annual salary on achievement of 75% of target to 21.05% of basic annual salary on achievement of target, continuing on a straight line basis if target is exceeded. (Note 2). The Remuneration Committee assessed that the performance criteria for this scheme was met. Payment was made in January 2015 and, as explained above, the amount was capped by the remaining proportion of the shared bonus cap (34.52% of salary).

*Note: Please see page 74 for how the value accruing during 2014 for each of these schemes has been dealt in light of Graham ceasing to hold office on 31 December 2014.

Scheme interests awarded during the financial year (audited information)(continued)

Name of Executive Director	Name of scheme	Type and basis of award (note 4)	Face value (note 1)	Length of vesting period	Summary of performance measures and targets
Frank Hughes	2014 LTI	Share options. 48,443 share options awarded equal to 75% of basic salary using the share price at close of business on 19 May 2014. Options have a nil exercise price.	£150,294 based on share price (310.25p) on date of grant (20 May 2014).	3 years – vesting date 31 December 2016.	**Total Shareholder Return** 50% of the award will vest subject to the TSR target being in a certain range, with the range being the ranking of the TSR of Chesnara against the TSR of the individual companies in the FTSE 350 Higher Yield Index. The award will be made on a sliding scale from nil if the Chesnara TSR is below the median to full if the Chesnara TSR is in the upper quartile. **EEV growth target** 50% of the award will vest subject to the EEV outcome being within a certain range of the Embedded Value target. The award will be made on a sliding scale with nil being paid out if the outcome is less than or equal to 89% of target, up to a maximum pay-out if the outcome is greater than or equal to 114% of target.
	2013 LTIP	Cash	–	3 years – vesting date 31 December 2015.	Based on achievement of a target share price at the end of 2015: Rewards on a sliding scale from 0% of basic annual salary on achievement of 75% of target to 21.05% of basic annual salary on achievement of target, continuing on a straight line basis if target is exceeded. (Note 2)
	2012 LTI	Cash	£61,204	3 years – vesting date 31 December 2014.	Based on achievement of a target share price at the end of 2014: Rewards on a sliding scale from 0% of basic annual salary on achievement of 75% of target to 21.05% of basic annual salary on achievement of target, continuing on a straight line basis if target is exceeded. (Note 2). The Remuneration Committee assessed that the performance criteria for this scheme was met. Payment was made in January 2015 and, as explained above, the amount was capped by the remaining proportion of the shared bonus cap (34.52% of salary).
David Rimmington	2014 LTIP	Share options. 41,800 share options awarded equal to 75% of basic salary using the share price at close of business on 19 May 2014. Options have a nil exercise price	£129,685 based on share price (310.25p) on date of grant (20 May 2014).	3 years – vesting date 31 December 2016.	**Total Shareholder Return** 50% of the award will vest subject to the TSR target being in a certain range, with the range being the ranking of the TSR of Chesnara against the TSR of the individual companies in the FTSE 350 Higher Yield Index. The award will be made on a sliding scale from nil if the Chesnara TSR is below the median to full if the Chesnara TSR is in the upper quartile. **EEV growth target** 50% of the award will vest subject to the EEV outcome being within a certain range of the Embedded Value target. The award will be made on a sliding scale with nil being paid out if the outcome is less than or equal to 89% of target, up to a maximum pay-out if the outcome is greater than or equal to 114% of target.
	2013 LTIP	Cash	–	3 years – vesting date 31 December 2015.	Based on achievement of a target share price at the end of 2015: Rewards on a sliding scale from 0% of basic annual salary on achievement of 75% of target to 21.05% of basic annual salary on achievement of target, continuing on a straight line basis if target is exceeded. (Note 2; Note 3).

Note 1 – The face value is reported as the estimate of the maximum potential value on vesting.

Note 2 – For the 2013 and 2012 LTIP, any payments, together with the annual bonus, would normally be capped, on award, at 100% of basic salary.

Note 3 – Any amounts vesting will be subject to a pro rata adjustment to reflect scheme entry part way through the year.

Note 4 – No awards are made if performance is below the minimum criteria.

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION REPORT (CONTINUED)

Payments for ceasing to hold office (audited information)

On 3 December 2014 Graham Kettleborough gave notice of his intention to resign from the Board and the Company. The Remuneration Committee is of the view that Graham considered the interests of the business in the timing of his resignation, which coincided with the successful conclusion of negotiations and a placing to acquire the Waard Group in the Netherlands, and the Company being in a position, through its succession plans, to have appointed a suitable successor. In the circumstances, the Remuneration Committee formed the view that the arrangements and payments set out below were in the interests of the Company and its shareholders and in line with the Company's Remuneration Policy and contractual agreements with Graham. The total amount for loss of office is as follows:

– Contractual remuneration entitlements to 31 March 2015: Graham to continue to receive normal pay and benefits under the terms of his service contract from 3 December 2014 to 31 March 2015.

– Payment in lieu of notice and awards from incentive plans: Graham will cease to be employed by the Company on 31 March 2015, and at that time he will receive a payment in lieu of his contractual remuneration entitlements for the remaining proportion of his twelve month notice period as set out in the table below. This table also shows how the Remuneration Committee ("Committee") has assessed the treatment of outstanding awards under the various incentive schemes in which Graham participates including where any discretion has been exercised and the amounts / value of such awards.

Description	Amount £	Explanation of how calculated
Pay in lieu of salary and benefits	276,214	This represents payment of basic salary (£221,317), accrued holidays (£23,352), pension contributions (£20,959) and other taxable / non-taxable benefits (£10,586) for the 8 months and 2 days of the remaining contractual notice period.
Use and loss of company car	8,200	This represents the value of the use of a company car between 31 March 2015 and 29 June 2015 and compensation for loss of use of a company car for the period 30 June 2015 to 2 December 2015.
2012 LTIP	99,775	This represents the value accrued under the 2012 LTIP. The Committee has exercised its discretion to determine that the award shall be retained in full. This is also captured in the "single figure earnings table" on page 70.
2014 Short-term incentive scheme	224,716	This represents the value accrued under the 2014 STI scheme. The Committee has exercised its discretion and determined that this award will be paid in cash with no deferral into shares. This is also captured in the "single figure earnings table" on page 70.
2014 Long-term incentive scheme	46,969	The Committee determined that Graham should retain a time rated proportion of the share options awarded to him under the 2014 LTI Scheme Award - 26,130 shares as compared with 78,390 originally granted. The Committee has assessed the performance of the measures under the Scheme against what the Committee consider to be fair proportionate performance targets as at 31 December 2014. Graham led, and was critical to, completion of the acquisition of the Waard Group and to the fund raising so, in making its performance assessment, the Committee has made an adjustment to the Embedded Value to reflect the positive effect that completion of the acquisition of the Waard Group is expected to have and for the timing of the acquisition expenses. As a result Graham will, on 31 March 2015, be awarded 13,065 shares. The Committee also determined that the options will remain exercisable until 30 November 2015 and in accordance with the Scheme Rules an amount in respect of dividends with interest thereon will be payable when the options are exercised. The value shown in based on the share price on 24 March 2015 (359.50 pence).
Total	**655,874**	

The Company paid £1,000 on behalf of Graham in respect of legal services received in relation to his cessation of office.

Statement of Directors' shareholding and share interests (audited information)

The Remuneration policy, which was effective from the 2014 AGM, requires Executive Directors to hold shares to the value of their basic salary. Directors may dispose of shares even when the minimum holding level has not been achieved where funds are required to discharge any income tax and National Insurance liabilities arising from awards received from a Chesnara incentive plan.

The table below shows, in relation to each Director, the total number of share interests with and without performance conditions, the total number of share options with and without performance measures, those vested but unexercised and those exercised at 31 December 2014 or the date of resignation.

The share options that were exercised during the year relate to the maturity of the "save as you earn" scheme that was instigated in 2011 and matured in 2014. The option price of the shares in the save as you earn scheme was 173.4p per share.

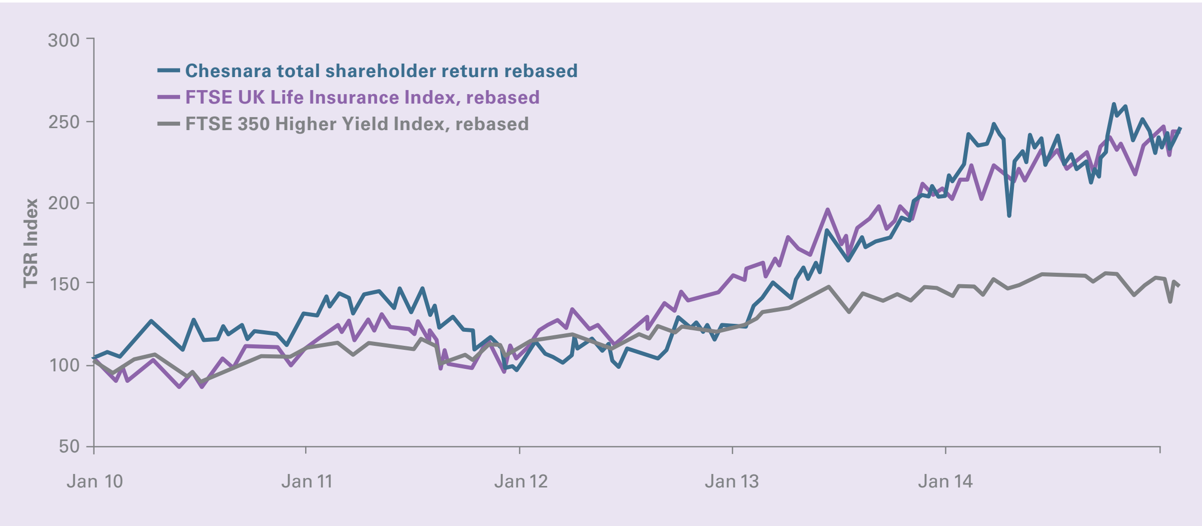
No changes took place in the interests of the Directors between 31 December 2014 and 30 March 2015.

Name of Director	Shares		Options			
	With performance measures	Without performance measures	With performance measures	Without performance measures*	Vested but unexercised	Exercised during the year
Graham Kettleborough (ceased to be being a Director on 31 December 2014)	–	87,512	26,130	–	–	5,190
John Deane (appointed on 3 December 2014)	–	9,677	–	–	–	–
David Rimmington	–	8,048	41,800	–	–	5,190
Frank Hughes	–	12,123	48,443	–	–	5,190
Peter Mason	–	21,743	–	–	–	–
Peter Wright	–	70,000	–	–	–	–
Veronica Oak						
Veronica Oak (née France)	–	2,000	–	–	–	–
David Brand	–	3,000	–	–	–	–
Mike Evans	–	6,452	–	–	–	–
Total	**–**	**220,555**	**116,373**	**–**	**–**	**15,570**

*The "options without performance measures" column in the above table does not include the share options that will be awarded as part of the mandatory deferral rules of the 2014 STI Scheme, which equate to 35% of the cash award under this scheme. The timetable for the administration of the Scheme means that these will be reported in the 2015 Annual Report & Accounts.

Performance graph and CEO remuneration table

The following graph shows the Company's performance compared with the performance of the FTSE 350 Higher Yield Index and the FTSE UK Life Insurance Index. The FTSE 350 Higher Yield Index has been selected as a comparison because it is the index used by the Company for the performance criterion for the 2014 and 2015 Long-term Incentive Scheme, and the FTSE UK Life Insurance Index has been selected due to Chesnara's inclusion within this index.



DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION REPORT (CONTINUED)

Performance graph and CEO remuneration table (continued)

The table below sets out the details for the Director undertaking the role of Chief Executive Officer (Graham Kettleborough):

Year	CEO single figure of total remuneration £000	Annual bonus pay-out against maximum %	Long-term incentive vesting rates against maximum opportunity %	Note
2014	712	91.30%	34.52%	1
2013	702	100.00%	n/a	2
2012	612	65.48%	100.00%	3
2011	384	17.39%	n/a	4
2010	631	100.00%	n/a	4

Note 1 – During 2014 an LTIP that was granted to the CEO in 2012 vested. The LTIP included a condition such that the sum of the LTIPs and annual bonuses awarded in that year could not exceed 100% of the CEO's salary. The annual bonus in 2012 amounted to 65.48% of salary. When the performance measurements for the 2012 LTIP were assessed, the award was required to be restricted due to the operation of the 100% cap combined cap, such that the 2012 LTIP paid out 34.52% of the salary at the time of award.

During 2014 the annual bonus that was awarded represented 70% of the CEO's salary. The maximum payable was 75% of the CEO's salary, resulting in a 91.30% pay-out with reference to the maximum potential award.

Note 2 – During 2013 no LTIP value was earned because the annual bonus in isolation has accounted for the full 100% combined bonus cap.

Note 3 – The vesting percentage in 2012 within the Long-term incentive column does not relate to a formal LTIP scheme. It relates to a discretionary supplementary scheme established in 2009 to recognise the value added to the Group from the acquisition of Movestic. The amount vesting has been classified in the LTIP column due to the fact its award was subject to certain future performance criteria being achieved. That scheme has generated the maximum potential value of £75,000 in 2012. The formal 2012 LTIP scheme has contributed no value to the total single remuneration figure as it does not vest until performance criteria have been achieved in 2014.

Note 4 – Prior to 2012 the LTIP schemes were in fact better characterised as deferred annual bonus schemes. As such they are classified within the annual bonus value and any value is included in the annual bonus pay-out against maximum percentage.

Percentage change in remuneration for Director undertaking the role of Chief Executive Officer

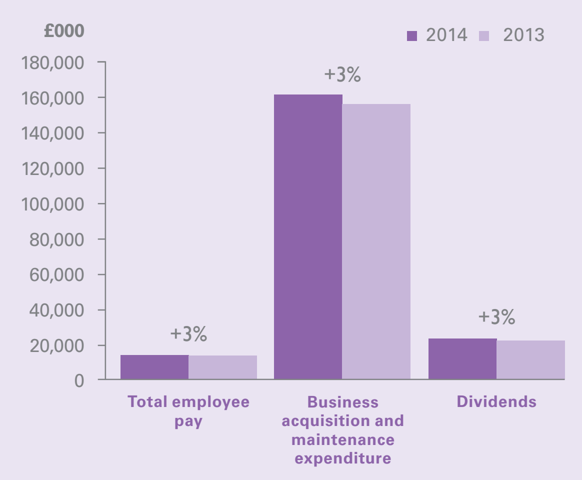
The table below shows the percentage change in remuneration for the Director undertaking the role of Chief Executive Officer and the Company's employees as a whole between the years 2014 and 2013.

Percentage change in remuneration in 2014 compared with 2013	CEO	Group employees
Salary and fees	2.50%	1.55%
All taxable benefits	(0.06)%	(3.02)%
Annual bonuses	(29.82)%	(5.07)%

Relative importance of spend on pay

The graph to the right shows the actual expenditure of the Group and change between the current and previous years:

Due to Chesnara adopting a strategy of outsourcing much of its activities the level of total employee pay is relatively low in comparison to dividends. In addition, the graph shows a comparison with the Group's total acquisition and maintenance expenditure. As can be seen, the total employee pay is relatively small against our overall cost base.



Statement of Implementation of Remuneration Policy in the following financial year

The current Remuneration Policy took effect following approval at the 2014 AGM.

Salaries and fees

Will be set in accordance with the Company's Remuneration Policy (see pages 62 to 69).

2015 Short-Term Incentive (STI) scheme

In 2015 the Remuneration Committee proposes to grant awards to the Executive Directors under the Chesnara 2014 Remuneration Policy. The table below and accompanying notes set out the performance measures, weightings and the potential outcomes for achieving minimum, on-target and maximum performance. The actual targets for each measure are commercially sensitive and will not be disclosed until 2016 together with the actual performance against those targets.

Measures	Weightings	Ranges and targets			Potential outcomes in terms of % of basic salary		
		Minimum achievement (as % of target)	Target achievement	Max achievement (as % of target)	Minimum achievement	Target achievement	Max achievement
IFRS pre-tax profit	50%	75%	Target	200%	–	11.25%	37.50%
EEV operating profit	30%	90%	Target	150%	–	9.60%	22.50%
Group strategic objectives	20%	75%	Target	125%	–	7.50%	15.00%

The 2015 STI Scheme will be implemented and operated by the Remuneration Committee as set out within the Remuneration Policy (see the Future Policy table on pages 64 to 66 and its accompanying notes).

Measures

The three measures selected by the Remuneration Committee for 2015 ensure a balance between aligning Executive Director remuneration to shareholder returns whilst also recognising measures over which the Directors can exercise more immediate and direct influence. The IFRS pre-tax profit and EEV operating profit are recognised outputs from the audited year-end Financial Statements, although it should be noted that the Remuneration Committee is able to make discretionary adjustments if deemed necessary. The objectives assigned to each Executive Director are relevant to their roles and include major regulatory or business development initiatives for 2015 that the Committee considers key to delivery of the Company's business plan. Each individual development objective is assigned a "significance weighting" influenced by factors such as business criticality, scale, complexity and level of Executive Director influence. Developments with a higher significance are weighted more heavily when establishing the overall performance target.

Weightings

The weightings have been set by the Remuneration Committee. The financial measures that align most directly to shareholder benefit are generally assigned a higher weighting.

Targets

The IFRS pre-tax profit and EEV operating profit targets are initially based on the 2015 budgets produced as part of the 2015 Group business planning process. The Group business plan is subject to rigorous Chesnara Board scrutiny and approval. The Remuneration Committee can make discretionary adjustments to either the targets or to the actual results for the year if it considers this to be appropriate.

Malus and Clawback

This Scheme includes malus and clawback provisions covering material misstatement, assessment error and misconduct if this arises within two years of an award vesting.

DIRECTORS' REMUNERATION REPORT

ANNUAL REMUNERATION REPORT (CONTINUED)

2015 Long-Term Incentive (LTI) scheme

In 2015 the Remuneration Committee proposes to grant awards to the Executive Directors under the Chesnara 2014 Long-Term Incentive Scheme. The table below and accompanying notes set out the performance measures, weightings and the potential outcomes relative to achieving minimum, on-target and maximum performance. The actual EEV target is commercially sensitive and will not be disclosed until 2018 together with the actual performance against those targets.

Measures	Weightings	Ranges and targets			Potential outcomes in terms of % of basic salary		
		Minimum achievement (as % of target)	Target achievement	Max achievement (as % of target)	Minimum achievement	Target achievement	Max achievement
TSR	50%	<Median	Median	Upper quartile	nil	9.4%	37.5%
EEV	50%	≤89%	Target	114%	nil	12.5%	37.5%

The 2015 LTI Scheme will be implemented and operated by the Remuneration Committee as set out within the Remuneration Policy (see the Future Policy table on pages 64 to 66, and its accompanying notes).

Measures

The two performance measures for the 2015 LTI Scheme award use performance against the constituents of an index and an internal target. The external measure compares the 3 year TSR of Chesnara plc with the TSR of the companies comprising the FTSE 350 Higher Yield Index with averaging over the first and last calendar months. The internal measure assesses Embedded Value growth compared to Board approved target projections. Both measures seek to ensure an alignment between Executive Director reward and shareholder value, with one assessing relative performance to other investment opportunities and the other assessing absolute performance. Both measures are based on a three year performance period ending 31 December 2017.

Weightings

For the 2015 award the two measures have been assigned equal weighting.

Targets

TSR: The Remuneration Committee proposes that the constituents of the FTSE 350 Higher Yield Index represents the most appropriate peer group for assessing the relative TSR performance. The award equates to 9.4% of salary for achieving median performance increasing on a straight line basis to 37.5% of salary for upper quartile performance.

EEV: The Embedded Value target is an output from the Chesnara business plan process. The figure is therefore subject to Group Board challenge and approval. The projections assume a realistic expectation for investment returns and incorporate challenging expectations for new business value from Movestic. The Remuneration Committee can make discretionary adjustments to either the target or to the actual result for the year if it considers this to be appropriate.

Malus and Clawback

This Scheme includes malus and clawback provisions covering material misstatement, assessment error and misconduct if this arises within two years of an award vesting.

Consideration by the Directors of matters relating to Directors' remuneration

In accordance with its Terms of Reference, which can be viewed on the Company's website, the Remuneration Committee considered matters relating to Directors' Remuneration at each of its meetings in 2014. Members of the Remuneration Committee during the course of the year were:

Committee members	Notes relating to role / tenure on the Committee
Veronica Oak (née France)	Committee Chairman
Peter Mason	Committee member
Mike Evans	Committee member

By invitation, the Chief Executive attended the Remuneration Committees held, but was not present when matters relating to his own remuneration were discussed.

The Committee does not retain the services of external advisers. However, during the year, the Committee received the following external advice:

- KPMG were used to support designing the new Short Term and Long Term Incentive Schemes that were implemented in 2014 and also advised on the 2014 Remuneration Policy. This was paid for in early 2014 although the majority of the service was provided during the 2013 financial year. The total fee amounted to £26,455.
- During 2013 and into 2014 PwC advised on the drafting of the two new Executive Director incentive schemes. Chesnara paid £23,750 for this.
- During the year PwC advised in relation to amendments that were made to both the Long-Term and Short-Term Incentive Schemes to cater for the new Financial Reporting Council requirements in relation to clawback terms, for which Chesnara was charged £3,500.
- PwC advised on the drafting of contracts in connection with the departure of Graham Kettleborough and the recruitment of John Deane, for which Chesnara paid £29,800.

Statement of voting at general meeting

The Group is committed to on-going shareholder dialogue and takes an active interest in voting outcomes. Where there are substantial votes against resolutions in relation to Directors' remuneration, the reasons for any such vote will be sought.

The following table sets out actual voting in respect of the approval of the 2013 Policy report and Remuneration report:

Report	Number of votes cast for	Percentage of votes cast for	Number of votes cast against	Percentage of votes cast against	Total votes cast	Number of votes withheld
Remuneration Report	60,102,583	98.67%	810,268	1.33%	60,912,851	56,032
Policy Report	60,059,435	98.60%	852,148	1.40%	60,911,583	57,300

Approval

This report was approved by the Board of Directors on 30 March 2015 and signed on its behalf by:

Veronica Oak (née France)
Remuneration Committee Chairman

AUDIT & RISK COMMITTEE REPORT

The Audit & Risk Committee has continued to provide oversight and challenge to support key judgments made by Management and the Board during the year.

Role and composition

During the year the Audit & Risk Committee has comprised Peter Wright (Chairman), Veronica Oak (née France), David Brand and Mike Evans. The qualifications of each member of the Committee are included on page 53. On invitation, the Group Chairman, the Chief Executive, the Finance Director, the Business Services Director (whose role includes risk reporting), the Group Actuary, the Head of UK Internal Audit, the consulting firm which provides internal audit services to Movestic and the external Auditor attends meetings to assist the Committee in the fulfilment of its duties. The Committee met six times during the year ended 31 December 2014.

The role of the Audit & Risk Committee includes assisting the Board in discharging its duties and responsibilities for financial reporting, corporate governance and internal control. The scope of its responsibilities also includes focus on risk and risk management: accordingly it also assists the Board in fulfilling its obligations in this regard. The Committee is also responsible for making recommendations to the Board in relation to the appointment, re-appointment and removal of the external Auditor. The Committee's duties include keeping under review the scope and results of the audit work, its cost effectiveness and the independence and objectivity of the external Auditor. The full terms of reference of the Audit & Risk Committee are available on our website **www.chesnara.co.uk**

Activity

During the period under review, the Audit & Risk Committee has formally reported to the Board on how it has discharged its responsibilities. This has included:

- providing guidance to the Board in respect of the acquisition of the Waard Group;
- providing oversight with regards to a transfer of actuarial services from HCL to Towers Watson;
- reviewing the Group's draft Financial Statements prior to Board approval and reviewing the external Auditor's detailed reports thereon, in respect of the half year ended 30 June 2014 and the year ended 31 December 2014;
- reviewing the appropriateness of the Group's accounting policies;
- provide guidance with respect to the annual financial statements being fair, balanced and understandable;
- reviewing the provision of supplementary reporting of financial information in accordance with European Embedded Value principles, including the methodology undertaken and the assumptions adopted;
- reviewing the periodic reports relating to the continuing appropriateness of preparing the Group IFRS Financial Statements on a going concern basis, having due regard for the integrity of the underlying assumptions and appropriateness of the different stress scenarios which test these assumptions;
- reviewing and approving the audit fee estimates and reviewing and approving the audit and non-audit fees, in conjunction with an assessment of external Auditor performance;
- reviewing the external Auditor plan for the audit of the Group's Financial Statements which included an assessment of key risks and confirmation of Auditor independence;
- reviewing and approving internal audit plans for the internal audit of the Group's internal controls, embracing operating, financial and business controls;
- reviewing an annual report on the Group's systems of risk management and internal control and their effectiveness and reporting to the Board on the results of the review;
- reviewing regular reports from the internal audit functions;
- reviewing the internal audit arrangements for Movestic;
- meeting the Head of UK Internal Audit without an Executive Director or a member of the Company's senior management being present;
- reviewing quarterly reports by Executive Management on the identification, evaluation and management of key risks, embracing the Company, CA plc, PL and Movestic;
- meeting the external Auditor without an Executive Director or a member of the Company's senior management being present;
- reviewing the nature and volume of non-audit services provided by the external Auditor to ensure that a balance is maintained between objectivity and value added; and
- reviewing the Group's policies and procedures relating to fraud, whistle-blowing and employment of ex-employees of the external Auditor.

In addition to the above, Committee members have detailed knowledge of CA plc's risk management processes by virtue of their common membership of the CA plc Risk Committee, which reports to the CA plc Board, CA plc being subject to the PRA/FCA Risk and Responsibility regime.

Key issues
During the period under review the following issues have arisen, which have required careful consideration and exercise of judgement by the Committee:

With-profits guarantees
The S&P segment of business contains some with-profits contracts with guarantees. For EEV reporting the cost of these guarantees is assessed on a market-consistent basis which attempts to reproduce the theoretical cost of hedging out the risks associated with them. This in turn requires stochastic modelling of future equity prices and bond yields based on assumptions for the volatilities of these variables consistent with those which underlie option pricing at the valuation date as well as assumptions regarding future investment policy and costs of guarantees charged to policyholders. There is some judgement required in setting these volatilities although they are obtained from an external source.

During the year a new calculation model was implemented that enhances the accuracy of the estimated policyholder guarantee costs by removing certain data groupings. Historically, for IFRS reporting purposes the cost of with-profits guarantees has been set at 110% of the equivalent cost for EEV reporting. This was largely because, for IFRS reporting purposes, it was felt necessary to add in a margin of prudence as a result of the use of the way input data was grouped in the old model. The new model utilises more granular data inputs, which has lead to a greater degree of confidence in the model. It has also increased the calculated cost by a small amount. As a result the IFRS reserves are now set at 100% of the equivalent EEV cost.

Over the year the reducing bond yields, flat equity prices and increased equity volatilities have all combined to increase the cost of guarantees by a material amount.

Allowance for non-market non-diversifiable risks
In the EEV the rate of interest used to discount shareholder cash flows is subject to an addition to cover non-market risks which are not diversifiable. This addition was set at 0.5% pa for CA plc and 1.0% pa for Movestic at the start of the financial year.

During the year the ongoing application of the non-market risk allowances quoted above was considered. This consideration included comparison with those used by other industry participants. It was concluded that it remains appropriate for the add-ons to be set at 0.5% and 1.0% for CA plc and Movestic respectively.

Allowance for credit risk when setting valuation rate of interest
For UK IFRS reporting the valuation rate of interest used for discounting policyholder liabilities makes an explicit allowance for credit risk. The company adopts a formula for determining this based on the credit rating of each asset and its yield spread over an equivalent gilt edged stock. The overall yield on any asset after this formulaic deduction is then subject to a cap which, at the start of the year, was 1.5%.

During 2014 spreads above the UK Government bonds generally fell over the first half of the year, although the latter half of the year saw small increases on lower rated bonds. These economic factors have been considered in setting the valuation interest rate across the range of quality of corporate bonds backing our insurance liabilities. As part of the assumption setting process the 1.5% cap was reviewed and it was concluded that it remains appropriate to keep it at this amount. The output from this process has also been compared with an externally produced survey of equivalent adjustments used by other industry participants.

As part of discharging its responsibilities in this area the Committee has reviewed the basis report supporting this decision.

Waard Group acquisition
During the year Chesnara announced the purchase of the Waard Group, an insurance Group based in the Netherlands. At 31 December 2014 the purchase had not completed, and is expected to complete during 2015. The decision to make the purchase was supported by a due diligence process across a number of different work streams, which was delivered by a combination of Chesnara management and external advisers. The Committee's role during the acquisition process was to oversee and challenge the due diligence process to support the Board in making its decision, focusing on both the due diligence scope and any key findings that arose as part of the delivery of the due diligence. The Committee also had oversight over the shareholder announcements that were made in relation to the acquisition and has also reviewed a paper supporting the required disclosures in regard to the Waard Group purchase in the 2014 Annual Report & Accounts.

Transfer of provision of actuarial services
During the year the outsourced actuarial services provided by HCL were transferred to Towers Watson. The process of transferring outsourced partners is an area of operational change that has the potential to increase the risk associated with the outsourcing model.

The Committee reviewed and challenged the initial project scoping and transfer of services implementation plans, key outputs as project milestones were achieved, and the documentary support for the "go live" decision. The Committee received regular updates from the Steering Committee that was set up to oversee and deliver the project.

Share based payments
At the 2014 Annual General Meeting our shareholders approved the implementation of Chesnara's new Remuneration Policy (see pages 62 to 79). The policy includes the introduction of new long-term and short-term incentive schemes which include components of compensation being made in shares. The IFRS accounting and disclosure requirements of the new schemes are governed by IFRS 2 "Share based payment".

The accounting and disclosure requirements were presented to the Committee during the year and the Committee has given specific attention to the disclosures as included in Note 47 to the IFRS Financial Statements

The Committee reviewed for reasonableness the input assumptions and the output of the elements of the schemes which require stochastic modelling.

AUDIT & RISK COMMITTEE REPORT (CONTINUED)

Key issues (continued)

Bonus units allocations
During the year a change was made regarding the way in which future bonus units are allocated to policyholders in the CA book of business, to ensure they remain in line with the underlying policy terms and conditions. This change resulted in a requirement for Management to update the assumptions within the actuarial reserving and EEV models.

The Committee considered whether the change in practice was in accordance with both policy conditions and TCF as well as considering the reasonableness of the resultant release of liability on both IFRS and EEV bases.

External Auditor

Effectiveness of the audit process
The Committee has assessed the effectiveness of the external audit process. This assessment has had regard to the following factors:

– The quality of the background papers and verbal presentations to the Committee on the audit planning process, interim and final audit findings and compliance with independence criteria. The current audit engagement partner was appointed during 2010 and will stand down by rotation following the completion of the audit for the 2014 year end;

– The rationale put forward for the materiality limits established and the explanation given of the impact these have had on the work performed;

– The views of the Executive on the way in which the audit has been conducted, which are collated by means of a formal questionnaire approved by the Committee;

– The report produced by the Financial Reporting Council dated May 2014 entitled "Deloitte LLP Audit Quality Inspection" in conjunction with the report "Audit Quality Inspection Annual Report 2013/14", dated 28 May 2014. The Deloitte specific report was discussed with the auditor although we understand that the Chesnara plc audit was not in the population of those inspected; and

– The audit fees charged and the change in fees from the previous year. Changes in annual fees do, of course, need to reflect change in the nature.

It was concluded that the audit process was effective. In view of the tenure of the current auditor, who was appointed in 2009 following a tendering process, it is recommended that the auditor be re-appointed. The Company is committed to putting its audit out to tender at least every ten years. In the past there have been no contractual restrictions on which firms may be invited to tender but the nature of the company's business (life assurance) and its geographical scope do, in practice, limit the choice of firm to those with substantial life actuarial expertise and some international reach.

Provision of non-audit services and independence
The Committee has in place a policy on the engagement of the audit firm for non-audit services. Automatic approval is granted where the service is clearly related to the process of audit services including the review of embedded value results and regulatory returns. In other cases the approval of the Committee is required, where generally the engagement would result from a tendering process where the audit firm was considered to be clearly superior to any of the other firms invited to tender. Exceptionally, however, in an acquisition process time pressures may make a tendering process impractical and/or conflicts of interest may preclude other suitable firms from being engaged. In these special circumstances the Committee (or its Chairman alone where time pressures are very great) may approve the engagement of the auditor. Such a situation did arise in 2014 during the purchase of the Waard Group, where Deloitte did carry out some due diligence work; both time pressures and conflicts of interest with other potential providers were present.

The Committee regularly monitors the level of fees paid for non-audit services to ensure, over a period of years, that these represent a low proportion of total fees paid. Reports from the auditor on independence are also reviewed annually and discussed with the auditor. It should be noted that total fees paid by the company are not material in the context of the overall business of the auditor.

Details of the fees paid to the external Auditor, and its associates, for both audit and non-audit services during the year are provided in Note 14 to the IFRS Financial Statements.

DIRECTORS' REPORT

Chesnara plc - Company No. 4947166
The Directors present their Annual Report and the audited consolidated financial statements of Chesnara plc ('Chesnara') for the year ended 31 December 2014. The Corporate Governance Report on pagepages 55 to 59 forms part of the Directors' Report.

The following information, that has been included by way of a cross reference to other areas of the Report & Accounts, is required by the Companies Act to be included within the Directors' report:

Requirements/reference

Financial risk management objectives and policies
The "Financial management" section on pages 40 to 45 and the "Risk management" section on pages 44 to 46.

Exposure to price risk, credit risk, liquidity risk and cash flow risk
Note 6 "Management of financial risk" to the IFRS Financial Statements.

Likely future developments
The "Business review" section on pages 18 to 27.

Greenhouse gas reporting
The "Corporate and social responsibility" section on pages 48 and 49.

Environmental, employee and social community matters
The "Corporate and social responsibility" section on pages 48 and 49.

Results and dividends

The Group consolidated statement of comprehensive income for the year ended 31 December 2014, prepared in accordance with International Financial Reporting Standards and set out on page 91 shows:

	2014 £000	2013 £000
Profit for year attributable to shareholders	25,575	49,363

An interim dividend of 6.42p per ordinary share was paid by Chesnara on 15 October 2014. The Board recommends payment of a final dividend of 11.98p per ordinary share on 22 May 2015 to shareholders on the register at the close of business on 10 April 2015.

Directors

Full details of the Directors who served in 2014 and will serve in 2015 is detailed in Corporate Governance Report on pages 55 to 59. Details of the Non-executive Directors who served as Chairmen and members of the Nominations and Audit & Risk Committees of the Board are set out in the Corporate Governance Report and Audit & Risk Committee reports respectively on pages 55 to 59 and 80 to 82. Information in respect of the Chairman and members of the Remuneration Committee and in respect of Directors' service contracts is included in the Remuneration Report on pages 60 to 79, which also includes details of Directors' interests in shares and share options.

All the Non-executive Directors will retire at the Annual General Meeting and, being eligible, offer themselves for re-election. All the Executive Directors have service contracts with the Company of no more than one year's duration and will offer themselves for re-election at least every three years. The service contracts of all the Directors will be available for inspection for 15 minutes prior to the Annual General Meeting. In addition, no Director had any material interest in any significant contract with the Company or with any of the subsidiary companies during the year.

The Directors benefited from qualifying third party indemnity provisions in place during the years ended 31 December 2013 and 31 December 2014 and the period to 30 March 2015.

Share capital

Details of the issued share capital, together with details of movements in the issued share capital of Chesnara plc during the year are shown in Note 42 to the IFRS Financial Statements which is incorporated by reference and deemed to be part of this report.

The Company has one class of ordinary share which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The ordinary shares are listed on the Official List and traded on the London Stock Exchange. As at 31 December 2014, the Company had 126,552,427 ordinary shares in issue, of which 154,031 were held as treasury shares. This is presented after 11,504,765 new shares that were issued on 5 December 2014 to part fund the acquisition of the Waard Group, which is expected to complete during 2015.

In order to retain maximum flexibility, the Company proposes to renew the authority granted by ordinary shareholders at the Annual General Meeting in 2014, to repurchase up to just under 10% of its issued share capital. Further details are provided in the Notice of this year's Annual General Meeting.

At the Annual General Meeting in 2014, shareholders approved resolutions to allot shares up to an aggregate nominal value of £3,828,066 and to allot shares for cash other than pro rata to existing shareholders. Resolutions will be proposed at this year's Annual General Meeting to renew these authorities.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid. There are no specific restrictions on the size of holding nor on the transfer of shares which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or voting rights. The Directors have no current plans to issue shares.

Director appointments

With regard to the appointment and replacement of Directors, the Company follows the UK Corporate Governance Code and is governed by its Articles of Association, the Companies Act 2006 and related legislation. The Articles of Association may be amended by special resolution of the shareholders.

DIRECTORS' REPORT (CONTINUED)

Substantial shareholdings

The following substantial interests in the Company's ordinary share capital at 31 December 2014 have been notified to the Company:

Name of substantial shareholder	Total number of ordinary shares held	Percentage of the issued share capital as at 31 December 2014
Amerprise Financial, Inc. (Threadneedle Asset Management)	13,638,820	10.79
Artemis Investment Management LLP	5,730,793	4.53
Standard Life Investments Limited	5,941,119	4.70
Legal and General Group	4,130,698	3.27

Subsequent to 31 December 2014 there have been changes to this position and the holdings as at 25 March 2015 are shown below. No other person holds a notifiable interest in the issued share capital of the Company.

Name of substantial shareholder	Total number of ordinary shares held	Percentage of the issued share capital as at 25 March 2015
Amerprise Financial, Inc. (Threadneedle Asset Management)	13,638,820	10.79
Artemis Investment Management LLP	5,730,793	4.53
Standard Life Investments Limited	7,729,369	6.12
Legal and General Group	4,130,698	3.27

There were no significant contracts with substantial shareholders during the year.

Charitable donations made by Group companies during the year ended 31 December 2014 were £nil (2013: £nil). No political contributions were made during the year ended 31 December 2014 (2013: £nil).

Employees

The average number of employees during the year was 150 (2013: 146).

Employee involvement

The Group believes that employee communication and consultation is important in enhancing the Company culture and connectivity, and in motivating and retaining employees. An open communications programme enables all employees to understand key strategies and other matters of interest and importance, quickly and efficiently. The communication includes face-to-face briefings, open discussion forums with senior management and email.

Going concern statement

After making appropriate enquiries, the Directors confirm that they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements as stated in Note 2(c) to the IFRS Financial Statements. Detailed analysis of relevant risks and other factors is included within the Risk Management section on pages 44 to 46, within the Financial Management Section on pages 40 to 45 and within Notes 5 and 6 to the IFRS Financial Statements.

Disclosure of information to Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information. This information is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

A resolution for the re-appointment of Deloitte LLP as Auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board on 30 March 2015 and signed on its behalf by:

David Rimmington
Group Finance Director

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the Annual 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 the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

Peter Mason	John Deane
Chairman	Chief Executive Officer
30 March 2015	30 March 2015

SECTION D

IFRS FINANCIAL STATEMENTS

IN THIS SECTION

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESNARA PLC

Opinion on financial statements of Chesnara plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Cash Flows, the Consolidated and Company Statements of Changes in Equity and the related notes 1 to 53. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Going concern

As required by the Listing Rules we have reviewed the directors' statement contained within the Directors' Report on page 84 that the Group is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

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

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Save and Prosper cost of guarantees The assessment of the cost of guarantee reserves in respect of policies written by Save and Prosper is complex and material, including the use of a stochastic model based on a variety of possible economic scenarios, on which we note enhancements have been made in the current year. The liability, as recorded in the financial statements, is determined by a third party actuarial consultant. See Note 3(g) for management's consideration of critical accounting judgment and key sources of estimation and uncertainty. The Directors, to assess its reasonableness, compare this valuation against an in-house derived estimate using an approximation model.	We have assessed the competence of the actuarial consultant. We used actuarial specialists within our audit team to assist us with the challenge of the appropriateness of assumptions input into the model, by benchmarking to external actuarial data. Where appropriate, sensitivity analysis was also performed to assess potential management bias. We developed an independent expectation of how the assumptions would impact the model and challenged management's explanation and analysis to support such variations. We have assessed the design and implementation of the internal controls put in place to monitor and manage the risks associated with the Cost of Guarantee reserve.
Valuation of the Movestic acquired in-force business intangible At the year-end date the Group carries an intangible asset in relation to the Movestic acquired in-force business of £40.2m (2013: £49.9m). The accounting policy adopted by the Group is documented within Note 2(o) to the financial statements. Assessing the recoverable value of the intangible acquired in-force business requires significant judgment in relation to estimation of the net present value of cash flows arising from pre-acquisition policies acquired in past business combinations.	We evaluated the recoverability of the Movestic acquired in-force business intangible asset by reviewing the mechanical accuracy of the net present value calculation, the level of headroom this calculation generated by reference to the carrying value of the asset and by challenging the appropriateness of the key assumptions used within the model. This included verifying that the cash flows used were the latest available cash flows and were used consistently throughout the business; assessment of key assumptions such as persistency rates for reasonableness; and performance of sensitivity analysis, for example in relation to discount rates applied in the calculation. We have assessed the design and implementation of the impairment test performed by management.
Valuation rate of interest adjustments The determination of the valuation rate of interest applied in discounting the actuarial liabilities requires significant judgment particularly in relation to credit risk adjustments applied to non-government bond yields.	We evaluated the appropriateness of the principal assumptions used in the calculation of the valuation rate of interest for discounting the technical provisions including any credit risk adjustments. This involved benchmarking the assumptions used against those obtained from external data, including a comparison to those adopted by Industry peers, where available. We have evaluated the design and implementation of the internal controls in place around the determination of the valuation rate of interest applied in discounting the actuarial liabilities.

Risk	How the scope of our audit responded to the risk
Transfer of the provision of actuarial services Although ownership of the determination of actuarial provisions remains with Chesnara's management, much of the process is outsourced to third parties. In the period some of these outsourced services changed provider. The transfer of actuarial process has inherent risk due to the high level of interaction between Chesnara and the incoming and outgoing service provider. The technical provisions are complex and require a significant level of judgment to be applied in the calculation. The transfer of this existing knowledge and the judgments involved in the process lead to a risk that the technical provisions are calculated on an inappropriate basis.	We have evaluated the material judgments incorporated within the new reserving model and have challenged the reasons for any material differences in specific reserves between the old model and new model as at a previous balance sheet date. We evaluated the design and implementation of the controls in place around the amended reserving process with focus on the controls in place around the data extraction process and the maintenance of the projection model.
Allocation of bonus units Due to the forward looking nature and number of dependencies, the allocation of bonus units is complex and requires judgment to be applied in ensuring the reserving policy is in line with the underlying policy documentation. A change has been made in the current period around the assumption of future bonus unit allocation in the City of Westminster Assurance book (see pages 31 and 36 for management's commentary) to ensure the operational process in reserving for bonus units is in accordance with the terms and conditions of the underlying policies. This impacts the IFRS technical reserves by £3.4m.	We have evaluated the calculation of the change in technical provisions and assessed whether it is consistent with the operational application of the underlying terms for the specific product. We have challenged the completeness and accuracy of the data used within the calculation, specifically evaluating whether any other products have been sold that have a similar bonus allocation and whether these are allocated in accordance with policy terms. We have evaluated the design and implementation of the internal controls supporting the current period change in assumption of future bonus unit allocation.

Last year our report included two other risks which are not included in our report this year: Policy administration expense assumptions (the contract relating to outsourcing activity which gave rise to the expense assumption uncertainty has been signed in the period) and fair value accounting for the Protection Life acquisition (the acquisition was completed at the last year-end date and no changes have been made to the fair values determined). Our current report includes two new risks for the current year which were not included last year: Transfer of the provision of actuarial services (as the services were transferred in the current year) and allocation of bonus units (as the change in assumption has been made in the current year).

The description of risks above should be read in conjunction with the significant issues considered by the Audit & Risk Committee discussed on pages 80 to 82.

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

Our application of materiality

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

We determined materiality for the company to be £6.9m (2013: £6.3m), which is below 3% of net assets (2013: 3%).

We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £138,400 (2013: £118,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement.

Our Group audit scope focussed primarily on the audit work at the 5 (2013: 5) principal locations where the Group's policies are administered and which are underwritten by Countrywide Assured plc, Protection Life Company Limited and Movestic Livförsäkring AB being the underwriting entities within the Group. All of these components were subject to a full audit, with statutory audits performed for the legal entities at levels of materiality applicable to each individual entity which were lower than Group materiality. These ranged from £1,070,000 to £4,700,000 (2013: £1,110,000 to £4,050,000).

The group audit team performed the audit work directly at 4 of the 5 locations and at the remaining location continued to direct the work of the overseas audit team and to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor or his designate visits this location at least once a year.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESNARA PLC (CONTINUED)

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' Remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement
Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

David Heaton (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
30 March 2015

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Note	2014 £000	2013 £000
Insurance premium revenue		128,384	109,938
Insurance premium ceded to reinsurers		(51,646)	(35,469)
Net insurance premium revenue		**76,738**	**74,469**
Fee and commission income	8	66,592	69,990
Net investment return	9	430,673	567,463
Total revenue net of reinsurance payable		**574,003**	**711,922**
Other operating income	10	23,624	22,270
Total income net of investment return		**597,627**	**734,192**
Insurance contract claims and benefits incurred			
Claims and benefits paid to insurance contract holders	11	(303,521)	(281,800)
Net decrease/(increase) in insurance contract provisions	11	39,676	(62,249)
Reinsurers' share of claims and benefits	11	44,627	57,004
Net insurance contract claims and benefits		(219,218)	(287,045)
Change in investment contract liabilities	12	(267,140)	(320,132)
Reinsurers' share of investment contract liabilities	12	2,272	5,568
Net change in investment contract liabilities		(264,868)	(314,564)
Fees, commission and other acquisition costs	13	(21,707)	(19,450)
Administrative expenses	14	(42,494)	(38,761)
Other operating expenses			
Charge for amortisation of acquired value of in-force business	15	(9,281)	(7,530)
Charge for amortisation of acquired value of customer relationships	15	(263)	(301)
Other	15	(8,840)	(6,483)
Total expenses net of change in insurance contract provisions and investment contract liabilities		**(566,671)**	**(674,134)**
Total income less expenses		**30,956**	**60,058**
Share of profit of associate	23	855	1,252
Profit recognised on business combination		–	2,807
Financing costs	16	(3,008)	(3,527)
Profit before income taxes	7	**28,803**	**60,590**
Income tax expense	17	(3,228)	(11,227)
Profit for the year	7	**25,575**	**49,363**
Foreign exchange translation differences arising on the revaluation of foreign operations		(7,844)	(516)
Total comprehensive income for the year		**17,731**	**48,847**
Basic earnings per share (based on profit for the year)	48	22.10p	42.98p
Diluted earnings per share (based on profit for the year)	48	22.08p	42.98p

The notes and information on pages 98 to 173 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

31 December	Note	2014 £000	2013 £000
Assets			
Intangible assets			
Deferred acquisition costs	18	31,298	28,162
Acquired value of in-force business	19	73,469	88,615
Acquired value of customer relationships	20	1,143	1,583
Software assets	21	3,715	5,004
Property and equipment	22	477	673
Investment in associates	23	4,388	4,088
Investment properties	24	5,520	20,387
Reinsurers' share of insurance contract provisions	31	335,936	379,894
Amounts deposited with reinsurers	32	35,498	34,293
Financial assets			
Equity securities at fair value through income	25	475,983	479,617
Holdings in collective investment schemes at fair value through income	25	3,516,424	3,440,992
Debt securities at fair value through income	25	377,193	370,666
Policyholders' funds held by the Group	25	164,858	130,237
Insurance and other receivables	25/26	45,360	46,382
Prepayments	25/26	4,821	4,889
Derivative financial instruments	25/27	3,580	2,956
Total financial assets		4,588,219	4,475,739
Reinsurers' share of accrued policyholder claims	38	14,722	11,399
Income taxes	28	1,962	2,608
Cash and cash equivalents	29	241,699	184,263
Total assets		**5,338,046**	**5,236,708**
Liabilities			
Insurance contract provisions	31	2,308,043	2,362,063
Other provisions	35	729	5,348
Financial liabilities			
Investment contracts at fair value through income	32	2,389,812	2,283,403
Liabilities relating to policyholders' funds held by the Group	33	164,858	130,237
Borrowings	34	87,296	94,377
Derivative financial instruments	27	49	387
Total financial liabilities		2,642,015	2,508,404
Deferred tax liabilities	36	8,340	11,007
Reinsurance payables	37	10,499	11,539
Payables related to direct insurance and investment contracts	38	58,789	47,137
Deferred income	39	6,974	7,865
Income taxes	40	4,168	8,012
Other payables	41	18,467	27,104
Bank overdrafts	29	1,189	1,127
Total liabilities		**5,059,213**	**4,989,606**
Net assets	**7**	**278,833**	**247,102**
Shareholders' equity			
Share capital	42	42,600	42,024
Share premium	42	76,523	42,526
Treasury shares	43	(168)	(212)
Other reserves	44	(641)	7,203
Retained earnings	45	160,519	155,561
Total shareholders' equity		**278,833**	**247,102**

The notes and information on pages 98 to 173 form part of these financial statements.

Approved by the Board of Directors and authorised for issue on 30 March 2015 and signed on its behalf by:

Peter Mason
Chairman

John Deane
Chief Executive Officer

COMPANY BALANCE SHEET

31 December	Note	2014 £000	2013 £000
Assets			
Non-current assets			
Financial assets			
Investment in subsidiaries	**25**	199,111	199,111
Current assets			
Financial assets			
Equity securities at fair value through income	**25**	1,008	–
Receivables and prepayments	**26**	494	636
Deferred tax asset		30	–
Income taxes	**28**	1,667	2,194
Cash and cash equivalents	**29**	80,102	37,489
Total current assets		**83,301**	**40,319**
Total assets		**282,412**	**239,430**
Current liabilities			
Borrowings	**34**	11,826	8,897
Other provisions	**35**	–	591
Other payables	**41**	2,221	2,434
Total current liabilities		**14,047**	**11,922**
Non-current liabilities			
Borrowings	**34**	52,501	64,143
Other provisions	**35**	–	2,715
Total non-current liabilities		**52,501**	**66,858**
Total liabilities		**66,548**	**78,780**
Net assets		**215,864**	**160,650**
Shareholders' equity			
Share capital	**42**	6,328	5,752
Share premium	**42**	76,523	42,526
Treasury shares	**43**	(168)	(212)
Other reserves	**44**	50	50
Retained earnings	**45**	133,131	112,534
Total shareholders' equity		**215,864**	**160,650**

The notes and information on pages 98 to 173 form part of these financial statements.

The financial statements of Chesnara plc (registered number 4947166) were approved by the Board of Directors and authorised for issue on 30 March 2015 and signed on its behalf by:

Peter Mason
Chairman

John Deane
Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	2014 £000	2013 £000
Profit for the year	**25,575**	**49,363**
Adjustments for:		
Depreciation of property and equipment	206	177
Amortisation of deferred acquisition costs	9,729	9,386
Amortisation of acquired value of in-force business	9,281	7,530
Amortisation of acquired value of customer relationships	263	301
Amortisation of software assets	1,802	2,580
Share based payment	114	–
Tax paid	3,228	11,227
Interest receivable	(26,975)	(19,256)
Dividends receivable	(30,032)	(19,049)
Interest expense	3,008	3,527
Change in fair value of investment properties	(2,526)	6,197
Fair value gains on financial assets	(370,641)	(523,938)
Profits on sale of property and equipment	–	(10)
Profit arising on business combination	–	(2,807)
Share of profit of associate	(855)	(1,252)
Interest received	27,346	18,701
Dividends received	29,835	19,252
Increase in intangible assets related to insurance and investment contracts	(16,219)	(19,397)
Changes in operating assets and liabilities		
Decrease in financial assets	44,847	46,539
Decrease/(increase) in reinsurers' share of insurance contract provisions	34,654	(14,596)
Increase in amounts deposited with reinsurers	(1,205)	(4,048)
Increase in insurance and other receivables	(2,492)	(5,267)
Increase in prepayments	(317)	(1,792)
(Decrease)/Increase in insurance contract provisions	(44,940)	51,570
Increase in investment contract liabilities	369,838	351,630
Decrease in provisions	(4,600)	(1,829)
Increase/(decrease) in reinsurance payables	222	(5,182)
Increase in payables related to direct insurance and investment contracts	12,820	2,110
(Decrease)/Increase in other payables	(7,402)	3,690
Cash generated from/(utilised by) operations	**64,564**	**(34,643)**
Income tax(paid)/received	(8,839)	1,405
Net cash generated from/(utilised by) operating activities	**55,725**	**(33,238)**
Cash flows from investing activities		
Business combinations	–	(31,924)
Development of software	(1,079)	(1,882)
Purchases of property and equipment	(224)	(485)
Proceeds from the disposal of property and equipment	152	–
Net cash utilised by investing activities	**(1,151)**	**(34,291)**
Cash flows from financing activities		
Proceeds from issue of share capital	34,573	3
(Repayment of)/proceeds from borrowings	(4,469)	46,728
Sale treasury shares	44	5
Dividends paid	(20,731)	(20,099)
Interest paid	(2,593)	(3,975)
Net cash generated by financing activities	**6,824**	**22,662**
Net increase/(decrease) in cash and cash equivalents	**61,398**	**(44,867)**
Cash and cash equivalents at beginning of year	183,136	228,074
Effect of exchange rate changes on cash and cash equivalents	(4,024)	(71)
Cash and cash equivalents at end of the year (Note 29)	**240,510**	**183,136**

The notes and information on pages 98 to 173 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

Year ended 31 December	2014 £000	2013 £000
Profit for the year	**41,214**	**35,841**
Adjustments for:		
Tax recovery	(888)	(800)
Interest receivable	2,341	1,383
Share based payment	114	–
Dividends receivable	(48,000)	(40,000)
Fair value gains on financial assets	(1,008)	–
Changes in operating assets and liabilities:		
Increase/(decrease) in loans and receivables	110	(80)
Increase in prepayments	2	29
Decrease in provisions	(3,306)	(498)
Decrease in other payables	(318)	(317)
Cash utilised by operating activities	**(9,739)**	**(4,442)**
Income tax received	1,392	–
Net cash utilised by operating activities	**(8,347)**	**(4,442)**
Cash flows from investing activities		
Acquisition of subsidiary company	–	(52,412)
Dividends received from subsidiary company	48,000	40,000
Net cash generated from/(utilised by) investing activities	**48,000**	**(12,412)**
Cash flows from financing activities		
Net proceeds from the issue of share capital	34,573	3
Net (repayment of)/proceeds from borrowings	(9,000)	43,800
Dividends paid	(20,731)	(20,099)
Interest paid	(1,926)	(1,778)
Sale of Treasury Shares	44	5
Net cash generated from financing activities	**2,960**	**21,931**
Net increase in cash and cash equivalents	**42,613**	**5,077**
Cash and cash equivalents at beginning of year	37,489	32,412
Cash and cash equivalents at end of the year (Note 29)	**80,102**	**37,489**

The notes and information on pages 98 to 173 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2014	**42,024**	**42,526**	**7,203**	**(212)**	**155,561**	**247,102**
Profit for the year	–	–	–	–	25,575	25,575
Dividends paid	–	–	–	–	(20,731)	(20,731)
Foreign exchange translation differences	–	–	(7,844)	–	–	(7,844)
Share based payment	–	–	–	–	114	114
Issue of new shares	576	33,971	–	–	–	34,547
Sale of treasury shares	–	26	–	44	–	70
Equity shareholders' funds at 31 December 2014	**42,600**	**76,523**	**(641)**	**(168)**	**160,519**	**278,833**

Year ended 31 December 2013

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2013	**42,024**	**42,523**	**7,719**	**(217)**	**126,297**	**218,346**
Profit for the year	–	–	–	–	49,363	49.363
Dividends paid	–	–	–	–	(20,099)	(20,099)
Foreign exchange translation differences	–	–	(516)	–	–	(516)
Sale of treasury shares	–	3	–	5	–	8
Equity shareholders' funds at 31 December 2013	**42,024**	**42,526**	**7,203**	**(212)**	**155,561**	**247,102**

The notes and information on pages 98 to 173 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2014	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2014	**5,752**	**42,526**	**50**	**(212)**	**112,534**	**160,650**
Profit for the year	–	–	–	–	41,214	41,214
Dividends paid	–	–	–	–	(20,731)	(20,731)
Share based payment	–	–	–	–	114	114
Issue of new shares	576	33,971	–	–	–	34,547
Sale of treasury shares	–	26	–	44	–	70
Equity shareholders' funds at 31 December 2014	**6,328**	**76,523**	**50**	**(168)**	**133,131**	**215,864**

Year ended 31 December 2013	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2013	**5,752**	**42,523**	**50**	**(217)**	**96,791**	**144,899**
Profit for the year	–	–	–	–	35,841	35,841
Dividends paid	–	–	–	–	(20,098)	(20,098)
Sale of treasury shares	–	3	–	5	–	8
Equity shareholders' funds at 31 December 2013	**5,752**	**42,526**	**50**	**(212)**	**112,534**	**160,650**

The notes and information on pages 98 to 173 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Chesnara plc (Registered Number 4947166) (the Company) is a limited liability company incorporated and domiciled in England and Wales and has a primary listing on the London Stock Exchange. The address of the registered office is 2nd Floor, Building 4, West Strand Business Park, West Strand Road, Preston, England, PR1 8UY, UK.

The Company and its subsidiaries, together forming the Group, comprise UK and Swedish life and pensions businesses.

The UK businesses, which comprise the CA, S&P and PL segments described in Note 7, the activities of which are performed entirely in the UK, underwrite life risks such as those associated with death, disability and health and provide a portfolio of investment contracts for the savings and retirement needs of customers through asset management. They are substantially closed to new business, such that new insurance contracts are only issued to existing customers, dependent on their changing needs.

The Swedish business, which comprises the Movestic segment, described in Note 7, the activities of which are performed predominantly in Sweden, underwrites life, accident and health risks and provides a portfolio of investment contracts. It is open to new business, securing distribution of its products principally through independent financial advisers.

These financial statements are presented in pounds sterling, which is the functional currency of the Parent Company. Foreign operations are included in accordance with the policies set out in Note 2. The financial statements were authorised for issue by the Directors on 30 March 2015.

2 Significant accounting policies

In the information which follows distinction is made, where necessary, in respect of the applicability of certain policies, or as to their clarification:

(i) as between the UK business and the Swedish business, which comprises the Movestic segment; and

(ii) as between the CA, S&P and PL segments of the UK business.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (`IFRSs') as adopted by the European Union ('Adopted IFRSs') and therefore comply with Article 4 of the EU IAS Regulation. Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with Adopted IFRSs.

Adoption of new and revised standards

In the current year the following revised Standards and Interpretations have been adopted that affected the 2014 Group Financial Statements:

- IFRS 2 Share-based Payment: IFRS 2 provides guidance on the accounting treatment of equity-settled and cash-settled share-based payments.
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets: The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangibles assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

At the date of authorisation of these financial statements the following Standards and Interpretations, which are applicable to the Group and which have not been applied in these financial statements, were in issue but not yet effective (and in some cases have not been adopted by the EU):

Title	Subject
Annual Improvements to IFRSs: 2012-14 Cycle	Annual Improvements to IFRSs: 2012-14 Cycle
Annual Improvements to IFRSs: 2011-13	Annual Improvements to IFRSs: 2011-13
Annual Improvements to IFRSs: 2010-12	Annual Improvements to IFRSs: 2010-12
Amendments to IAS 19 (Nov 2013)	Defined Benefit Plans: Employee Contributions
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 39 (Jun 2013)	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies
Amendments to IFRS 10 and IAS 8	Sale of Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 32 (Dec 2011)	Offsetting Financial Assets and Financial Liabilities
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 11	Accounting for Acquisitions of Interest in Joint Operations
IAS 27 (revised May 2011)	Equity Method in Separate Financial Statements

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except as follows:

- IFRS 9 will impact both the measurement and disclosures of Financial Instruments; and
- IFRS 15 does not apply to insurance contacts. However, the new standard may impact how revenue is measured and disclosed within the financial statements for other customer contract types.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

In publishing the Parent Company financial statements together with the Group financial statements the Company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements. The Parent Company profit for the year has been disclosed in Note 45.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and of entities controlled by the Company (its subsidiaries), made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

Profit or loss and each component of other comprehensive income are attributed to the Company and to the non-controlling interests. Total comprehensive income is attributed to the Company shareholders and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Basis of preparation

The Consolidated and Parent Company financial statements have been prepared on a going concern basis. The Directors believe that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. In making this assessment, the Directors have taken into consideration the points as set out in the Financial Management section under the heading 'Going Concern'.

The financial statements are presented in pounds sterling, rounded to the nearest thousand and are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments at fair value through income, assets and liabilities held for sale, investment property and investment contract liabilities at fair value through income.

Assets and liabilities are presented on a current and non-current basis in the notes to the financial statements. If assets are expected to be recovered or liabilities expected to be settled within a year, they are classified as current. If they are expected to be recovered or settled in more than one year, they are classified as non-current.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgments made by management in the process of applying the Group's accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are set out in Note 3.

The accounting policies set out below, unless otherwise stated, have been applied consistently to all years presented in these consolidated financial statements.

These financial statements have also been prepared in accordance with the disclosure provisions of FRS 27 'Life Assurance', which was issued by the UK's Accounting Standards Board (ASB) in December 2004. FRS 27 adds to the requirements of IFRSs but does not vary them in any way.

(d) Business combinations

The Group uses the purchase method of accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Expenses directly attributable to the acquisition are expensed as incurred. The acquiree's identifiable assets, liabilities, and contingent liabilities, which meet the conditions for recognition under IFRS 3, are measured initially at their fair values at the acquisition date. Gains arising on a bargain purchase, where the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree exceeds the cost of acquisition, is recognised in the Consolidated Statement of Comprehensive Income at the acquisition date.

The non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the associate. Losses may provide evidence of an impairment of assets transferred, in which case appropriate provision is made for impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)

(f) Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates, being its functional currency. For the purpose of these consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Parent Company and the presentation currency of the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency, being foreign currencies, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities which are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value, which are denominated in foreign currencies, are translated at the rates prevailing when the fair value was determined. Exchange differences are recognised in the Consolidated Statement of Comprehensive Income in the year in which they arise, except when they relate to items for which gains and losses are recognised in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising are classified as equity and are recognised in the Group's foreign currency translation reserve. Such translation differences are recognised as income or as expense in the year in which the operation is disposed of.

Transactions relating to business combinations denominated in foreign currencies are translated into sterling at the exchange rates prevailing on the transaction date.

(g) Product classification

The Group's products are classified at inception as either insurance or investment contracts for accounting purposes. Insurance contracts are contracts which transfer significant insurance risk and remain as insurance contracts until all rights and obligations are extinguished or expire. They may also transfer financial risk. Investment contracts are contracts which carry financial risk, with no significant insurance risk. Where contracts contain both insurance and investment components and the investment components can be measured reliably, the contracts are unbundled and the components are separately accounted for as insurance contracts and investment contracts respectively.

In some insurance contracts and investment contracts the financial risk is borne by the policyholders. Such contracts are usually unit-linked contracts.

With-profits contracts, which subsist only within the UK business, all contain a discretionary participation feature ("DPF") which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses, which may be a significant portion of the total contractual benefits.

In respect of S&P the amount and timing of such contractual benefits are at the discretion of the Group and are contractually based on realised and/or unrealised investment returns on a specified pool of assets held by the Group. The terms and conditions of these contracts, together with UK regulations, set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders.

In respect of CA all such contracts are wholly reinsured with Guardian Assurance Limited ('Guardian'), and the amount or timing of the additional payments are contractually at the discretion of the reinsurer and are contractually based on:

(i) the performance of a specified pool of contracts or a specified type of contract;

(ii) realised and/or unrealised investment returns on a specified pool of assets held by the reinsurer; or

(iii) the profit or loss of the reinsurer.

All contracts with discretionary participation features are classified as insurance contracts.

PL does not have any contracts containing discretionary participation features.

(h) Insurance contracts

There are fundamental differences between the nature of the insurance contracts subsisting in the UK and Swedish businesses, including inter alia contract longevity: the related product characteristics are set out for the separate UK and Swedish businesses in Note 5. As a consequence, the alignment of income and expense recognition with the underlying assumption of risk leads to the adoption of separate accounting policies appropriate to each business, as follows:

UK businesses

(i) Premiums
Premiums are accounted for when due, or in the case of unit-linked insurance contracts, when the liability is recognised, and exclude any taxes or duties based on premiums. Outward reinsurance premiums are accounted for when due.

(ii) Claims and benefits
Claims are accounted for in the accounting year in which they are due or notified. Surrenders are accounted for in the accounting year in which they are paid. Claims include policyholder bonuses allocated in anticipation of a bonus declaration. Reinsurance recoveries are accounted for in the same period as the related claim.

(iii) Acquisition costs
Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. They are initial fees amortised at a rate based on the pattern of anticipated margins in respect of the related policies. An explicit deferred acquisition cost asset is established in the balance sheet to the extent that acquisition costs exceed initial fees deducted. At 31 December each year, such costs that are deferred to future years are reviewed to ensure they do not exceed available future margins.

Renewal commission and other direct and indirect acquisition costs arising on enhancements to existing contracts are expensed as incurred.

(iv) Measurement of insurance contract provisions
Insurance contract provisions are measured using accounting policies having regard to the principles laid down in Council Directive 2002/83/EC.

Insurance contract provisions are determined following an annual actuarial investigation of the long-term funds and are calculated initially on a statutory solvency basis in order to comply with the reporting requirements of the Prudential Sourcebook for Insurers. This valuation is then adjusted to remove certain contingency reserves and to remove excess prudence from other reserves. In accordance with this, the provisions are calculated on the basis of current information, using the specific valuation methods set out below.

Unit-linked provisions are measured by reference to the value of the underlying net asset value of the Group's unitised investment funds, determined on a bid value basis, at the balance sheet date.

For immediate annuities in payment the provision is calculated as the discounted value of the expected future annuity payments under the policies, allowing for mortality, including projected improvements in future mortality, interest rates and expenses. For certain temporary annuities in payment no allowance for mortality has been made.

In respect of S&P, for those classes of non-linked business with a discretionary participation feature, a gross premium method has been used to value the liability, whereby expected income and costs have been projected, allowing for mortality, interest rates and expenses.

For the other classes of non-linked business the provision is calculated on a net premium basis, being the level of premium consistent with a premium stream, the discounted value of which, at the outset of the policy, would be sufficient to cover exactly the discounted value of the original guaranteed benefits at maturity, or at death if earlier, on the valuation basis. The provision is then calculated by subtracting the present value of future net premiums from the present value of the benefits guaranteed at maturity, or death if earlier, as a result of events up to the balance sheet date. Negative provisions do not arise under the net premium method, which makes no allowances for voluntary discontinuances by policyholders, and which only implicitly allows for future policy maintenance costs.

In respect of CA for those classes of non-linked and unit-linked business where policyholders participate in profits the liability is wholly reassured to Guardian. The liability is calculated on a net premium basis, but is then increased to the realistic liability as a result of the liability adequacy test.

In respect of PL, this segment does not carry any contracts with discretionary participation features.

Insurance contract provisions are tested for adequacy by discounting current estimates of all contractual cash flows and comparing this amount to the carrying value of the provision and any related assets: this is known as the liability adequacy test. Where a shortfall is identified, an additional provision is made and the Group recognises the deficiency in income for the year. Insurance contract provisions can never be definitive as to their timing or the amount of claims and are therefore subject to subsequent reassessment on a regular basis.

Swedish business – life

(i) Premiums
Premiums are accounted for when received, and exclude any taxes or duties based on premiums. Outward reinsurance premiums are accounted for when due.

(ii) Claims and benefits
Claims are accounted for in the accounting period in which they are due or notified. Reinsurance recoveries are accounted for in the same period as the related claim.

(iii) Acquisition costs
Acquisition costs comprise expenditure incurred arising from the completion of insurance contracts. They are initial fees amortised at a rate based on the pattern of anticipated margins in respect of the related policies. An explicit deferred acquisition cost asset is established in the balance sheet to the extent that acquisition costs exceed initial fees deducted. At the end of each year, such costs that are deferred to future years are reviewed to ensure they do not exceed available future margins.

Renewal commission and other direct and indirect acquisition costs arising on enhancements to existing contracts are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)

(h) Insurance contracts (continued)

Swedish business – life (continued)

(iv) Measurement of insurance contract provisions

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims. Outstanding claim provisions are not discounted other than for income protection and waiver of premium benefits, where payments may be made for a considerable period of time.

All reasonable steps are taken to ensure that there is appropriate information regarding claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Insurance contract provisions are tested for adequacy by discounting current estimates of all contractual cash flows and comparing this amount to the carrying value of the provision and any related assets: this is known as the liability adequacy test. Where a shortfall is identified, an additional provision is made and the deficiency in income for the year is recognised.

Swedish business – non-life

(i) Premiums

Written premiums for non-life (general) insurance business comprise the premiums on contracts incepting in the financial year. Written premiums are stated gross of commission payable to intermediaries and exclusive of taxes and duties paid on premiums.

Unearned premiums are those proportions of the premium which relate to periods of risk after the balance sheet date. Unearned premiums are calculated on a straight-line basis according to the duration of the policy underwritten.

(ii) Acquisition costs

Acquisition costs, which represent commission payable, incurred in writing written premiums, are deferred and amortised over the period in which the related premiums are earned.

(iii) Claims

Claims incurred

Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not yet reported and related expenses, together with any adjustments to claims from previous years.

Outstanding claims provisions

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims. Outstanding claims provisions are not discounted. Provisions are calculated gross of any reinsurance recoveries.

All reasonable steps are taken to ensure that there is appropriate information regarding claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of outstanding claims provisions is described in Note 31.

(i) Investment contracts

(i) Amounts collected

Amounts collected on investment contracts, which primarily involve the transfer of financial risk such as long-term savings contracts, are accounted for using deposit accounting, under which the amounts collected, less any initial fees deducted, are credited directly to the balance sheet as an adjustment to the liability to the investor.

(ii) Amounts deposited with reinsurers

Amounts deposited with reinsurers under reinsurance arrangements, which primarily involve the transfer of financial risk, are entered directly to the balance sheet as amounts deposited with reinsurers. These assets are designated on initial recognition as at fair value through income.

(iii) Benefits

For investment contracts, benefits paid are not included in the income statement but are instead deducted from investment contract liabilities in the accounting period in which they are paid.

(iv) Acquisition costs

Acquisition costs relating to investment contracts comprise directly attributable incremental acquisition costs, which vary with, and are related to, securing new contracts, and are recognised as an asset to the extent that they represent the contractual right to benefit from the provision of investment management services. The asset is presented as a deferred acquisition cost asset and is amortised over the expected term of the contract, as the fees relating to the provision of the services are recognised. All other costs are recognised as expenses when incurred.

(v) Liabilities

All investment contract liabilities are designated on initial recognition as held at fair value through income. The Group has designated investment contract liabilities at fair value through income as this more closely reflects the basis on which the businesses are managed.

The financial liability in respect of unit-linked contracts is measured by reference to the value of the underlying net asset value of the unitised investment funds, determined on a bid value, at the balance sheet date.

For the UK businesses, deferred tax on unrealised capital gains and for the Swedish business a yield tax in respect of an estimate of the investment return on the underlying investments in the unitised funds are also reflected in the measurement of the respective unit-linked liabilities.

In respect of the UK businesses guaranteed income and guaranteed growth bond liabilities and other investment contract liabilities are managed together with related investment assets on a fair value basis as part of the documented risk management strategy.

The fair value of other investment contracts is measured by discounting current estimates of all contractual cash flows that are expected to arise under contracts.

(j) Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of avoiding the retention of undue concentration of risk on any one life, policyholder or loss event (for example multiple losses under a Group Life contract). Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets, which comprise amounts due from insurance companies for paid and unpaid losses and ceded life policy benefits. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments and are presented as amounts deposited with reinsurers.

The net premiums payable to a reinsurer may be more or less than the reinsurance assets recognised by the Group in respect of the reinsurance cover purchased. Any gain or loss is recognised in the income statement in the period in which the reinsurance premiums are payable.

Rights under reinsurance contracts comprising the reinsurers' share of insurance contract provisions and accrued policyholder claims are estimated in a manner that is consistent with the measurement of the provisions held in respect of the related insurance contracts and in accordance with the terms of the reinsurance contract. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses reduce the carrying value of the related reinsurance assets to their recoverable amount and are recognised as an expense in the income statement.

The Group enters into certain financing arrangements, which are established in the form of a reinsurance contract, but which are substantively in the form of a financial instrument. Such arrangements are classified and presented as borrowings within financial liabilities.

(k) Fee and commission income

Fees charged for investment management services provided in connection with investment contracts are recognised as revenue as the services are provided.

Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which services will be provided.

Initial fees charged for investment management services provided in connection with insurance contracts are recognised as revenue when earned.

For both insurance and investment contracts, initial fees, annual management charges and contract administration charges are recognised as revenue on an accruals basis. Surrender charges are recognised as a reduction to policyholder claims and benefits incurred when the surrender benefits are paid.

Benefit-based fees comprising charges made to unit-linked insurance and investment funds for mortality and morbidity benefits are recognised as revenue on an accruals basis.

For insurance and investment contracts, commissions received or receivable which do not require the Group to render further services are recognised as revenue by the Group on the effective commencement or renewal dates of the related contract. However, when it is probable that the Group will be required to render further services during the life of the contract, the commission, or part thereof, is deferred and recognised as revenue over the period in which services are rendered.

(l) Investment income

Investment income comprises income from financial assets and rental income from investment properties.

Income from financial assets comprises dividend and interest income, net fair value gains and losses (both unrealised and realised) in respect of financial assets classified as fair value through income, and realised gains on financial assets classified as loans and receivables.

Dividends are accrued on an ex-dividend basis. Interest received and receivable in respect of interest-bearing financial assets classified as fair value through income is included in net fair value gains and losses. For loans and receivables and cash and cash equivalents interest income is calculated using the effective interest method.

Rental income from investment properties under operating leases is recognised in the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of each lease. Lease incentives are recognised in the Consolidated Statement of Comprehensive Income as an integral part of the total lease income.

(m) Expenses

(i) Operating lease payments

Leases where a significant proportion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the Consolidated Statement of Comprehensive Income on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Financing costs

Financing costs comprise interest payable on borrowings and on reinsurance claims deposits included within reinsurance payables, calculated using the effective interest rate method.

(n) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax and is recognised in the Consolidated Statement of Comprehensive Income. Tax that relates directly to transactions reflected within equity is also presented within equity.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)

(n) Income taxes (continued)

(ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Policyholders' fund yield tax

Certain of the Group's policyholders within the Swedish business are subject to a Swedish yield tax which is calculated based on an estimate of the investment return on underlying investments within their unitised funds. The Group is under an obligation to deduct the yield tax from the policyholders' unitised funds and to remit these deductions to the tax authorities. The remittance of this tax payment is included in other operating expenses as it does not comprise a tax charge on Group profits.

(o) Acquired value of in-force business

Acquired in-force insurance and investment contracts arising from business combinations are measured at fair value at the time of acquisition.

The difference between the fair value of insurance contracts and the liability measured in accordance with the Group's accounting policies for the contracts is recorded as acquired present value of in-force business. Present value of in-force business is carried gross of tax and is amortised against income on a time profile which, it is intended, will broadly match the profile of the underlying emergence of surplus as anticipated at the time of acquisition. The present value of in-force insurance contracts is tested for recoverability/impairment as part of the liability adequacy test.

The present value of in-force investment contracts is stated at cost less accumulated amortisation and impairment losses. The initial cost is deemed to be the fair value of the contractual customer relationships acquired. The acquired present value of the in-force investment contracts is carried gross of tax and is amortised against income on a time profile which, it is intended, will broadly match the profile of the underlying emergence of profit from the contracts. The recoverable amount is estimated at each balance sheet date. If the recoverable amount is less than the carrying amount, an impairment loss is recognised in the Consolidated Statement of Comprehensive Income and the carrying amount is reduced to its recoverable amount.

(p) Acquired value of customer relationships

The acquired value of customer relationships arising from business combinations is measured at fair value at the time of acquisition. This comprises the discounted cash flows relating to new insurance and investment contracts which are expected to arise from existing customer relationships. These are carried gross of tax, are amortised in accordance with the expected emergence of profit from the new contracts and are tested periodically for recoverability.

(q) Software assets

An intangible asset in respect of internal development software costs is only recognised if all of the following conditions are met:

(i) an asset is created that can be identified;

(ii) it is probable that the asset created will generate future economic benefits; and

(iii) the development costs of the asset can be measured reliably.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Software assets, including internally developed software, are amortised on a straight-line basis over their estimated useful life, which typically varies between 3 and 5 years.

(r) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to the Consolidated Statement of Comprehensive Income on a straight-line basis over the estimated useful economic lives of the property and equipment on the following basis:

Computers and similar equipment	3 years
Fixtures and other equipment	5 years

Assets held under finance leases are depreciated over their useful economic lives on the same basis as owned assets, or where shorter, over the term of the relevant lease.

(s) Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. On initial recognition investment properties are measured at cost including attributable transaction costs, and are subsequently measured at fair value. Independent external valuers, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, value the portfolio every twelve months.

The fair values reflect market values at the balance sheet date, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the Consolidated Statement of Comprehensive Income. Rental income from investment property is accounted for as described in accounting policy (l).

(t) Financial assets

Investments in subsidiaries are carried in the Company balance sheet at cost less impairment.

Financial assets are classified into different categories depending on the type of asset and the purpose for which it is acquired. Currently two different categories of financial assets are used: ‘financial assets at fair value through income’ and ‘loans and receivables’. Financial assets classified as at fair value through income comprise financial assets designated as such on initial recognition and derivative financial instruments.

All financial assets held for investment purposes other than derivative financial instruments are designated as at fair value through income on initial recognition since they are managed, and their performance is evaluated, on a fair value basis in accordance with documented investment and risk management strategies. This designation is also applied to the Group’s investment contracts, since the investment contract liabilities are managed together with the investment assets on a fair value basis as part of the documented risk management strategy.

Purchases and sales of ‘regular way’ financial assets are recognised on the trade date, which is when the Group commits to purchase, or sell, the assets.

All financial assets are initially measured at fair value plus, in the case of financial assets not classified as fair value through income, transaction costs that are directly attributable to their acquisition.

Subsequent to initial recognition, financial assets classified as at fair value through income are measured at their fair value without any deduction for transaction costs that may be incurred on their disposal.

The fair values of financial assets quoted in an active market are their bid prices at the balance sheet date.

Financial assets classified as loans and receivables are stated at amortised cost less impairment losses. A provision for the impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original contract terms after the date of the initial recognition of the asset and when the impact on the estimated cash flows of the financial asset can be reliably measured.

Financial assets classified as prepayments are held at cost and are amortised over the relevant time period.

Financial assets not recognised at fair value through income are regularly reviewed for objective evidence of impairment. In determining whether objective evidence exists, the Group considers, among other factors, the financial stability of the counterparty, current market conditions and fair value volatility.

Financial assets are derecognised when contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred together with substantially all the risks and rewards of ownership.

(u) Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. Hedge accounting has not been applied.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Embedded derivatives which are not closely related to their host contracts and which meet the definition of a derivative are separated and fair valued through income.

(v) Policyholders’ funds held by the Group and liabilities relating to policyholders’ funds held by the Group

Policyholders’ funds held by the Group and liabilities relating to policyholders’ funds held by the Group are recognised at fair value.

(i) Policyholders’ funds held by the Group

The policyholders’ funds held by the Group represent the assets associated with an Investment product in the Swedish business, where the assets are held on behalf of the policyholder and where all the risks and rewards associated with the assets are the policyholders’ not the Group’s.

The policyholders’ funds held by the Group are held for investment purposes on behalf of the policyholders and are designated as at fair value through income. The fair values of the policyholders’ funds held by the Group are the accumulation of the bid prices of the underlying assets at the balance sheet date. Transactions in these financial assets are recognised on the trade date, which is when the Group commits (on behalf of the policyholder) to purchase, or sell the assets.

(ii) Liabilities relating to policyholders’ funds held by the Group

The liability relating to policyholders’ funds held by the Group represents the liability that matches the asset policyholders’ funds held by the Group. As stated previously, the risk and rewards associated with the investment product (and its underlying assets and matching liability) lie with the policyholders, not the Group.

(w) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments. Highly liquid is defined as having a short maturity of three months or less at their acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)

(x) Assets held for sale and liabilities held for sale

Assets and liabilities are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction that is highly likely to complete within one year from the date of classification, rather than through continuing use. Such assets are measured at the lower of carrying amount and fair value and are classified separately from other assets in the balance sheet. Assets and liabilities are not netted. In the period where a non-current asset or disposal group is recognised for the first time, the balance sheet for the comparative prior period is not restated.

(y) Impairment

The carrying amounts of the Group's assets other than reinsurance assets (refer to (j) above) and assets which are carried at fair value are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated in order to determine the extent of the impairment loss, if any. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount and impairment losses are recognised in the Consolidated Statement of Comprehensive Income. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Impairment losses are reversed through the Consolidated Statement of Comprehensive Income if there is a change in the estimates used to determine the recoverable amount. Such losses are reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation where applicable, if no impairment loss had been recognised.

(z) Provisions

Provisions are recognised when the Group has a present, legal or constructive obligation as a result of past events such that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation. The Group recognises provisions for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(aa) Borrowings

Borrowings are recognised initially at fair value, less transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, with interest expense recognised in the Consolidated Statement of Comprehensive Income on an effective yield basis. The effective interest rate method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future cash payments through the expected life of the financial liability.

(bb) Employee benefits

(i) Pension obligations

UK businesses

Group companies operate defined contribution pension schemes, which are funded through payments to insurance companies, to which Group companies pay fixed contributions. There are no legal or constructive obligations on Group companies to pay further contributions if the fund does not hold sufficient assets to pay employee benefits relating to service in current and prior periods. Accordingly, Group companies have no further payment obligations once the contributions have been paid. Contributions to defined contribution pension schemes are recognised in the Consolidated Statement of Comprehensive Income when due.

Swedish business

The Group participates in a combined defined benefit and defined contribution scheme for the benefit of its employees. However, the scheme is a multi-employer scheme, with the associated assets and liabilities maintained on a pooled basis. There is limited information available to the Group to allow it to account for the scheme as a defined benefit scheme and, in accordance with IAS19 Employee Benefits, it is, therefore, accounted for as a defined contribution scheme. Contributions paid to the scheme are recognised in the Consolidated Statement of Comprehensive Income when due.

(ii) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The expense is recognised in the Consolidated Statement of Comprehensive Income on an accruals basis.

(cc) Share-based payments

The value of employee share options and other equity settled share based payments is calculated at fair value at the grant date using appropriate and recognised option pricing models. Vesting conditions, which comprise service conditions and performance conditions, other than those based upon market conditions, are not taken into account when estimating the fair value of such awards but are taken into account by adjusting the number of equity instruments included in the ultimate measurement of the transaction amount. The value of the awards is recognised as an expense on a systematic basis over the period during which the employment services are provided. Where an award of options is cancelled by an employee, the full value of the award (less any value previously recognised) is recognised at the cancellation date.

(dd) Share capital and shares held in treasury

(i) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments, as consideration for the acquisition of a business, are included in the cost of acquisition.

(ii) Shares held in treasury

Where the Company purchases its own equity share capital, the consideration paid, including directly attributable costs, is deducted from total shareholders' equity and shown separately as `treasury shares' until they are cancelled. Where such shares are subsequently sold, any consideration received is credited to the share premium account.

(ee) Dividends

Dividend distributions to the Company's shareholders are recognised in the period in which the dividends are paid, and, for the final dividend, when approved by the Company's shareholders at the Annual General Meeting.

(ff) Other payables and payables related to direct insurance and investment contracts

Insurance and investment contract payables and other payables are recognised when due and are measured on initial recognition at the fair value of the consideration paid. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest rate method.

3 Critical accounting judgments and key sources of estimation and uncertainty

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and also makes critical accounting judgments in applying the Group's accounting policies. Such estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The more critical areas, where accounting estimates and judgments are made, are set out below. Each item identifies the business segments, as described in Note 7, to which it is relevant.

(a) Classification of long-term contracts (CA, S&P, PL and Movestic)

The Group has exercised judgment in its classification of long-term business between insurance and investment contracts, which fall to be accounted for differently in accordance with the policies set out in Note 2 Significant Accounting Policies. Insurance contracts are those where significant risk is transferred to the Group under the contract and judgment is applied in assessing whether the risk so transferred is significant, especially with regard to pensions contracts, which are predominantly, but not exclusively, created for investment purposes.

(b) Acquired value of in-force business (CA, S&P, PL and Movestic)

The Group applies accounting estimates and judgments in determining the fair value, amortisation and recoverability of acquired in-force business relating to insurance and investment contracts. In the initial determination of the acquired value of in-force business, the Group uses actuarial models to determine the expected net cash flows (on a discounted basis) of the policies acquired. The key assumptions applied in the models are driven by the expected behaviour of policyholders on termination rates, expenses of management and age of individual contract holders as well as global estimates of investment growth, based on recent experience at the date of acquisition. The assumptions applied within the models are considered against historical experience of each of the relevant factors.

The acquired value of in-force business has been amortised on a basis that reflects the expected profit stream arising from the business acquired at the date of acquisition. Acquired value of in-force business is tested for recoverability by reference to expected future income and expense levels. Such impairment testing requires a degree of estimation and judgment. In particular the value is sensitive to the rate at which future cashflows are discounted and to the rates of return on invested assets. Analysis shows that, based on applying a range of discount rates, which have been determined with reference to our review of the current market assessment of the true value of money and the risks specific to the asset for which the cash flows have not been adjusted. The rates used for the purpose of the impairment testing were 6%, 8%, 10% and 12%.

As at 31 December 2014, the carrying value of acquired in-force business, net of amortisation, was £9.8m in respect of CA (as at 31 December 2013: £12.0m), £5.8m in respect of S&P (as at 31 December 2013: £6.5m), £17.6m in respect of PL (as at 31 December 2013: £20.0m) and £40.2m in respect of Movestic (as at 31 December 2013: £49.9m).

(c) Deferred acquisition costs and deferred income – investment contracts (CA and Movestic)

The Group applies judgment in deciding the amount of direct costs that are incurred in acquiring the rights to provide investment management services in connection with the issue of investment contracts. Judgment is also applied in establishing the amortisation of the assets representing these contractual rights and the recognition of initial fees received in respect of these contracts. The assets are amortised over the expected lifetime of the investment management service contracts and deferred income, where applicable, is amortised over the expected period over which it is earned. Estimates are applied in determining the lifetime of the investment management service contracts and in determining the recoverability of the contractual rights assets by reference to expected future income and expense levels. This test for recoverability is performed using best estimates of future cash flows, using a market consistent estimate of future investment returns.

As at 31 December 2014, the carrying values of deferred acquisition costs, net of amortisation, and of deferred income, in respect of CA, were £3.9m and £7.0m respectively (as at 31 December 2013: £4.4m and £7.9m respectively). The impact on the above numbers of a one year movement in the estimated lifetime of the management services contract or amortisation period is not material.

As at 31 December 2014, the carrying values of deferred acquisition costs, net of amortisation, in respect of Movestic, was £27.4m (as at 31 December 2013: £23.8m). An increase in the length of the amortisation period by one year would have increased profit before tax for the year ended 31 December 2014 by £1.0m and shareholders' equity as at 31 December 2014 by £0.8m.

(d) Fair value of financial assets and unit-linked investments (CA, S&P, and Movestic)

Fair value measurement has been adopted to reduce volatility in reported earnings in the Consolidated Statement of Comprehensive Income as the liabilities so determined are measured in a way which is consistent with the fair value of the underlying invested financial assets.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between willing, knowledgeable parties in an arm's length transaction. Fair values are determined by reference to observable market prices where available and reliable.

(e) Estimates of future benefits payments arising from long-term insurance contracts (CA, S&P and PL)

The Group makes estimates of the expected number of deaths for each of the years that it is exposed to risk. These estimates are based on either standard mortality tables or reinsurers' rate tables as appropriate, adjusted to reflect the Group's own experience. For contracts without fixed terms the Group has assumed that it will be able to increase charges to policyholders in future years, in line with emerging mortality experience.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 Critical accounting judgments and key sources of estimation and uncertainty (continued)

(e) Estimates of future benefits payments arising from long-term insurance contracts (CA, S&P and PL) (continued)

The Group has offered guaranteed annuity options within certain contracts. Estimates have been made of the number of contract holders who will exercise these options, in order to measure their value. Changes in investment conditions could result in significantly more contract holders exercising their options than the Group has assumed in determining the liabilities arising from these contracts.

The Group makes estimates of future deaths, voluntary contract terminations, investment returns and administration expenses at the inception of long-term insurance contracts with fixed and guaranteed terms. These estimates, which are reconsidered annually, form the assumptions used to calculate the liabilities arising from these contracts.

When assessing assumptions relating to future investment returns the Group makes estimates of the impact of defaults on the related financial assets. The estimates are reassessed annually. The assumptions used to establish insurance contract liabilities and appropriate sensitivities relating to variations in critical assumptions are disclosed in Note 31.

(f) Estimates of future maintenance expenses (CA)

Future expense levels are a key variable that influence the value of insurance contract provisions. Under normal circumstances the nature of the cost base underpinning our UK regulated entities means that future expenses are relatively predictable and hence assumptions made for actuarial reserving purposes not are subject to material levels of judgment. This is because asset management and policy administration in the UK are outsourced and hence the future costs are defined in contractual arrangements. In addition, governance overheads are by their nature relatively stable and predictable. During 2014 the outsource contract for the CA book was extended with our outsource provider (HCL) for a further 10 year period. The financial terms are in line with revised expense assumptions recognised in 2013. We have also transferred the actuarial services that HCL used to provide to Towers Watson.

(g) Contracts which contain discretionary participation features (S&P)

All S&P with-profits contracts contain a discretionary participation feature ('DPF') which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- that may be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the Group; and
- that are contractually based on realised and/or unrealised investment returns on a specified pool of assets held by the Group.

The terms and conditions of these contracts, together with UK regulations, set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders.

As at 31 December 2014, the carrying value of insurance contract liabilities which contain S&P discretionary participation features was £310.4m (31 December 2013: £310.5m).

As stated in Note 31 'Insurance contract provisions', the cost to shareholders of guarantees in respect of S&P contracts with discretionary participation features is estimated, using a stochastic model, which runs simulated economic scenarios to estimate the cost of the product guarantees to the shareholder. During the year a new calculation model was implemented that enhances the accuracy of the estimated policyholder guarantee costs by removing certain data groupings. Historically, for IFRS reporting purposes the cost of with-profits guarantees has been set at 110% of the equivalent cost for EEV reporting. This was largely because, for IFRS reporting purposes, it was felt necessary to add in a margin of prudence as a result of the use of the way input data was grouped in the old model. The new model utilises more granular data inputs, which has lead to a greater degree of confidence in the model. It has also increased the calculated cost by a small amount. As a result the IFRS reserves are now set at 100% of the equivalent EEV cost. Were a 10% margin to still remain this would decrease the net assets at 31 December 2014 by £3.5m.

(h) Insurance claim reserves (Movestic)

Provisions are determined by Management based on experience of claims settled and on statistical models which require certain assumptions to be made regarding the timing, incidence and amount of claims. In order to calculate the total provision required, the historical development of claims is analysed using statistical methodology to extrapolate, within acceptable parameters, the value of outstanding claims.

For more recent underwriting years the provisions will make more use of techniques that incorporate expected loss ratios. As underwriting years mature, the reserves are increasingly driven by methods based on actual claims experience. The data used for statistical modelling is internally generated. Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of individual claims may exceed that assumed.

Liabilities carried in respect of waiver of premium and income protection policies are sensitive to the Group's assessment of the length of period in which benefits will be paid to policyholders (which can be significant). Estimates are made based on the sex, age and occupation of the claimant as well as the length of time the claimant has been claiming on the policy.

As at 31 December 2014, the carrying value of the insurance claim reserves, gross of reinsurance, was £65.2m (as at 31 December 2013: £66.1m). The key sensitivities in respect of insurance claim reserves are considered in Note 31.

(i) Insurance claim reserves – reinsurance recoverable (Movestic)

A significant proportion of the insurance claims arising within Movestic are ceded to reinsurers. In preparing the financial statements the Directors have made an assessment as to whether claims ceded to reinsurers are recoverable. As at 31 December 2014, such claims ceded to reinsurers and reflected on the balance sheet were £43.2m (31 December 2013: £44.4m). The application of a 10 per cent bad debt provision on the reinsurance balance would reduce 2014 profit before tax by £4.3m and shareholders' equity by £3.2m.

(j) Accounting for pension plans (Movestic)

The Group participates in a defined benefit pension scheme on behalf of its Swedish employees. The scheme is a multi-employer plan to which a number of third party employers also contribute. The underlying assets and liabilities of the scheme are pooled and are not allocated between the contributing employers. As a result, information is not available to account for the scheme as a defined benefit scheme and the Group has accounted for the scheme as a defined contribution scheme.

4 Exchange rates

The Group's principal overseas operations during the year were located within Sweden.

The results and cash flows of these operations have been translated into Sterling at an average rate for the year of £1 = SEK 11.30 (2013: £1 = SEK 10.19).

Assets and liabilities have been translated at the year end rate of £1 = SEK 12.07 (31 December 2013: £1 = SEK 10.59).

Total foreign currency exchange rate movements for the year ended 31 December 2014 resulted in a loss recognised in the Consolidated Statement of Comprehensive Income of £7.8m (year ended 31 December 2013: £516,000 gain).

5 Management of insurance risk

The Group's management of insurance risk is a critical aspect of its business. The primary insurance activity carried out by the Group comprises the assumption of the risk of loss from persons that are directly subject to the risk. Such risks in general relate to life, accident, health and financial perils that may arise from an insurable event. As such, the Group is exposed to the uncertainty surrounding the timing and severity of claims under the related contracts. The principal risk is that the frequency and severity of claims is adverse to that expected. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. Insured events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. The risk under assurance policies is partly naturally hedged by risks under annuity policies where the exposure is to the risk of longevity.

The Group manages its insurance risk through adoption of underwriting strategies, the aim of which is to avoid the assumption of undue concentration of risk, approval procedures for new products, pricing guidelines and adoption of reinsurance strategies, the aim of which is to reinforce the underwriting strategy by avoiding the retention of undue concentration of risk on any one life.

Notwithstanding that the Group pursues common overarching objectives and employs similar techniques in managing these risks, the disparate characteristics of the products and of the market and regulatory environments of the UK and Swedish businesses are such that insurance risk is managed separately for the separate businesses. Accordingly, the information which follows differentiates these businesses. The UK business which is substantially closed to new business, comprises the CA, S&P and PL segments and these are further differentiated in the information provided below, where necessary. The Swedish business, which is open to new business, comprises the Movestic segment.

UK businesses

Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out in the product analyses below, which give an assessment of the main products of the UK businesses and of the ways in which the associated risks are managed.

Sums assured/benefits per annum – gross and net of reinsurance
31 December

	2014		2013	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured) – CA, S&P	3,414,865	2,715,013	3,431,526	2,649,724
Long-term non-linked without DPF (sums assured) – CA, S&P, PL	12,921,837	1,718,633	13,942,405	1,863,653
Immediate annuities (benefits per annum) – CA	5,771	5,705	5,890	5,817
Deferred annuities with DPF (benefits per annum) – S&P	2,108	2,108	2,375	2,375
Long-term with DPF (sums assured) – CA	40,807	93	52,589	120
Long-term with DPF (sums assured) – S&P	389,083	373,790	411,718	394,269

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 Management of insurance risk (continued)

UK businesses (continued)

Long-term unit-linked and non-linked insurance contracts – without discretionary participation features

Product features

The UK businesses have written both unit-linked and non-linked contracts, which include death and morbidity benefits on a whole life, endowment and term assurance basis. In addition there are immediate annuities primarily written from vesting pensions.

For contracts where death is the insured risk, the most significant factors that could increase risk are epidemics or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

Management of risks

Unit-linked insurance contracts are contracts where charges are made for insurance risk and administration charges and the primary purpose of which is to provide an investment return to policyholders. In addition, the policyholder is insured against death and serious injury. Unit-linked contracts operate by investing the policyholders' premiums into pooled investment funds of the UK businesses, the policyholders' share of the fund being represented by units. The benefit is payable on death, or maturity if earlier, the amount payable on death being subject to a guaranteed minimum amount. For these contracts, all of the investment risk is borne by the policyholder as investment performance directly affects the value of the unit fund and hence the benefits payable. Therefore, there is exposure to insurance risk only insofar as the value of the unit-linked fund is lower than the guaranteed minimum death benefit. For a material portion of the business, the charges taken for mortality and morbidity costs are reviewable, which allows the company to mitigate some of its insurance risk.

Non-linked business contains three distinct groups of products:

(i) A number of products representing approximately 72% of sums assured, provide fixed and guaranteed benefits and have fixed future premiums. For these there are no mitigating terms and conditions that reduce the insurance risk accepted;

(ii) Immediate annuities provide regular income payments generally during the outstanding life of the policyholder, and in some cases that of a surviving spouse or partner. In certain cases payments may be guaranteed for a minimum period. These expose the business to longevity risk, though to some extent this provides a hedge to the mortality risk taken on other products; and

(iii) For the remainder of the business, which is operated on a quasi-linked basis, charges are made for mortality risk on a monthly basis and these charges may be altered based on mortality experience, thereby minimising the exposure to mortality risk. In the light of charges made for insurance risk and administration services and of the investment performance of the assets notionally backing these contracts, the premium payable may be altered at regular intervals. A number of these contracts also include Permanent Health Insurance (PHI) benefits which have reviewable charges, which may be altered based on morbidity experience, thereby minimising the exposure to morbidity risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce this mitigating effect.

Reinsurance is used extensively on the business described above to mitigate concentrations of insurance risk. The insurance risk is further managed through pricing, product design and, for non-linked and quasi-linked contracts, appropriate investment strategy.

Concentration of insurance risk

Through the use of reinsurance exposures to material insurance risks on individual cases are avoided, with 97.0% of the business having retained sums assured of less than £250,000.

Long-term insurance contracts – with discretionary participation features – CA

Product features

CA historically wrote with-profits business in the UK, where the policyholder benefits comprise a guaranteed sum assured payable on death or at maturity, to which may be added a discretionary annual bonus and a discretionary terminal bonus.

Management of risks

This business is wholly reassured to Guardian and hence the only risk retained by CA for this business is the risk of default by the reinsurer. This risk is detailed in the Credit Risk Management section of Note 6.

Long-term insurance contracts – with discretionary participation features – S&P

Product features
At retirement the with-profits deferred annuity contracts provide for guaranteed minimum pensions and the with-profits endowments provide for guaranteed minimum lump sums. With-profits whole of life policies guarantee a minimum amount payable on death. The guaranteed annuities or lump sums represent investment returns on contributions mainly at 5% p.a. A terminal bonus may be paid at maturity or retirement, and on death, depending on the investment performance of the with-profits policyholder assets when the policyholder receives the higher of the asset share and the minimum guaranteed amount. The asset share is based on the contributions invested plus an allocation of investment return less a fixed charge for expenses, and certain direct expenses. In accordance with the Principles and Practices of Financial Management for its with-profits business S&P may make a deduction of up to 1.5% per annum from the asset shares of with-profits policyholders to meet the future cost of guarantees. The amount deducted remains part of the assets in the with-profits policyholder funds. The size of the deduction is reassessed at least annually. In the event of a policyholder choosing to transfer out, the amount payable is not guaranteed and is based on the asset share.

Management of risks
For life endowment and whole of life policies mortality risk is material. This risk is mitigated to some extent by the use of reinsurance. The risk is to increases in mortality rates, which are most likely to be from epidemics or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

For deferred annuity contracts, the risk is to improving mortality. The risk is managed through the initial pricing, and technical provisions are assessed allowing for future mortality improvements based on industry available information on mortality experience.

Concentration of insurance risk
Through the use of reinsurance exposures to material insurance risks on individual cases are avoided, with 98.2% of the business having retained sums of less than £250,000.

Other risks on insurance contracts
Apart from financial risks relating to the financial assets, which support life assurance contracts, as set out in Note 6, there are other significant types of risk pertaining to life insurance contracts written by the UK business, as follows:

Expense risk
The strategy of the UK business is to outsource all operational activities to third party administrators in order to reduce the significant expense inefficiencies that would arise with fixed and semi-fixed costs on a diminishing policy base. There are, however, risks associated with the use of outsourcing. In particular, there will be a need in future to renegotiate the terms of the outsourcing arrangements as the existing agreements expire. There is also a risk that, at some point in the future, third party administrators could default on their obligations. The UK business monitors the financial soundness of third party administrators and has retained step-in rights on the more significant of these agreements. There are also contractual arrangements in place which provide for financial penalties in the event of default by the administration service provider.

Mortgage endowment misselling complaints
The UK business has experienced a significant level of complaints from mortgage endowment policyholders since their first regulatory mailing programme in 2000. In response to this, the UK business holds mortgage endowment complaints redress provisions. The UK business continues to monitor closely, among other factors, the volume of complaints and the value of compensation paid to policyholders in order to assess the continuing adequacy of the provisions.

There remains however a residual risk that at some point in future the levels of complaints received may prove to be higher than those anticipated within the provision.

Persistency risk
Persistency risk is the risk that the investor cancels the contract or discontinues paying new premiums into the contract, thereby exposing the UK business to a loss resulting from an adverse movement in the actual experience compared to that expected in the product pricing. Although changes in the levels of persistency would not adversely affect the result in the short-term they would reduce future profits available from the contract.

Assumptions and sensitivities
The assumptions and sensitivities relating to insurance contract provisions for the UK business are set out in Note 31 Insurance Contract Provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 Management of insurance risk (continued)

Swedish business

The terms and conditions of insurance contracts which have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out in the product analyses below, which give an assessment of the main products of Movestic and of the ways in which the associated risks are managed. The breakdown of the insurance products of Movestic, by gross and net premiums written and by claims outstanding, which reflects the scale of business written, is as follows:

Premiums
Year ended 31 December

	Before reinsurance 2014 £000	Before reinsurance 2013 £000	After reinsurance 2014 £000	After reinsurance 2013 £000
Group				
Sweden	20,980	22,351	8,121	8,742
Norway	149	634	31	105
Individual				
Death	3,067	3,587	1,429	1,705
Waiver of premium	3,196	3,140	934	797
Income protection	9,149	9,566	7,750	5,437
	36,541	**39,278**	**18,265**	**16,786**

Claims outstanding
As at 31 December

	Before reinsurance 2014 £000	Before reinsurance 2013 £000	After reinsurance 2014 £000	After reinsurance 2013 £000
Group				
Sweden	32,398	22,020	6,333	4,372
Norway	3,350	4,455	531	720
Individual				
Death	563	950	201	359
Waiver of premium	5,618	6,396	1,589	1,694
Income protection	19,831	29,235	9,903	11,485
	61,760	**63,056**	**18,557**	**18,630**

Terms and conditions

Product features – Group Contracts

Group Contracts insure policyholders in respect of death with the option to include additional accident and disability benefits. Policyholders may also include their spouse and children (up to the age of 25) on the policy.

Policies are sold in both Sweden and Norway and all sales are intermediated. Group Contracts sold in Sweden allow the policyholder to choose the sum assured level. Contracts sold in Norway have sum assured levels that are normally determined by the policyholders' employer and apply to all members of that company scheme.

The Swedish product provides a maximum coverage of insured benefits up to 40 times a base amount (as at 31 December 2014 SEK 44,400, being approximately £3,679) although most policies are between 6 to 15 times the base amount.

The Norwegian product provides a maximum coverage of insured benefits up to 80 times a base amount (as at 31 December 2014 NOK 88,370, being approximately £7,622) although most policies are between 5 to 10 times the base amount.

All contracts are for an annual period and premium payments are made usually on either an annual or quarterly basis.

Product features – Individual Contracts

In relation to Individual Contracts, Movestic writes contracts, which include death and morbidity benefits on term assurance with disability, waiver of premium and income protection options. Policies are sold in Sweden and all sales are intermediated.

In relation to the income protection and the waiver of premium benefits within the Individual Contracts, the monthly benefits upon a claim may be payable to the policyholders over a long period up to their retirement. The contracts have been unbundled as between insurance and investment contracts. Risk in respect of investment contracts is described in Note 6. All insurance contracts are for an annual period and payments are made on a monthly basis.

Management of risk

The main risk associated with the Group and Individual Contracts is the frequency of claims (for either death or accident or sickness). Claims experience can be variable, with the main factors being the age, sex and occupation of the policyholder.

In addition, for the Group Contracts, Movestic is exposed to a single loss event that covers a number of employees of an organisation.

The key risks are managed through appropriate product design and pricing of the policies to ensure that the potential cost to Movestic of these events (and associated expenses of underwriting and administration) are reflected in the price charged to the policyholder. Key controls implemented include a defined pricing structure based on the characteristics of the policyholder and the regular review of management information on the type and frequency of accidents.

Group Contracts are issued on an annual basis which means that Movestic's exposure runs for a period of 12 months, after which Movestic has the option to decline to renew or can increase the price on renewal.

Individual Contracts are long-term contracts but Movestic has the option to review the premiums on an annual basis.

For both the Group and Individual Contracts, between 30% to 90% of the premiums and claims relating to this product are ceded to a reinsurer which reduces the overall insurance risk exposure to Movestic. The policies and products from the Aspis acquisition are reinsured for approximately 80% of the claims amount.

In addition, for the majority of the Group Contracts, the loss arising from a single event to multiple employees is reinsured. The reinsurance provides indemnity for a single loss between SEK 5m (approximately £0.4m) and SEK 140m (approximately £11.6m).

Concentration of insurance risk

Concentration of insurance risk is determined by reference to benefits assured for Individual Contracts and by estimated maximum loss for Group Contracts.

Regarding benefits assured for individual contracts, the combined effect of reinsurance and the fact that the vast majority of the total benefit assured relates to numerous small value contracts, limit the level of concentration risk. Through the use of reinsurance exposures to material insurance risks on individual cases are avoided, with 99.7% of the business having retained sums assured of less than £250,000.

In respect of Group Contracts, the business is exposed to multiple employees of the same organisation being involved in a single loss event. Movestic estimates that its largest such exposures arise in Norway, where the Group Contracts sold tend to cover all employees within that organisation (whereas in Sweden employees may opt in to the Group Contract). Movestic forecasts that its maximum loss would be approximately SEK 108m (approximately £9m) gross of reinsurance and SEK 5m (approximately £0.4m) after reinsurance.

Assumptions and sensitivities for Group Contract and Individual Contract insurance contract provisions

Information relating to insurance contract provisions assumptions and sensitivities for the Swedish business is set out in Note 31 Insurance Contract Provisions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk

The Group is exposed to a range of financial risks, principally through its insurance contracts, financial assets, including assets representing shareholder assets, financial liabilities, including investment contracts and borrowings, and its reinsurance assets. In particular, the key financial risk is that, in the long-term, proceeds from financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts and borrowings. The most important components of this financial risk are market risk (interest rate risk, equity and property price risk, foreign currency exchange risk and liquidity risk), and credit risk, including the risk of reinsurer default. Further, the Group has significant foreign currency exchange rate risk in relation to movements between the Swedish Krona and Sterling arising from its ownership of Movestic.

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out in Note 5. The terms and conditions of investment contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from investment contracts are as follows:

The Group provides three types of investment contract: unit-linked savings, unit-linked pensions predominantly written in the UK and Sweden and guaranteed income and growth bonds predominantly written in the UK.

(i) Unit-linked savings are single or regular premium contracts, with the premiums invested in a pooled investment fund, where the policyholder's investment is represented by units or trust accounts where the policyholder decides where to invest. On certain contracts there is a small additional benefit payable on death which is deemed not to transfer significant insurance risk to the business for these contracts. The benefits payable at maturity or surrender of the contracts are the underlying value of the investment in the unit-linked funds or trust accounts, less surrender penalties where applicable.

(ii) Unit-linked pensions are single or regular premium contracts with features similar to unit-linked savings contracts. Benefits are payable on transfer, retirement or death.

(iii) Guaranteed income bonds are mainly single premium contracts for a fixed term offering fixed-income payments plus a return of capital at maturity. A guaranteed growth bond offers no income, but a higher guaranteed payment at maturity date. The last such contract matured in 2014.

Market risk management

(i) General

The Group businesses manage their market risks within asset liability matching (ALM) frameworks that have been developed to achieve long-term investment returns at least equal to their obligations under insurance and investment contracts, with minimal risk. Within the ALM frameworks the businesses periodically produce reports at legal entity and asset and liability class level, which are circulated to the businesses' key management. The principal technique of the ALM frameworks is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to policyholders, with separate portfolios of assets being maintained for each distinct class of liability.

For unit-linked contracts the Group's objective is to match the liabilities, both insurance and investment contract liabilities, with units in the assets of the funds to which the value of the liabilities is linked, such that the policyholder bears the market risk. This minimises the impact of market risks on these contracts, such that the remaining primary exposure to market risk is the risk of volatility in asset-related fees due to the impact of interest rate, equity price and foreign currency movements on the fair value of the unit-linked assets, on which asset-related fees are based.

For non unit-linked business, the Group's objective is to match the timing of cash flows from insurance and investment contract liabilities with the timing of cash flows from assets subject to identical or similar risks. By matching the cash flows of liabilities with those of suitable assets, market risk is managed effectively, whilst liquidity risk is minimised. These processes to manage the risks, which the Group has not changed from previous periods, ensure that the Group is able to meet its obligations under its contractual liabilities as they fall due.

With respect to S&P there is significant additional risk insofar as investment returns on policyholder with-profits assets supporting the with-profits business may result in insufficient policyholder assets to meet contractual obligations to with-profits policyholders, because of the impact of contract guarantees, as explained further on the next page.

The notes below explain how market risks are managed using the categories utilised in the businesses' ALM (Asset Liability Matching) frameworks. In particular, the ALM frameworks require the management of interest risk, equity price risk, and liquidity risk at the portfolio level, so that the appropriate risks for each portfolio may be managed in an effective way. The following tables reconcile the classes and portfolios used in the businesses' ALM frameworks to relevant items in the consolidated balance sheet and are followed by a portfolio-by-portfolio description of the nature of the related market risk and how that risk is managed.

31 December 2014

	Unit-linked contracts £000	Insurance* contracts with DPF £000	Annuities in payment £000	Guaranteed bonds £000	Other non-linked contracts £000	Total £000
Assets						
Property and equipment	-	-	-	-	477	477
Investment in associates	-	-	-	-	4,388	4,388
Investment properties	3,005	1,840	-	-	675	5,520
Reinsurers' share of insurance contract provisions	111,874	88,316	-	-	135,746	335,936
Amounts deposited with reinsurers	35,498	-	-	-	-	35,498
Financial assets						
Equity securities at fair value through income	474,965	4	-	-	1,014	475,983
Holdings in collective investment schemes at fair value through income	3,136,850	316,357	-	-	63,217	3,516,424
Debt securities at fair value through income	129,527	68,067	114,868	-	64,731	377,193
Insurance and other receivables	17,589	384	-	-	27,387	45,360
Prepayments	752	410	-	-	3,659	4,821
Derivative financial instruments	712	322	-	-	2,546	3,580
Total financial assets	3,760,395	385,544	114,868	-	162,554	4,423,361
Reinsurers' share of accrued policyholder claims	9,575	-	-	-	5,147	14,722
Income taxes	-	-	-	-	1,962	1,962
Cash and cash equivalents	80,321	2,120	1,493	-	157,765	241,699
Total assets	**4,000,668**	**477,820**	**116,361**	**-**	**468,714**	**5,063,563**
Liabilities						
Insurance contract provisions	1,539,842	433,329	115,676	-	219,196	2,308,043
Other provisions	3	-	-	-	726	729
Financial liabilities						
Investment contracts at fair value through income	2,383,795	-	-	-	6,017	2,389,812
Borrowings	-	-	-	-	87,296	87,296
Derivative financial instruments	42	7	-	-	-	49
Total financial liabilities	2,383,837	7	-	-	93,313	2,477,157
Deferred tax liabilities	-	-	-	-	8,340	8,340
Reinsurance payables	949	11	-	-	9,539	10,499
Payables related to direct insurance and investment contracts	30,368	4,340	680	-	23,401	58,789
Income taxes	-	-	-	-	4,168	4,168
Other payables	4,070	338	-	-	14,059	18,467
Bank overdrafts	-	-	-	-	1,189	1,189
Total liabilities	**3,959,069**	**438,025**	**116,356**	**-**	**373,931**	**4,887,381**

*Insurance contract with DPF include shareholder funds within the S&P with-profits funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

31 December 2013

	Unit-linked contracts £000	Insurance* contracts with DPF £000	Annuities in payment £000	Guaranteed bonds £000	Other non-linked contracts £000	Total £000
Assets						
Property and equipment	–	–	–	–	673	673
Investment in associates	–	–	–	–	4,088	4,088
Investment properties	13,692	6,215	–	–	480	20,387
Reinsurers' share of insurance contract provisions	135,324	108,458	–	–	136,112	379,894
Amounts deposited with reinsurers	34,293	–	–	–	–	34,293
Financial assets						
Equity securities at fair value through income	479,615	2	–	–	–	479,617
Holdings in collective investment schemes at fair value through income	3,063,716	308,869	–	–	68,407	3,440,992
Debt securities at fair value through income	154,576	55,214	100,790	836	59,250	370,666
Insurance and other receivables	15,268	819	–	33	30,262	46,382
Prepayments	301	225	–	–	4,363	4,889
Derivative financial instruments	548	318	–	–	2,090	2,956
Total financial assets	3,714,024	365,447	100,790	869	164,372	4,345,502
Reinsurers' share of accrued policyholder claims	6,459	119	–	–	4,821	11,399
Income taxes	–	–	–	–	2,608	2,608
Cash and cash equivalents	73,274	2,206	1,044	544	107,195	184,263
Total assets	**3,977,066**	**482,445**	**101,834**	**1,413**	**420,349**	**4,983,107**
Liabilities						
Insurance contract provisions	1,619,473	423,611	100,865	–	218,114	2,362,063
Other provisions	3	–	–	–	5,345	5,348
Financial liabilities						
Investment contracts at fair value through income	2,276,135	–	–	866	6,402	2,283,403
Borrowings	–	–	–	–	94,377	94,377
Derivative financial instruments	387	–	–	–		387
Total financial liabilities	2,276,522	–	–	866	100,779	2,378,167
Deferred tax liabilities	–	–	–	–	11,007	11,007
Reinsurance payables	1,412	10	–	–	10,117	11,539
Payables related to direct insurance and investment contracts	14,925	4,849	567	61	26,735	47,137
Income taxes	–	–	–	–	8,012	8,012
Other payables	4,637	637	–	–	21,830	27,104
Bank overdrafts	61	4	–	–	1,062	1,127
Total liabilities	**3,917,033**	**429,111**	**101,432**	**927**	**403,001**	**4,851,504**

*Insurance contract with DPF include shareholder funds within the S&P with-profits funds.

Unit-linked contracts
For unit-linked contracts, which may be insurance or investment contracts, the Group matches the financial liabilities, with units in the financial assets of the funds to which the value of the liabilities is linked, such that the policyholders bear the principal market risk (being interest rate, equity price and foreign currency risks) and credit risk. Accordingly, this approach results in the Group having no significant direct market or credit risk on these contracts. Its primary exposure to market risk is the risk of volatility in asset-related fees due to the impact of interest rate, equity price and foreign exchange rate movements on the fair value of the assets held in the linked funds, on which asset-related fees are based.

There is residual exposure to market risk on certain unit-linked contracts where the Group provides to policyholders guarantees as to fund performance or additional benefits which are not dependent on fund performance. This exposure is mitigated to the extent that the Group matches the obligations with suitable financial assets external to the unit-linked funds, such that the residual exposure is not considered to be material.

Insurance contracts with discretionary participation features
Insurance contracts with discretionary participation features subsist entirely within the UK businesses in the form of with-profits policies.

For the CA business, where the policyholder benefits comprise a discretionary annual bonus and a discretionary terminal bonus, the with-profits business is wholly reinsured to Guardian and hence there is no market risk for this class of business. Policyholders have the option, for a small element of the with-profits business, to invest a portion of their investment in unit-linked funds as an alternative to the with-profits fund. In this case, a portion of the business is retained, with the management of financial risks of this portion being the same as described under 'Unit-linked Contracts' above.

For the S&P business the primary investment objective of the with-profits policyholder funds is that the guaranteed minimum benefits of the with-profits policyholders should be met entirely from the policyholder funds. The secondary investment objective is, where possible, to provide a surplus in excess of the guaranteed minimum benefits. The entire surplus in the policyholder fund accrues to the with-profits policyholders. Any deficit in the policyholder fund is ultimately borne by shareholders. Therefore the Group has a significant exposure to market risk in relation to with-profits business should the with-profits policyholder assets be unable to fully meet the cost of guarantees. To achieve the investment objectives, the funds may invest in a range of asset classes including property, equities, fixed interest securities, convertibles, cash and derivatives, both in UK and overseas investments. Such exposure may be achieved by investment in collective investment schemes (including such schemes with total or absolute return objectives or which include investments in commodities). Investment guidelines restrict the level of exposure for certain asset categories. In respect of derivatives, these may only be used for the purposes of reduction of investment risks and efficient portfolio management.

The PL segment does not contain any products that contain discretionary participation features.

Annuities in payment
These are contracts which pay guaranteed financial benefits, generally monthly, for the lifetime of the policyholder, and in some cases of their spouse. The financial component of these contracts is a guaranteed fixed interest rate: accordingly the Group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the fixed interest debt securities backing the liabilities are insufficient to fund the benefits payable. The Group manages the interest rate risk by matching closely new contracts written with fixed interest debt securities of a suitable duration and quality. Regular monitoring of the interest rate risk is carried out by analysis of expected cash flows from the financial assets held with those for the liabilities, which are determined by means of projecting expected cash flows from the contracts using prudent estimates of mortality.

Guaranteed bonds
These contracts are for a fixed term with financial benefits that are fixed and guaranteed at the inception of the contract. The Group manages its market risk on these products, by closely matching contracts written with fixed interest debt securities of a suitable duration and quality. Accordingly, the Group's primary financial risk is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable. Regular monitoring of the interest rate risk is carried out by analysis of expected cash flows from the financial assets held with those for the liabilities, which are determined assuming all contracts continue until their expected maturity date. This analysis also enables the Group to control its liquidity risk for this portfolio. The liabilities at 31 December 2014 associated with these products amounted to £nil (31 December 2013: £866,000), as the last two guaranteed bonds matured in November 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

Other non-linked contracts and shareholder funds

These categories, in which market risk is borne by shareholders, consist of non-linked insurance contracts without DPF and of net shareholder assets representing shareholders' equity. The Group manages market risks by setting investment guidelines which restrict market exposures.

Non-linked contracts without DPF include contracts which pay guaranteed benefits on death or other insured events, the terms being fixed at the inception of the contract. Exposure to market price risk is minimised by generally investing in fixed-interest debt securities, while interest rate risk is generally managed by closely matching contracts written with financial assets of suitable yield and duration. To the extent that the Group is unable to fully match its interest rate risk, it makes provision in respect of assumed shortfalls on guaranteed returns to policyholders.

Shareholder funds at both Group parent company and operating subsidiary level, in accordance with corporate objectives and, in some instances, in accordance with local statutory solvency requirements, are invested in order to protect capital and to minimise market and credit risk. Accordingly they are generally invested in assets of a shorter-term liquid nature, which gives rise to the risk of lower returns on these investments due to changes in short-term interest rates.

(ii) Liquidity risk

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due and is managed by forecasting cash requirements and by adjusting investment management strategies to meet those requirements. Liquidity risk is generally mitigated by holding sufficient investments which are readily marketable in sufficiently short timeframes to allow the settlement of liabilities as they fall due. Where liabilities are backed by less marketable assets, for example investment properties, there are provisions in contractual terms which allow deferral of redemptions in times of adverse market conditions. The Group's substantial holdings of money market assets also serves to reduce liquidity risk.

The tables below present a maturity analysis of the Group's liabilities, showing balance sheet carrying value and distinguishing between investment contracts and insurance contracts and other liabilities.

Policies arising on the acquisition of Protection Life are all categorised as "Other non-linked" in the table below.

31 December 2014

		Contractual cash flows (undiscounted)					
Carrying values and cash flows arising from:	**Carrying value £000**	**0-5 years £000**	**5-10 years £000**	**10-15 years £000**	**15-20 years £000**	**>20 years £000**	**Total £000**
Insurance contract liabilities							
Unit-linked	1,539,842	1,539,842	–	–	–	–	1,539,842
With-DPF							
CA	93,407	93,407	–	–	–	–	93,407
S&P	339,922	118,921	85,156	80,771	52,398	16,860	354,106
Annuities in payment	115,676	28,009	24,665	20,949	16,928	25,112	115,663
Other non-linked	219,196	127,678	77,133	17,811	4,457	5,436	232,515
Investment contract liabilities							
Unit-linked	2,383,795	2,383,795	–	–	–	–	2,383,795
Guaranteed bonds	–	–	–	–	–	–	–
Other	6,017	6,017	–	–	–	–	6,017
Other liabilities	189,526	189,526	–	–	–	–	189,526
Total	**4,887,381**	**4,487,195**	**186,954**	**119,531**	**73,783**	**47,408**	**4,914,871**

31 December 2013

Carrying values and cash flows arising from:	Carrying value £000	Contractual cash flows (undiscounted) 0-5 years £000	5-10 years £000	10-15 years £000	15-20 years £000	>20 years £000	Total £000
Insurance contract liabilities							
Unit-linked	1,619,473	1,619,473	–	–	–	–	1,619,473
With-PDF							
CA	113,140	113,140	–	–	–	–	113,140
S&P	310,471	100,228	81,984	92,718	74,544	37,127	386,601
Annuities in payment	100,865	27,639	24,366	20,802	16,996	27,023	116,826
Other non-linked	218,114	84,331	82,232	23,014	4,342	5,659	199,578
Investment contract liabilities							
Unit-linked	2,276,135	2,276,135	–	–	–	–	2,276,135
Guaranteed bonds	866	866	–	–	–	–	866
Other	6,402	6,402	–	–	–	–	6,402
Other liabilities	206,038	206,038	–	–	–	–	206,038
Total	**4,851,504**	**4,434,252**	**188,582**	**136,534**	**95,882**	**69,809**	**4,925,059**

The maturity analysis for unit-linked insurance and investment contracts presents all the liabilities as due in the earliest period in the table because they are repayable or transferable on demand.

Insurance contracts with DPF (with-profits business) can be surrendered before maturity for a cash amount specified in contractual terms and conditions. Accordingly, a maturity analysis based on the earliest contractual repayment date would present all the liabilities as due in the earliest period of the table because this option can be exercised immediately by all policyholders. As stated above, CA insurance contracts with DPF are wholly reinsured to Guardian and hence, in practice, there is no liquidity risk, the only risk retained for this business being the risk of default by the reinsurer, which is detailed under 'Credit Risk Management' below. The maturity analysis in respect of the S&P segment of the business, however, is presented on an estimated basis, in accordance with the anticipated maturity profile and on estimates of mortality.

(iii) Currency risk

Currency risk is the risk that the fair value or future cash flows of an asset or liability will change as a result of movements in foreign exchange rates. The Group's exposure to currency risk is minimised to the extent that the risk on investments denominated in foreign currencies which back unit-linked investment and insurance contracts is borne by policyholders. It is, however, exposed to currency risk through:

(i) holding Euro denominated cash balances in anticipation of the Group's proposed acquisition of the Waard Group;

(ii) its investment in Movestic, the assets and liabilities of which are principally denominated in Swedish Krona;

(iii) the trading operations of Movestic, which include the underwriting of insurance contracts in Norway giving rise to some exposure to the Norwegian Krone: as the Swedish business reinsures 90 per cent of the risk and has some assets denominated in the same currencies as the foreign insurance liabilities, most of the foreign currency exchange rate risk on these operations is eliminated; and

(iv) Movestic's part ownership of Modernac SA, an associated company, the assets and liabilities of which are denominated in Euros.

The Group's currency risk through its ownership of Movestic is reflected in:

(i) foreign exchange translation differences arising on the translation into sterling and consolidation of Movestic's financial statements; and

(ii) the impact of adverse exchange rate movements on cash flows between Chesnara plc and Movestic: in the short-term these relate to capital contributions made to Movestic to support its regulatory solvency capital resource requirements as it develops, while, in the medium-term there is the prospect of cash flows from Movestic to Chesnara by way of dividend payments. The risk on cash flows is managed by closely monitoring exchange rate movements and buying forward foreign exchange contracts, where deemed appropriate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

(iii) Currency risk (continued)

The following tables set out the Group's exposure to assets and liabilities denominated in foreign currencies, expressed in sterling, at the respective balance sheet date:

31 December	2014 £000	2013 £000
Swedish Krona		
Assets	1,982,299	1,833,571
Liabilities	(1,939,819)	(1,791,390)
Net assets	**42,480**	**42,181**
Norwegian Krone		
Assets	3,587	5,137
Liabilities	(3,566)	(4,976)
Net liabilities	**21**	**161**
US Dollar		
Assets	570	–
Liabilities	(585)	–
Net assets	**(15)**	–
Euro		
Assets	43,965	666
Liabilities	(55)	(8)
Net assets	**43,910**	**658**

(iv) Sensitivities

The table below shows the impact of movements in market risk variables identified above on profit before tax for the year under review and on shareholder equity as at the balance sheet date.

The variables are:

(i) a 10% increase and decrease in the value of assets backing unit-linked insurance and investment contract liabilities;

(ii) a 10% increase and decrease in equity and property values;

(iii) a 100 basis point increase and decrease in per annum market rates of interest; and

(iv) a 10% favourable and adverse movement in foreign currency exchange rates.

As explained above, market risks relating to assets backing unit-linked insurance and investment contract liabilities are borne by policyholders, while there is shareholder exposure to volatility in asset-related fees due to the impact of interest rate, equity price and foreign exchange rate movements on the fair value of the assets held in the linked funds, on which asset-related fees are based. Accordingly, the sensitivities to these risks are presented as generic sensitivities to unit-linked asset movements.

Variation in/arising from	2014		2013	
	Profit before tax £m	Shareholders' equity £m	Profit before tax £m	Shareholders' equity £m
100 bp increase in market rates of interest	5.9	4.7	9.3	7.3
100 bp decrease in market rates of interest	(7.2)	(5.8)	(11.5)	(9.0)
10% increase in equity and property prices	14.1	11.2	11.8	9.3
10% decrease in equity and property prices	(14.1)	(11.2)	(11.8)	(9.3)
10% favourable movement in SEK: sterling exchange rate	0.5	4.7	0.3	4.7
10% adverse movement in SEK: sterling exchange rate	(0.4)	(3.9)	(0.2)	(3.8)

Credit risk management

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- Counterparty risk with respect to debt securities and cash deposits;
- Reinsurers' share of insurance liabilities;
- Amounts deposited with reinsurers in relation to investment contracts;
- Amounts due from reinsurers in respect of claims already paid; and
- Insurance and other receivables.

In addition there will be some exposures to individual policyholders, on amounts due on insurance contracts. These are tightly controlled, with contracts being terminated or benefits amended if amounts owed are outstanding for more than a specified period of time, so that there is no significant risk to the results of the businesses.

The Group businesses structure the levels of credit risk they accept by placing limits on their exposure to a single counterparty, or group of counterparties. Such risks are subject to at least an annual review, while watch lists are maintained for exposures requiring additional review.

Although the businesses hold a significant proportion of their financial assets in debt securities and cash deposits the risk of default on these is mitigated to the extent that any losses arising in respect of unit-linked assets backing the insurance and investment contracts which the businesses issue, would effectively be passed on to policyholders and investors through the unit-linked funds backing the insurance and investment contracts.

Reinsurance is used to manage insurance risk in the businesses. This does not, however, discharge the businesses' liability as primary insurers. If a reinsurer fails to pay a claim for any reason, the businesses remain liable for the payment to the policyholder. In respect of Movestic, the current guidelines state that re-insurance should only be effected with counterparties with a credit rating of A or higher, except for the reinsurer which is an associate of Movestic: this credit risk is managed by Movestic being represented on the Board of the reinsurer and, therefore, being able to influence its strategy and operational decisions.

The creditworthiness of major reinsurers is considered on an annual basis by reviewing their financial strength.

The following table presents the assets of the Group which are subject to credit risk and a reconciliation to the balance sheet carrying value of each item:

31 December		2014			2013	
	Amount not subject to credit risk £000	Amount subject to credit risk £000	Balance sheet carrying value £000	Amount not subject to credit risk £000	Amount subject to credit risk £000	Balance sheet carrying value £000
Holdings in collective investment schemes	3,515,878	546	3,516,424	3,440,542	450	3,440,992
Debt securities	114,983	262,210	377,193	137,632	233,034	370,666
Cash and cash equivalents	64,594	177,105	241,699	57,721	126,542	184,263
Derivative financial instruments	3,258	322	3,580	2,633	323	2,956
Reinsurers' share of insurance contract liabilities	–	335,936	335,936	–	379,894	379,894
Amounts deposited with reinsurers	–	35,498	35,498	–	34,293	34,293
Insurance and other receivables	32,863	12,497	45,360	26,970	19,412	46,382
Reinsurers' share of accrued policyholder claims	–	14,722	14,722	–	11,399	11,399
Income taxes	–	1,962	1,962	–	2,608	2,608
Total	**3,731,576**	**840,798**	**4,572,374**	**3,665,498**	**807,955**	**4,473,453**

The amounts presented above as not being subject to credit risk represent unit-linked assets where the risk is borne by the holders of unit-linked insurance and investment contracts, except for (i) reinsurers' share of insurers' contract provisions and (ii) amounts deposited with reinsurers in respect of investment contracts, where the risk of default is borne by shareholders.

Assets held to cover Insurance contracts with DPF, held within a segregated with-profits fund, are included as being subject to credit risk, as such risk will be borne by shareholders where default would result in there being insufficient with-profits policyholder assets to fund minimum guaranteed obligations. However, in normal circumstances (where the asset share is in excess of the minimum guaranteed amount) substantially all the credit risk remains with policyholders.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

Credit risk management (continued)

The Group's exposure to credit risk is summarised as:

Credit rating As at 31 December 2014	AAA £000	AA £000	A £000	Below A £000	Unrated £000	Total £000
Reinsurers share of insurance contract liabilities	–	127,372	–	–	208,564	335,936
Holdings in collective investment schemes	–	–	546	–		546
Amounts deposited with reinsurers	–	–	–	–	35,498	35,498
Debt securities at fair value through income	162,248	93,752	5,025	–	1,185	262,210
Insurance and other receivables	1,305	10,733	91	–	368	12,497
Reinsurers share of accrued policyholder claims	–	6,068	362	–	8,292	14,722
Derivative financial instruments	–	–	322	–	–	322
Income taxes	–	1, 962	–	–	–	1,962
Cash and cash equivalents	4,154	60,133	112,759	–	59	177,105
Total	**167,707**	**300,020**	**119,105**	**–**	**253,966**	**840,798**
As at 31 December 2013						
Reinsurers share of insurance contract liabilities	–	124,658	3,848	–	251,388	379,894
Holdings in collective investment schemes	–	–	450	–	–	450
Amounts deposited with reinsurers	–	–	–	–	34,293	34,293
Debt securities at fair value through income	143,690	83,560	4,581	–	1,203	233,034
Insurance and other receivables	738	12,774	1,262	–	4,638	19,412
Reinsurers share of accrued policyholder claims	–	4,389	1,030	–	5,980	11,399
Derivative financial instruments	–	–	323	–	–	323
Income taxes	–	2,608	–	–	–	2,608
Cash and cash equivalents	–	36,768	89,724	–	50	126,542
Total	**144,428**	**264,757**	**101,218**	**–**	**297,552**	**807,955**

Included within unrated reinsurers' share of insurance contract provisions and unrated amounts deposited with reinsurers, in respect of investment contracts is a total significant exposure of £224.1m as at 31 December 2014 (31 December 2013: £265.0m) to Guardian, which does not have a published credit rating. Of this amount £179.5m (31 December 2013: £210.5m) is in respect of currently guaranteed benefits. This counterparty exposure was mitigated during 2006 when Guardian granted to CA a floating charge over related investment assets, which ranks that company equally with Guardian policyholders. In order to monitor the ongoing creditworthiness of Guardian, CA reviews the financial statements and regulatory returns submitted by Guardian to the PRA on an annual basis.

No credit limits were exceeded during the year ended 31 December 2014.

Financial assets that are past due or impaired

In 2008, a cash deposit with Kaupthing Singer & Friedlander ('KSF') was written down by its full amount of £1,091,000 as a result of KSF entering administration. During 2014, further interim distributions totalling £10,872 (2013: £59,794) were made from the administrators in respect of the deposit.

There are no other Group financial assets that are impaired, would otherwise be past due, or impaired, whose terms have been negotiated or past due but not impaired.

The Group has no significant exposure to Euro-denominated sovereign debt as at 31 December 2014.

7 Operating segments

The Group considers that it has no product or distribution-based business segments. It reports segmental information on the same basis as reported internally to the Chief Operating Decision Maker, which is the Board of Directors of Chesnara plc.

The segments of the Group as at 31 December 2014 comprise:

CA

This segment is part of the Group's UK life insurance and pensions run-off portfolio and comprises the original business of Countrywide Assured plc, the Group's principal UK operating subsidiary, and of City of Westminster Assurance Company Limited which was acquired in 2005 and the long-term business of which was transferred to Countrywide Assured plc during 2006. It is responsible for conducting unit-linked and non-linked business.

S&P

This segment, which was acquired on 20 December 2010, comprises the historical business of Save & Prosper Insurance Limited and its then subsidiary Save & Prosper Pensions Limited. It is responsible for conducting both unit-linked and non-linked business, including a with-profits portfolio, which carries significant additional market risk, as described in Note 6 'Management of financial risk'. On 31 December 2011 the whole of the business of this segment was transferred to Countrywide Assured plc under the provisions of Part VII of the Financial Services and Markets Act 2000.

PL

This segment represents the business of Protection Life, which was purchased on 28 November 2013. PL is included within the Group's UK business. It is responsible for conducting non-linked business. On 31 December 2014 the whole of the business of this segment was transferred to Countrywide Assured plc under the provisions of Part VII of the Financial Services and Markets Act 2000.

Movestic

This segment comprises the Group's Swedish life and pensions business, Movestic Livförsäkring AB ('Movestic') and its subsidiary and associated companies, which are open to new business and which are responsible for conducting both unit-linked and non-linked business.

Other Group Activities

The functions performed by the parent company, Chesnara plc, are defined under the operating segment analysis as Other Group Activities. Also included therein are consolidation and elimination adjustments.

There were no changes to the basis of segmentation during the year ended 31 December 2014.

The accounting policies of the segments are the same as those for the Group as a whole. Any transactions between the business segments are on normal commercial terms in normal market conditions. The Group evaluates performance of operating segments on the basis of the profit before tax attributable to shareholders and on the total assets and liabilities of the reporting segments and the Group. There were no changes to the measurement basis for segment profit during the year ended 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7 Operating segments (continued)

(i) Segmental income statement for the year ended 31 December 2014

	CA £000	S&P £000	PL £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Net insurance premium revenue	40,763	6,330	14,183	61,276	15,462	–	76,738
Fee and commission income	30,773	2,333	–	33,106	33,486	–	66,592
Net investment return	114,343	90,292	1,414	206,049	224,278	346	430,673
Total revenue (net of reinsurance payable)	**185,879**	**98,955**	**15,597**	**300,431**	**273,226**	**346**	**574,003**
Other operating income	3,011	11,664	–	14,675	6,086	2,863	23,624
Segmental income	**188,890**	**110,619**	**15,597**	**315,106**	**279,312**	**3,209**	**597,627**
Net insurance contract claims and benefits incurred	(99,382)	(106,986)	(4,959)	(211,327)	(7,891)	–	(219,218)
Net change in investment contract liabilities	(38,319)	(2,637)	–	(40,956)	(223,912)	–	(264,868)
Fees, commission and other acquisition costs	(627)	(26)	(1,364)	(2,017)	(19,690)	–	(21,707)
Administrative expenses							
Amortisation charge on software assets	–	–	–	–	(2,188)	–	(2,188)
Depreciation charge on property and equipment	(22)	–	–	(22)	(187)	–	(209)
Other	(9,069)	(9,741)	(2,121)	(20,931)	(11,273)	(7,893)	(40,097)
Other operating expenses							
Charge for amortisation of acquired value of in-force business	(2,345)	(701)	(2,433)	(5,479)	(3,802)	–	(9,281)
Charge for amortisation of acquired value of customer relationships	–	–	–	–	(263)	–	(263)
Other	(173)	(411)	(1,636)	(2,220)	(5,973)	(647)	(8,840)
Segmental expenses	**(149,937)**	**(120,502)**	**(12,513)**	**(282,952)**	**(275,179)**	**(8,540)**	**(566,671)**
Segmental income less expenses	**38,953**	**(9,883)**	**3,084**	**32,154**	**4,133**	**(5,331)**	**30,956**
Share of profit from associates	–	–	–	–	855	-	855
Financing costs	–	(4)	–	(4)	(663)	(2,341)	(3,008)
Profit/(loss) before tax	**38,953**	**(9,887)**	**3,084**	**32,150**	**4,325**	**(7,672)**	**28,803**
Income tax credit/(expense)				(5,045)	929	888	(3,228)
Profit/(loss) after tax				**27,105**	**5,254**	**(6,784)**	**25,575**

(ii) Segmental balance sheet as at 31 December 2014

	CA £000	S&P £000	PL £000	Movestic £000	Other Group Activities £000	Total £000
Total assets	1,848,094	1,234,780	172,769	1,999,102	83,301	5,338,046
Total liabilities	(1,755,521)	(1,181,721)	(115,161)	(1,940,262)	(66,548)	(5,059,213)
Net assets	**92,573**	**53,059**	**57,608**	**58,840**	**16,753**	**278,833**
Investment in associates	–	–	–	4,388	–	4,388
Additions to non-current assets	–	–	–	17,297	–	17,297

(iii) Segmental income statement for the year ended 31 December 2013

	CA £000	S&P £000	PL £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Net insurance premium revenue	49,331	7,325	1,183	57,839	16,630	–	74,469
Fee and commission income	31,893	2,499	–	34,392	35,598	–	69,990
Net investment return	198,807	152,413	(143)	351,077	216,182	204	567,463
Total revenue (net of reinsurance payable)	**280,031**	**162,237**	**1,040**	**443,308**	**268,410**	**204**	**711,922**
Other operating income	6,484	11,761	–	18,245	4,025	–	22,270
Segmental income	**286,515**	**173,998**	**1,040**	**461,553**	**272,435**	**204**	**734,192**
Net insurance contract claims and benefits incurred	(159,179)	(120,333)	(249)	(279,761)	(7,284)	–	(287,045)
Net change in investment contract liabilities	(92,878)	(6,163)	–	(99,041)	(215,523)	–	(314,564)
Fees, commission and other acquisition costs	(738)	(32)	(92)	(862)	(18,588)	–	(19,450)
Administrative expenses							
Amortisation charge on software assets	–	–	–	–	(2,188)	–	(2,188)
Depreciation charge on property and equipment	(22)	–	–	(22)	(187)	–	(209)
Other	(7,663)	(9,878)	(114)	(17,655)	(14,870)	(3,839)	(36,364)
Other operating expenses							
Charge for amortisation of acquired value of in-force business	(2,358)	(774)	(169)	(3,301)	(4,229)	–	(7,530)
Charge for amortisation of acquired value of customer relationships	–	–	–	–	(301)	–	(301)
Other	(924)	(1,143)	(391)	(2,458)	(4,085)	60	(6,483)
Segmental expenses	**(263,762)**	**(138,323)**	**(1,015)**	**(403,100)**	**(267,255)**	**(3,779)**	**(674,134)**
Segmental income less expenses	**22,753**	**35,675**	**25**	**58,453**	**5,180**	**(3,575)**	**60,058**
Share of profit from associates	–	–	–	–	1,252	-	1,252
Profit arising on business combinations	–	–	–	–	–	2,807	2,807
Financing costs	–	(4)	–	(4)	(2,140)	(1,383)	(3,527)
Profit/(loss) before tax	**22,753**	**35,671**	**25**	**58,449**	**4,292**	**(2,151)**	**60,590**
Income tax credit/(expense)				(11,604)	(423)	800	(11,227)
Profit/(loss) after tax				**46,845**	**3,869**	**(1,351)**	**49,363**

(iv) Segmental balance sheet as at 31 December 2013

	CA £000	S&P £000	PL £000	Movestic £000	Other Group Activities £000	Total £000
Total assets	1,899,700	1,263,269	181,059	1,853,374	40,319	5,237,721
Total liabilities	(1,824,706)	(1,169,406)	(125,783)	(1,791,943)	(78,781)	(4,990,619)
Net assets/(liabilities)	**74,994**	**93,863**	**55,276**	**61,431**	**(38,462)**	**247,102**
Investment in associates	–	–	–	4,088	–	4,088
Additions to non-current assets	–	–	20,211	17,787	–	37,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8 Fees and commission income

Year ended 31 December **Fee income**	**2014** **£000**	**2013** **£000**
Policy-based fees	13,712	14,910
Fund management-based fees	29,219	31,117
Benefit-based fees	18,490	16,962
Change in deferred income – gross	891	1,019
Change in deferred income – reinsurers' share	(57)	(66)
Total fee income	62,255	63,942
Commission income	4,337	6,048
Total fee and commission income	**66,592**	**69,990**

9 Net investment return

Year ended 31 December	**2014** **£000**	**2013** **£000**
Dividend income	30,032	19,049
Interest income	26,975	19,256
Rental income from investment properties	499	4,604
Net fair value gains and losses		
Equity securities designated as at fair value through income on initial recognition	287,851	503,258
Debt securities designated as at fair value through income on initial recognition	80,517	20,679
Derivative financial instruments	2,273	6,814
Investment properties	2,526	(6,197)
Net investment return	**430,673**	**567,463**

Net fair value gains and losses in respect of holdings in collective investment schemes are included in the line that is most appropriate taking into account the nature of the underlying investments.

No amounts included in net fair value gains and losses of financial instruments were estimated using a valuation technique (year ended 31 December 2013: £nil).

10 Other operating income

Year ended 31 December	**2014** **£000**	**2013** **£000**
Release of unused provisions (Note 35)	2,933	503
Administration fees charged to reinsurers	80	87
Professional indemnity insurance recoveries	21	35
Investment management fee rebate	14,408	17,550
HMRC interest on tax refund	44	16
Charges to policyholder funds for yield tax	5,973	4,020
Other	165	59
Total other operating income	**23,624**	**22,270**

All of the income streams set out in Notes 8, 9 and 10 equate to revenue as defined by IAS 18.

11 Insurance contract claims and benefits

Year ended 31 December	2014 £000	2013 £000
Claims and benefits paid to insurance contract holders	303,521	281,800
Net (decrease)/increase in insurance contract provisions	(39,676)	62,249
Total insurance contract claims and benefits	**263,845**	**344,049**
Reinsurer's share of claims and benefits	(44,627)	(57,004)
Net insurance contract claims and benefits incurred	**219,218**	**287,045**

12 Change in investment contract liabilities

Year ended 31 December	2014 £000	2013 £000
Net changes in the fair value of investment contracts designated on initial recognition as fair value through income	251,668	309,130
Net changes in the fair value of policyholders' funds held by the Group designated on initial recognition as fair value through income	15,472	11,002
Reinsurers' share of investment contract liabilities	(2,272)	(5,568)
Net increase in investment contract liabilities	**264,868**	**314,564**

Investment contract benefits comprise benefits accruing to holders of investment contracts issued by the Group.

13 Fees, commission and other acquisition costs

Year ended 31 December	2014 £000	2013 £000
Directly expensed costs:		
Insurance contracts		
Commission	7,717	6,577
New business and renewal costs	2,468	2,693
Investment contracts		
Commission	13,142	12,349
New business and renewal costs	4,895	3,861
Additions to deferred acquisition costs:		
Insurance contracts	(6,239)	(6,344)
Investment contracts	(9,970)	(9,029)
Amortisation of deferred acquisition costs:		
Insurance contracts	6,550	6,820
Investment contracts	3,179	2,565
Investment contracts-reinsurance	(35)	(42)
Total	**21,707**	**19,450**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14 Administrative expenses

Year ended 31 December	2014 £000	2013 £000
Personnel-related costs (Note 46)	14,556	14,906
Investment management fees	8,990	10,901
Amortisation charge on software assets	1,802	2,580
Depreciation charge on property and equipment	206	216
Costs paid to third-party administrators	11,159	7,903
Other goods and services	5,781	2,255
Total	**42,494**	**38,761**

Included in Other goods and services above are the following amounts payable to the Auditor and its associates, exclusive of VAT.

Year ended 31 December	2014 £000	2013 £000
Fees payable to the Company's Auditor for the audit of the Company's financial statements	50	48
Fees payable to the Company's Auditor and its associates for other services to the Group:		
The audit of the Company's subsidiaries pursuant to legislation	407	429
Audit-related assurance services*	284	335
Corporate finance Services**	161	66
All other services	–	8
Total	**902**	**886**

*includes the audit of regulatory returns submitted to the UK regulator in both years.
**2014 includes the fees associated with the acquisition of the Waard Group. 2013 includes fees associated with the acquisition of Protection Life.

15 Other operating expenses

Year ended 31 December	2014 £000	2013 £000
Charge for amortisation of acquired value of in-force business	**9,281**	**7,530**
Charge for amortisation of acquired value of customer relationships (AVCR)	**263**	**301**
Other		
Direct operating expenses of investment properties		
Revenue-generating properties	411	1,142
Non revenue-generating properties	22	105
Recovery of cash deposit	(11)	(60)
Payment of yield tax relating to policyholder funds	5,973	4,020
Other	2,445	1,276
Total	**8,840**	**6,483**

The recovery of cash deposit represents interim distributions received from the administrators of Kaupthing Singer & Friedlander relating to a cash deposit, previously written down and charged to operating expenses.

16 Financing costs

Year ended 31 December	2014 £000	2013 £000
Interest expense on bank borrowings	2,345	1,387
Interest expense on financial reinsurance	545	1,965
Other interest	118	175
Total financing costs	**3,008**	**3,527**

Interest expense on bank borrowings is calculated using the effective interest rate method and is the total interest expense for financial liabilities that are not designated at fair value through income.

17 Income tax

Total income tax comprises: Year ended 31 December	2014 £000	2013 £000
CA, S&P and Other Group Activities – net expense	(4,157)	(10,804)
Movestic – net credit/(expense) (See Movestic tax)	929	(423)
Total net expense	**(3,228)**	**(11,227)**

CA, S&P and Other Group Activities Year ended 31 December	2014 £000	2013 £000
Current tax		
Current year	(4,912)	(7,294)
Overseas tax	(531)	(541)
Adjustment to prior years	(307)	–
Net expense	(5,750)	(7,835)
Deferred tax		
Origination and reversal of temporary differences	5,431	(2,969)
Adjustment to prior years	(3,838)	–
Total income tax expense	**(4,157)**	**(10,804)**

Reconciliation of effective tax rate on profit before tax Year ended 31 December	2014 £000	2013 £000
Profit before tax	**24,479**	**56,299**
Income tax using the domestic corporation tax rate of 21.50% (2013: 23.25%)	(5,263)	(13,090)
Non-taxable profit on acquisition of subsidiary	–	653
Other permanent differences	(747)	(352)
Effect of UK tax bases on insurance profits		
Offset of franked investment income	2,295	2,978
Variation in rate of tax on amortisation of acquired in-force value	(92)	366
Foreign tax	(417)	(415)
Effect of change in tax rate	346	(965)
Other	28	21
Under provided in previous years	(4,145)	–
Recognition of Protection Life losses following Part VII transfer	3,838	–
Total income tax expense	**(4,157)**	**(10,804)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17 Income tax (continued)

A new regime for the taxation of life assurance companies in the UK was introduced with effect from 1 January 2013. The new regime bases the taxable trading profit on IFRS profits rather than on PRA return surplus generated as under the previous rules and also treats pension business separately from life assurance business. As part of the transition to the new regime, accumulated historical profits as at 31 December 2012 were compared between the two bases and the taxable difference is being charged over ten years.

Movestic
Year ended 31 December

	2014 £000	2013 £000
Current tax		
Current year expense	–	–
Adjustment to prior years	–	–
Net credits	–	–
Deferred tax		
Origination and reversal of temporary differences	929	(423)
Total income tax credit/(expense)	**929**	**(423)**

Reconciliation of effective tax rate on profit before tax
Year ended 31 December

	2014 £000	2013 £000
Profit before tax	**4,324**	**4,292**
Income tax using the domestic corporation tax rate of 22%	(951)	(944)
Non-taxable income in relation to unit-linked business	897	366
Non-taxable fair value adjustment	(99)	423
Impact of different tax rate for subsidiaries	–	(95)
Permanent differences	68	(201)
Unrecognised tax recoverable	152	61
Non-deductible expenses	(32)	(33)
Under provided in prior years	894	–
Total income tax credit/(expense)	**929**	**(423)**

18 Deferred acquisition costs

Year ended 31 December

	2014 £000	2013 £000
Balance at 1 January	**28,162**	**22,555**
Additions arising from new business	16,209	15,355
Amortisation charged to income	(9,729)	(7,030)
Impairment losses	–	(2,355)
Foreign exchange translation difference	(3,344)	(363)
Balance at 31 December	**31,298**	**28,162**
Current	3,190	3,178
Non-current	28,108	24,984
Total	**31,298**	**28,162**

The amortisation charged to income is recognised in Fees, Commission and Other Acquisition Costs (see Note 13).

19 Acquired value of in-force business (AVIF)

31 December	2014 £000	2013 £000
Cost:		
Balance at 1 January	**148,539**	**128,779**
Additions – acquisition of subsidiary	–	20,211
Foreign exchange translation difference	(8,649)	(451)
Balance at 31 December	**139,890**	**148,539**
Amortisation and impairment losses:		
Balance at 1 January	**59,924**	**52,661**
Amortisation for the year	9,281	7,530
Foreign exchange translation difference	(2,784)	(267)
Balance at 31 December	**66,421**	**59,924**
Carrying amounts		
At 1 January	**88,615**	**76,118**
At 31 December	**73,469**	**88,615**
Current	8,628	9,137
Non-current	64,841	79,478
Total	**73,469**	**88,615**

The amortisation is charged to the Consolidated Statement of Comprehensive Income and is recognised in Other Operating Expenses (see Note 15).

20 Acquired value of customer relationships (AVCR)

31 December	2014 £000	2013 £000
Cost:		
Balance at 1 January	**4,143**	**4,164**
Foreign exchange translation difference	(507)	(21)
Balance at 31 December	**3,636**	**4,143**
Amortisation and impairment losses:		
Balance at 1 January	**2,560**	**2,280**
Amortisation for the year	263	301
Foreign exchange translation difference	(330)	(21)
Balance at 31 December	**2,493**	**2,560**
Carrying amounts		
At 1 January	**1,583**	**1,884**
At 31 December	**1,143**	**1,583**
Current	274	290
Non-current	869	1,293
Total	**1,143**	**1,583**

The amortisation period of AVCR is based on the underlying returns on the policies expected to be written as a result of customer relationships.

The amortisation is charged to income and is recognised in Other Operating Expenses (see Note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21 Software assets

	2014 £000	2013 £000
Cost:		
Balance at 1 January	**14,214**	**12,483**
Additions	1,079	1,882
Foreign exchange translation difference	(1,807)	(151)
Balance at 31 December	**13,486**	**14,214**
Amortisation and impairment losses:		
Balance at 1 January	**9,210**	**6,771**
Amortisation charge for the year	1,802	2,580
Foreign exchange translation difference	(1,241)	(141)
Balance at 31 December	**9,771**	**9,210**
Carrying amounts at 31 December	**3,715**	**5,004**
Current	1,394	1,921
Non-current	2,321	3,083
Total	**3,715**	**5,004**

22 Property and equipment

31 December	2014 £000	2013 £000
Cost:		
Balance at 1 January	**2,000**	**1,373**
Additions – acquisitions of subsidiary	–	158
Additions	224	550
Disposals	(433)	(55)
Foreign exchange translation difference	(202)	(26)
Balance at 31 December	**1,589**	**2,000**
Amortisation and impairment losses:		
Balance at 1 January	**1,327**	**1,004**
Additions – acquisitions of subsidiary	–	158
Depreciation charge for the year	206	216
Disposals	(281)	(39)
Foreign exchange translation difference	(140)	(12)
Balance at 31 December	**1,112**	**1,327**
Carrying amounts at 31 December	**477**	**673**
Current	172	207
Non-current	305	466
Total	**477**	**673**

23 Investment in associate

31 December	2014 £000	2013 £000
Balance at 1 January	**4,088**	**2,902**
Share of profit	855	1,251
Foreign exchange translation difference	(555)	(65)
Balance at 31 December	**4,388**	**4,088**

Associates at 100%	Assets £000	Liabilities £000	Revenues £000	Profit £000
Modernac S.A.	31,382	22,427	9,349	1,745
Total 31 December 2014	**31,382**	**22,427**	**9,349**	**1,745**

Associates at 49%	Equity at 100% £000	Equity at 49% £000	49% share of profit £000
Modernac S.A.	8,955	4,388	855
Total 31 December 2014	**8,955**	**4,388**	**855**

24 Investment properties

31 December	2014 £000	2013 £000
Balance at 1 January	**20,387**	**100,167**
Properties acquired	139	966
Disposals	(17,532)	(74,549)
Fair value adjustments	2,526	(6,197)
Balance at 31 December	**5,520**	**20,387**
Current	4,845	3,053
Non-current	675	17,334
Total	**5,520**	**20,387**

Investment properties were bought for investment purposes in line with the investment strategy of the Group. The properties are independently valued in accordance with International Valuation Standards on the basis of determining the open market value of the investment properties on an annual basis. The latest valuations were conducted as at 31 December 2014.

Income arises from investment properties in two streams:

(i) Fair value gains arising as a result of market appreciation in the value of the properties; and

(ii) Rental income arising from leases granted on the properties.

Both of these amounts are disclosed in Net Investment Return (see Note 9). Expenses incurred in the operation and maintenance of investment properties are disclosed in Other Operating Expenses (see Note 15).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25 Financial instruments

Group

Financial assets by measurement category
31 December

	2014 £000	2013 £000
Fair value through income		
Designated at fair-value through income on initial recognition	4,534,458	4,421,512
Derivative financial instruments	3,580	2,956
Insurance and other receivables	45,360	46,382
Prepayments	4,821	4,889
Total	**4,588,219**	**4,475,739**

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. The tables below show the determination of fair value according to a three-level valuation hierarchy. Fair values are generally determined at prices quoted in active markets (Level 1). However, where such information is not available, the Group applies valuation techniques to measure such instruments. These valuation techniques make use of market-observable data for all significant inputs where possible (Level 2), but, in some cases it may be necessary to estimate other than market-observable data within a valuation model for significant inputs (Level 3).

Fair value measurement at 31 December 2014

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities				
Listed	475,983	–	–	475,983
Holdings in collective investment schemes	3,515,878	546	–	3,516,424
Debt securities – fixed rate				
Government Bonds	286,444	–	–	286,444
Listed	84,107	–	–	84,107
Debt securities – floating rate				
Listed	6,642	–	–	6,642
Total debt securities	377,193	–	–	377,193
Policyholders' funds held by the group	164,858	–	–	164,858
Derivative financial instruments	357	3,223	–	3,580
Total	**4,534,269**	**3,769**	**–**	**4,538,038**
Current				1,946,651
Non-current				2,591,387
Total				**4,538,038**
Financial liabilities				
Investment contracts at fair value through income	–	2,389,812	–	2,389,812
Liabilities related to policyholders' funds held by the group	164,858	–	–	164,858
Derivative financial instruments	–	49	–	49
Total	**164,858**	**2,389,861**	**–**	**2,554,719**

Fair value measurement at 31 December 2013 using

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities				
Listed	479,617	–	–	479,617
Holdings in collective investment schemes	3,440,542	450	–	3,440,992
Debt securities – fixed rate				
Government Bonds	294,588	–	–	294,588
Listed	63,104	–	–	63,104
Debt securities - floating rate Listed				
Listed	12,974	–	–	12,974
Total debt securities	370,666	–	–	370,666
Policyholders' funds held by the group	130,237	–	–	130,237
Derivative financial instruments	323	2,633	–	2,956
Total	**4,421,385**	**3,083**	**–**	**4,424,468**
Current				1,798,344
Non-current				2,626,124
Total				**4,424,468**
Financial liabilities				
Investment contracts at fair value through income	–	2,283,403	–	2,283,403
Liabilities related to policyholders' funds held by the group	130,237	–	–	130,237
Derivative financial instruments	–	387	–	387
Total	**130,237**	**2,283,790**	**–**	**2,414,027**

Included within Holdings in collective investment schemes are amounts held with JPMorgan Life Limited through a reinsurance arrangement, under which the Group has reassured certain unit-linked liabilities. The contract does not transfer significant insurance risk and is accounted for as Holdings in collective investment schemes, representing the substance of the arrangement in place. These amounts have been classified as level 2 in the above hierarchy table as the reinsurance contract itself is not quoted but is valued using market-observable data.

Within derivative financial instruments is a financial reinsurance embedded derivative related to our Movestic operation. The Group has entered into a reinsurance contract with a third party that has a section that is deemed to transfer significant insurance risk and a section that is deemed not to transfer significant insurance risk. The element of the contract that does not transfer significant insurance risk has two components and has been accounted for as a financial liability at amortised cost and an embedded derivative asset at fair value.

The embedded derivative represents an option to repay the amounts due under the contract early at a discount to the amortised cost, with its fair value being determined by reference to market interest rate at the balance sheet date. It is, accordingly, determined at Level 2 in the three-level fair value determination hierarchy set out above.

The Investment contract liabilities in Level 2 of the valuation hierarchy represent the fair value of linked and non-linked liabilities valued using established actuarial techniques utilising market observable data for all significant inputs, such as investment yields.

During the year, the Group reassessed the assumption of its unit-linked investment contract liabilities in the context of IFRS 13 'Fair Value Measurement'. As a consequence, the Group believes that it is more appropriate to classify these liabilities as Level 2 which is more closely aligned with current industry practise. The comparatives have also been restated to reflect that change in presentation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25 Financial instruments (continued)

Except as detailed in the following table, the Directors consider that the carrying value amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values:

31 December	Carrying amount		Fair value	
	2014 £000	2013 £000	2014 £000	2013 £000
Financial liabilities:				
Borrowings	87,296	94,377	88,568	95,457

Borrowings consist of bank loans and an amount due in relation to financial reinsurance.

The fair value of the bank loans are taken as the principal outstanding at the balance sheet date.

The amount due in relation to financial reinsurance is fair valued with reference to market interest rates at the balance sheet date.

There were no transfers between levels 1, 2 and 3 during the year.

Company

Year ended 31 December	2014 £000	2013 £000
Balance at 1 January	**199,111**	**146,699**
Acquisition of Protection Life Company Limited	–	39,300
Injection of capital into Protection Life on acquisition	–	13,112
Balance at 31 December	**199,111**	**199,111**
Current	–	–
Non-current	199,111	199,111
Total	**199,111**	**199,111**

A list of investments in subsidiaries held by the Group is disclosed in Note 53.

Company

Fair value measurement at 31 December 2014 using	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities				
Listed	1,008	–	–	1,008
Total	**1,008**	**–**	**–**	**1,008**
Current				1,008
Non-current				–
Total				**1,008**

26 Insurance and other receivables and prepayments

Group

Insurance and other receivables
31 December

	2014 £000	2013 £000
Receivables arising from insurance contracts		
Brokers	654	–
Policyholders	3,415	4,895
Receivables arising from investment contracts		
Policyholders	5	7
Reinsurance receivables	8,832	11,835
Commission receivables	198	315
Debtor for professional indemnity insurance	56	78
Other receivables		
Loan to associated companies	618	662
Accrued interest income	14,562	11,122
Accrued rent	–	38
Receivables from fund management companies	11,430	7,271
Initial margin payments on derivatives	3,930	4,794
Other	1,660	5,365
Total	**45,360**	**46,382**
Current	43,800	44,577
Non-current	1,560	1,805
Total	**45,360**	**46,382**

The carrying amount is a reasonable approximation of fair value.

31 December

	2014 £000	2013 £000
Prepayments	**4,821**	**4,889**
Current	4,072	4,039
Non-current	749	850
Total	**4,821**	**4,889**

The carrying amount is a reasonable approximation of fair value.

Company

Receivables and prepayments
31 December

	2014 £000	2013 £000
Amounts due from subsidiary companies	455	605
Other receivables	20	10
Prepayments	19	21
Total	**494**	**636**
Current	494	636
Non-current	–	–
Total	**494**	**636**

The carrying amount is a reasonable approximation of fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27 Derivative financial instruments

The Group does not hold derivatives outside the unit-linked and with-profits funds, except for an option to repay a financial reinsurance contract early, which comprises an embedded derivative.

31 December	2014 Asset £000	2014 Liability £000	2013 Asset £000	2013 Liability £000
Exchange-traded futures	1,034	(49)	866	(387)
Financial reinsurance embedded derivative	2,546	–	2,090	–
Total	**3,580**	**(49)**	**2,956**	**(387)**
Current	952	(49)	820	–
Non-current	2,628	–	2,136	(387)
Total	**3,580**	**(49)**	**2,956**	**(387)**

Derivatives within unit-linked funds

As part of its Investment management strategy, the Group purchases derivative financial instruments comprising part of its investment portfolio for unit-linked investment funds, which match the liabilities arising on its unit-linked insurance and investment business.

A variety of equity futures are part of the portfolio matching the unit-linked investment and insurance liabilities. Derivatives are used to facilitate more efficient portfolio management allowing changes in investment strategy to be reflected by futures transactions rather than a high volume of transactions in the underlying assets.

All the contracts are exchange-traded futures, with their fair value being the bid price at the balance sheet date: They are, accordingly, determined at Level 1 in the three-level fair value determination hierarchy set out in Note 25.

Exchange-traded futures (by geographical investment market)
31 December

	2014 Asset £000	2014 Liability £000	2013 Asset £000	2013 Liability £000
Australia	14	–	16	–
Canada	19	–	–	–
Switzerland	77	–	47	–
Europe	303	(7)	174	–
UK	326	–	101	(387)
Hong Kong	–	(7)	26	–
Japan	50	(25)	218	–
USA	93	(10)	284	–
UAE	152	–	–	–
Total	**1,034**	**(49)**	**866**	**(387)**

Financial reinsurance embedded derivative
In respect of Movestic, the Group has a reinsurance contract with a third party that has a section that is deemed to transfer significant insurance risk and a section that is deemed not to transfer significant insurance risk. This assessment has been determined by Management based on the contractual terms of the reinsurance agreement. The element of the contract that does not transfer significant insurance risk has two components and has been accounted for as a financial liability at amortised cost and an embedded derivative at fair value.

The embedded derivative represents an option to repay the amounts due under the contract early at a discount to the amortised cost, with its fair value being determined by reference to market interest rates at the balance sheet date. It is, accordingly, determined at Level 2 in the three-level fair value determination hierarchy set out in Note 25.

Derivatives within the S&P with-profits funds
As part of its investment management strategy, S&P enters into a limited range of derivative instruments to manage its exposure to various risks.

S&P uses equity index futures in order to economically hedge equity market risk in the with-profit funds' investments.

The change in fair value of the futures contracts is intended to offset the change in fair value of the underlying equities being hedged. S&P settles the market value of the futures contracts on a daily basis by paying or receiving a variation margin. The futures contracts are not discounted as this daily settlement is equal to the change in fair value of the futures. As a result, there is no additional fair value to recognise in relation to these derivatives on the balance sheet at the period end.

S&P also purchases exchange rate futures to mitigate exchange rate risk within its with-profits funds.

These contracts are exchange-traded contracts in active markets with their fair value being the bid price at the balance sheet date. They are, accordingly, determined at Level 1 in the three-level fair value determination hierarchy set out in Note 25.

28 Income tax assets

Income tax assets, which are all current, comprise:
31 December

	2014 £000	2013 £000
Group		
Corporation tax recoverable	1,962	2,608
Company		
Corporation tax recoverable	1,667	2,194

The carrying amount is a reasonable approximation of fair value.

29 Cash and cash equivalents

Group
31 December

	2014 £000	2013 £000
Bank and cash balances	88,572	64,978
Call deposits due within 1 month	69,397	82,692
Call deposits due after 1 month	83,730	36,593
Total cash and cash equivalents	**241,699**	**184,263**
Bank overdrafts	(1,189)	(1,127)
Cash and cash equivalents in the statement of cash flows	**240,510**	**183,136**

The effective interest rate on short-term bank deposits was 0.38% (2013: 0.45%), with an average maturity of 21days (2013: 22 days). All deposits included in cash and cash equivalents were due to mature within 3 months of their acquisition.

Included in cash and cash equivalents held by the Group are balances totalling £66,048,000 (2013: £73,274,000) held in unit-linked policyholders' funds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29 Cash and cash equivalents (continued)

Company
31 December

	2014 £000	2013 £000
Bank and cash balances	49,002	94
Cash deposits due within 1 month	5	25,355
Cash deposits maturing between greater than 1 month and less than 1 year	31,095	12,040
Total	**80,102**	**37,489**

30 Capital management

(a) Objective

The Group's capital management framework is designed to provide security for all shareholders, while meeting the expectations of policyholders and shareholders. Accordingly it:

1) safeguards policyholders interests by meeting regulatory requirements established by the regulators of the insurance markets in which the Group's regulated companies operate, while not retaining unnecessary excess capital;
2) seeks to meet the dividend expectations of shareholders and to optimise the gearing ratio to ensure an efficient capital base;
3) ensures there is sufficient liquidity to meet obligations to policyholders, debt financiers and creditors as they fall due; and
4) maintains the Group as a going concern so that it continues to provide returns and to meet obligations to all stakeholders.

The Group's subsidiary and associate companies are subject to minimum regulatory capital requirements according to the jurisdictions in which they operate. In addition CA plc is required to prepare and submit a Group-level solvency capital statement in accordance with the EU Insurance Groups Directive (IGD).

The rules are designed to ensure that companies have sufficient assets to meet their liabilities in specified adverse circumstances. As such, there is, in the UK, a restriction on the full transfer of surpluses from the long-term business funds to shareholder funds in CA plc and PL Ltd, and on the full distribution of retained earnings from CA plc and PL Ltd to Chesnara and, in Sweden, on distributions from Movestic shareholder funds.

The overall capital dynamics of the Group are such that the UK business, being substantially in run-off, are net contributors of capital, which is reflected in the medium-term by way of dividend distributions to the parent company, while, in the medium-term, the Swedish business, as it expands, and before it achieves economies of scale, is a net consumer of capital, which is reflected by way of additional capital contributions from the parent company, as required.

(b) Operation of the UK, Swedish and EU regulatory regimes

UK business

The operation of regulation with respect to the UK Business is such as to specify the minimum amount of capital that must be held in addition to the insurance liabilities as determined for regulatory purposes. This is established by reference to two calculations, being:

(i) the Pillar 1 calculation, which compares regulatory capital based on the characteristics of the in-force life assurance business with an associated measure of capital as prescribed by regulation; and

(ii) the Pillar 2 calculation, which compares a risk-based assessment of economic capital with an associated measure of capital based on a realistic assessment of insurance liabilities.

For CA plc and PL Ltd, for the whole of the period covered by these financial statements, the minimum regulatory capital requirement was determined by the first calculation, as this gave rise to the lesser measure of surplus capital. This calculation is set out below in Section (c) Regulatory Capital Resources and Requirements, together with the CA plc Board's policy in targeting regulatory capital resource cover for total regulatory capital resource requirements.

The long-term insurance business subsisting within CA plc includes with-profits business, for which that acquired from S&P are maintained in separate sub-funds. The scale of such with-profits business remains such that the Company falls outside of the scope of the PRA's "realistic capital" regime. Within these IFRS Financial Statements excess of policyholder assets and liabilities relating to these funds is classified within insurance contract provisions.

Swedish business
Movestic is subject to the Swedish regulatory regime and has to maintain a minimum level of regulatory capital, being the prescribed minimum solvency margin requirements.

The solvency surplus under the Swedish regulatory regime is the excess of the regulatory capital resources over the capital resource requirements which are based on the insurance business. This calculation is set out below in Section (c) Regulatory Capital Resources and Requirements together with the Movestic Board's policy in targeting regulatory capital resource cover for total regulatory capital resource requirements. The Swedish business also includes a 49% interest in an associated company, Modernac S.A. ('Modernac'), a Luxembourg-based reinsurer, which is subject to EU regulatory solvency requirements: its scale of operations are such that its capital resource requirement is the EU regulatory minimum.

Group
In addition to the solvency requirements for the UK and Swedish Businesses, as set out above, the Group is subject to the requirements of the EU Insurance Group Directive, in accordance with which the Group calculates the excess of the aggregate of regulatory capital resources determined on a group-wide basis over the aggregate minimum regulatory capital requirement imposed by local regulators. The requirement is that available Group capital resources, as set out in Section (d) Group Capital Position Statement, should be at least 100% of capital requirements.

(c) Regulatory capital resources and requirements
UK business
The following summarises the capital resources and requirements of CA plc and PL Ltd, as determined for UK regulatory purposes (Pillar 1):

31 December	2014		2013	
	CA plc £m	PL Ltd £m	CA plc £m	PL Ltd £m
Available capital resources (CR)	116.1	3.5	96.4	39.2
Long-term insurance capital requirement (LTICR)	58.0	–	37.0	25.2
Resilience capital requirement (RCR)	7.9	–	7.1	–
European Minimum	–	2.9	–	–
Total capital resource requirements (CRR)	65.9	2.9	44.1	25.2
Excess of CR over CRR (solvency surplus)	50.3	0.6	52.3	14.0
Ratio of available CR to CRR	176%	121%	218%	156%
Target capital requirement cover	102.1	2.9	67.2	37.8
Excess of CR over target requirement	14.0	0.6	29.2	1.4

Available capital resources for CA plc as at 31 December 2014 are stated after provision for a dividend of £65.0m which was approved by the CA plc Board subsequent to 31 December 2014 (as at 31 December 2013: £48.0m subsequent to 31 December 2013).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Capital management (continued)

(c) Regulatory capital resources and requirements (continued)

UK business (continued)

CA plc's Board, as a matter of policy, continues to target CR cover for total CRR at a minimum level of 162.5% of the LTICR plus 100% of the RCR.

Individual Capital Assessment (Pillar 2)

The PRA Prudential Sourcebooks require UK insurance companies to make their own assessment of their capital needs to a required standard (a 99.5% probability of being able to meet liabilities to policyholders after one year). In the light of scrutiny of this assessment, the PRA may impose its own additional individual capital guidance. The Individual Capital Assessment (ICA) is based on a realistic liability assessment, rather than on the statutory mathematical reserves, and involves stress testing the resultant realistic balance sheet for the impact of adverse events, including such market effects as significant falls in equity values, interest rate increases and decreases, bond defaults and further widening of bond spreads.

Under Pillar 2, CA plc's Board, as a matter of policy, continues to target CR cover for total CRR at a minimum level of 130.0% of CR.

CA plc completed a full annual assessment in 2013 as a result of which it was concluded that the effective current and medium-term capital requirement constraints on distributions to Chesnara will continue to be on the basis set out under 'Regulatory capital resources and requirements' above. This assessment is subject to quarterly high-level updates until the next full annual assessment.

Swedish business

The following summarises the Capital Resources and the Capital Resources Requirements of Movestic as determined for Swedish regulatory purposes and Movestic's 49% proportionate share in the Capital Resources and Capital Resources Requirements of Modernac:

31 December	2014		2013	
	Movestic £m	Modernac £m	Movestic £m	Modernac £m
Available Capital Resources (CR)	34.9	5.0	34.8	4.7
Total capital Resource Requirements (CRR)	9.3	1.3	11.2	1.4
Excess of CR over CRR (solvency surplus)	25.6	3.7	23.6	3.3
Ratio of available CR to CRR	375%	385%	311%	336%
Target capital requirement cover	14.0	n/a	16.9	n/a
Excess of CR over target requirement	20.9	n/a	17.9	n/a

The Movestic Board has set a minimum target of 150% of the regulatory capital requirement. Swedish solvency regulation requires that a certain proportion of assets, to be fully admissible, is to be held in the form of cash. The operation of this requirement may, from time to time, act as the operative constraint in determining the level of additional funding requirements, thereby causing the solvency ratio to rise above what it would otherwise have been, had the form of assets matching capital resources not been a constraint. Movestic's solvency ratio declines as the increasing scale of its business requires a higher level of regulatory capital: as the ratio approaches 150%, further planned capital contributions will be made by the Group.

Movestic, in accordance with local regulatory requirements, continues to make quarterly assessments of the risk-based capital requirements of its business: these indicate that capital resources currently provide a comfortable margin over capital resource requirements.

(d) Group capital position statement

The following summarises the regulatory capital resources arising in both life and non-life entities, together with a statement of capital resources on a consolidated basis and with a reconciliation to shareholders' net equity established on the IFRS basis:

As at 31 December 2014	UK life businesses with-profits £000	UK life businesses non-participating £000	UK life businesses shareholder £000	UK life businesses total £000	Swedish life and non-life business total £000	Group life insurance businesses total £000
Shareholder funds outside long-term insurance funds – retained earnings	–	–	63,814	63,814	38,860	102,674
Shareholder funds in long-term insurance funds	37,750	9,758	–	47,508	–	47,508
Total shareholder funds	**37,750**	**9,758**	**63,814**	**111,322**	**38,860**	**150,182**
Adjustment onto regulatory basis						
Policyholder funds	16,319	–	–	16,319	–	16,319
Adjustments to net assets	(1,816)	(675)	(5,515)	(8,006)	(3,960)	(11,966)
Total available capital resources	**52,253**	**9,083**	**58,299**	**119,635**	**34,900**	**154,535**

	Group life insurance businesses total £000	Other activities UK business £000	Other activities Swedish business £000	Consolidation adjustments £000	Group total £000	Adjustment for dividend £000	Group total IFRS basis £000
Shareholder funds outside long-term insurance funds – retained earnings	102,674	266,241	3,619	(156,309)	216,225	15,100	231,325
Shareholder funds in long-term insurance funds	47,508	–	–	–	47,508	–	47,508
Total shareholder funds	**150,182**	**266,241**	**3,619**	**(156,309)**	**263,733**	**15,100**	**278,833**
Adjustment onto regulatory basis							
Policyholder funds	16,319	–	–	–	16,319		
Adjustments to net assets	(11,966)	(101,906)	–	59,118	(54,754)		
Total available capital resources	**154,536**	**164,335**	**3,619**	**(97,191)**	**225,298**		

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Capital management (continued)

(d) Group capital position statement (continued)

As at 31 December 2013	UK life businesses with-profits £000	UK life businesses non-participating £000	UK life businesses shareholder £000	UK life businesses total £000	Swedish life and non-life business total £000	Group life insurance businesses total £000
Shareholder funds outside long-term insurance funds – retained earnings	–	–	72,252	72,252	40,255	112,507
Shareholder funds in long-term insurance funds	51,768	21,084	–	72,852	–	72,852
Total shareholder funds	**51,768**	**21,084**	**72,252**	**145,104**	**40,255**	**185,359**
Adjustment onto regulatory basis						
Policyholder funds	14,807	–	–	14,807	–	14,807
Adjustments to net assets	(14,765)	(822)	(8,722)	(24,309)	(5,423)	(29,732)
Total available capital resources	**51,810**	**20,262**	**63,530**	**135,602**	**34,832**	**170,434**

	Group life insurance businesses total £000	Other activities UK business £000	Other activities Swedish business £000	Consolidation adjustments £000	Group total £000	Adjustment for dividend £000	Group total IFRS basis £000
Shareholder funds outside long-term insurance funds – retained earnings	112,507	195,551	1,926	(149,091)	160,893	13,357	174,250
Shareholder funds in long-term insurance funds	72,852	–	–	–	72,852	–	72,852
Total shareholder funds	**185,359**	**195,551**	**1,926**	**(149,091)**	**233,745**	**13,357**	**247,102**
Adjustment onto regulatory basis							
Policyholder funds	14,807	–	–	–	14,807		
Adjustments to net assets	(29,732)	(78,872)	–	18,782	(89,822)		
Total available capital resources	**170,434**	**116,679**	**1,926**	**(130,309)**	**158,730**		

The tables presented above illustrate Group total available capital resources as measured for the purposes of inclusion in the related regulatory returns. As at 31 December 2014 they are stated after provision of a final dividend of £15.1m and, as at 31 December 2013, after provision of a final dividend of £13.4m, which were approved by the Chesnara plc Board subsequent to the respective year ends. Provision is not made for such dividends on the IFRS basis: accordingly, it is necessary to make adjustment to shareholder funds outside long-term insurance funds as at 31 December 2014, as reflected above, in order to illustrate the relationship with the total shareholder equity included in the consolidated balance sheet prepared on the IFRS basis.

The following tables set out the principal forms of capital, which comprise (i) total available capital resources for the total UK Life Businesses, the total Swedish Life and Non-life Business and the total Group for regulatory purposes and (ii) total shareholder funds for the Group on the IFRS basis.

Available Capital Resources for Regulatory Purposes Year ended 31 December 2014	CA plc £000	PL £000	Movestic £000	Group £000
Share capital	40,000	3,500	1,077	42,600
Share premium	–	–	–	76,523
Treasury shares	–	–	–	(168)
Other equity contributions	–	–	40,460	–
Capital redemption reserve	–	–	–	50
Foreign exchange translation reserve	–	–	–	(691)
Surplus in long-term business fund	9,084	–	–	–
Surplus in with-profits fund	52,253	–	–	52,253
Retained earnings/(accumulated deficit)	14,799	–	(6,637)	54,731
Total	**116,136**	**3,500**	**34,900**	**225,298**

The following tables summarise the movement in the available capital resources of the constituent funds of the life businesses, as determined under the respective regulatory regimes for the year ended 31 December 2014:

UK businesses

Year ended 31 December 2014	Life business non-profits CA plc £000	Life business non-profits PL £000	With profits CA plc £000	Life business share-holder CA plc £000	Life business share-holder PL £000	Total life business £000
At beginning of year	**2,020**	**18,242**	**51,809**	**42,530**	**21,000**	**135,601**
Surplus arising in the year	42,430	4,010	1,326	–	–	47,766
Part VII Transfer	22,252	(22,252)	–	17,768	(17,768)	–
Net profit arising in shareholder fund	–	–	–	1,001	268	1,269
Arising on acquisition of PL	–	–	–	–	–	–
Capitilisation of PL	–	–	–	–	–	–
Intrafund transfers	882	–	(882)	–	–	–
Transfer from long-term business fund to shareholder fund	(58,500)	–	–	58,500	–	–
Proposed dividend	–	–	–	(65,000)	–	(65,000)
At end of year	**9,084**	**–**	**52,253**	**54,799**	**3,500**	**119,636**

Year ended 31 December 2013	Life business non-profits CA plc £000	Life business non-profits PL £000	With profits CA plc £000	Life business share-holder CA plc £000	Life business share-holder PL £000	Total life business £000
At beginning of year	**4,078**	**–**	**52,495**	**42,780**	**–**	**99,353**
Surplus arising in the year	29,442	191	15,759	–	–	45,392
Net profit arising in shareholder fund	–	–	–	(195)	–	(195)
Arising on acquisition of PL	–	4,938	–	–	21,000	25,938
Capitilisation of PL	–	13,113	–	–	–	13,113
Intrafund transfers	16,445	–	(16,445)	–	–	–
Transfer from long-term business fund to shareholder fund	(47,945)	–	–	47,945	–	–
Proposed dividend	–	–	–	(48,000)	–	(48,000)
At end of year	**2,020**	**18,242**	**51,809**	**42,530**	**21,000**	**135,601**

There were no changes in available capital resources for the year ended 31 December 2014 due to changes in management policy, regulatory changes or external factors. The effect of new business written in the period on available capital resources is not considered to be significant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Capital management (continued)

(d) Group capital position statement (continued)

Swedish business

	2014 Total £000	2013 Total £000
At beginning of year	**34,832**	**32,482**
Profit arising in the year	4,328	2,556
Change in foreign exchange reserve	(4,260)	(206)
At end of year	**34,900**	**34,832**

There were no changes in available capital resources for the period ended 31 December 2014 due to changes in management policy, regulatory changes or external factors.

The capital position of the Swedish business is sensitive to changes in market conditions affecting the asset values and changes in the assumptions for calculating the insurance contract liabilities, as described in Note 31.

Group Capital Adequacy

In accordance with the EU Insurance Groups Directive, the Group calculates the excess of the aggregate of regulatory capital employed over the aggregate minimum solvency requirement imposed by local regulators for all of the constituent members of the Group, all of which are based in Europe. The following sets out these calculations after the recognition of final dividends for the respective financial year, but approved by the Board and paid to Group shareholders after the respective dates:

31 December	2014 £m	2013 £m
Total available capital resources (CR)	225.3	158.7
Capital resources requirement		
CA plc	65.9	44.1
PL Ltd	2.9	25.2
Movestic Liv	9.3	11.2
Modernac SA	1.3	1.4
Total (CRR)	79.4	81.9
Group solvency surplus (CR less CRR)	145.9	76.8
Group solvency ratio	284%	194%

The Group and its individually regulated life assurance businesses have complied with all externally and internally imposed capital requirements during the year.

There has been no material change in the Group's management of capital during the period, except that, notwithstanding that there are no formal intragroup funding arrangements in place, the parent company continues to commit to provide any additional capital contributions to support the target capital requirement of Movestic as set out in Section (c) above.

Subject to the regulatory constraints and capital management policy of the Group as set out above, capital resources are available for use elsewhere in the Group.

(e) Technical provisions net of reassurance – UK businesses

(i) The technical provisions established to determine the regulatory capital resources as set out on page 141 are:

31 December	CA		SPI/SPP		PL	
	2014 £000	2013 £000	2014 £000	2013 £000	2014 £000	2013 £000
Unit-linked						
Insurance contracts	636,239	681,389	762,024	766,458	–	–
Investment contracts	657,316	651,724	38,896	45,924	–	–
Non-unit (sterling)						
Insurance contracts	39,213	26,315	22,949	16,662	11,458	10,055
Investment contracts	2,902	7,448	165	116	–	–
Non-participating						
Insurance contracts	139,066	135,835	9,162	9,195	–	–
Investment contracts	6,052	7,638	–	–	–	–
With DPF	–	–	325,418	310,429	–	–
Total	**1,480,788**	**1,510,349**	**1,158,614**	**1,148,784**	**11,458**	**10,055**

(ii) Process used to determine assumptions underlying the calculation of technical provisions.

The process used to determine the assumptions underlying the calculation of technical provisions, which are checked to ensure that they are consistent with observed market prices or other published information, is intended to result in conservative estimates of the most likely, or expected, outcome. The assumptions which are considered include the expected number and timing of deaths, other claims and investment returns over the period of risk exposure. A reasonable allowance is made for the level of uncertainty within the contracts.

(iii) The basis for establishing technical provisions is:

The technical provision for S&P with-profits contracts is based on the guaranteed minimum benefits and is calculated on a gross premium basis, by subtracting the present value of future premiums from the present value of future benefits payable under the policy, until it ceases at maturity, or death if earlier. The gross premium method makes explicit allowance for future policy maintenance costs. If the net present value of the future discounted cash flows is positive, no asset is recognised. Provision is not made for future bonuses as all bonuses are terminal bonuses.

For those classes of CA non-linked and unit-linked business where policyholders participate in profits, the liability is wholly reinsured to Guardian. When performing the gross liability adequacy test allowance is made for expected future bonuses paid by Guardian. This is based on the realistic liabilities of the underlying policies reinsured, as provided to CA by Guardian.

For all other classes of unit linked and quasi-linked business, the technical provision consists of a provision equal to the value of the matching unit-linked assets plus an additional reserve calculated on a gross premium basis, by subtracting the present value of future premiums from the present value of future benefits payable under the policy, until it ceases at maturity, or death if earlier. The gross premium method makes explicit allowance for future policy maintenance costs. If the net present value of the future discounted cash flows is positive, no asset is recognised.

For immediate annuities in payment the technical provision is calculated as the discounted value of the expected future annuity payments under the policies, allowing for mortality, interest rates and expenses.

For certain group business within PL the technical provisions are assessed on an unearned premium method considered appropriate for the nature and scale of the liabilities. For the remainder of the PL business, the technical provisions are calculated on a gross premiums basis, by subtracting the present value of future premiums from the present value of future benefits payable under the policy, until it ceases at maturity, or lapse or death if earlier. The gross premiums method makes explicit allowance for future policy maintenance costs. If the net present value of future discounted cash flows is positive no asset is recognised.

For all other classes of non-linked business the technical provision is calculated on a net premium basis, being the level of premium consistent with a premium stream, the discounted value of which, at the outset of the policy, would be sufficient to cover exactly the discounted value of the original guaranteed benefits at maturity, or at death if earlier, on the valuation basis. The provision is then calculated by subtracting the present value of future net premiums from the present value of the benefits guaranteed at maturity, or death if earlier, as a result of events up to the balance sheet date. Negative provisions do not arise under the net premium method, which makes no allowances for voluntary discontinuances by policyholders, and which only implicitly allows for future policy maintenance costs.

(iv) The principal assumptions underlying the calculation of the technical provisions are:

Mortality
A base mortality table is selected which is most appropriate for each type of contract taking into account rates charged by reinsurers. The mortality rates reflected in these tables are periodically adjusted, allowing for emerging experience and changes in reinsurer rates.

Morbidity
Morbidity tables are derived based on reinsurer tables. These are periodically adjusted to take into account emerging experience where appropriate.

Persistency
In general, no allowance is made for lapses or surrenders within the valuation of insurance contract liabilities, which is a prudent assumption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30 Capital management (continued)

(e) Technical provisions net of reassurance – UK businesses (continued)

For S&P unit-linked business, when assessing additional reserves for expenses and mortality risk, allowance has been made for lapses at a prudent level of 75% of the expected level as indicated by recent experience, the rates used being:

Rate of lapse 31 December	2014		2013	
	SPI	SPP	SPI	SPP
Assurances:				
Regular premium plans	3.375%	2.625%	3.375%	2.625%
Single premium contracts	3.375%	3.188%	3.375%	3.188%
Linked TIC*	–	5.000%	–	5.000%

*Trustee Investment Contract, a unit-linked contract ('TIC').

For PL the following lapse assumptions have been adopted when calculating technical provisions:

- For critical illness policies a rate of 4.5% per annum is used when net cash flows are negative and a low lapse rate is prudent, or 15.5% per annum otherwise.
- For all other policies excluding PPI and the whole life guaranteed acceptance plan product, a rate of 1.5% per annum is used when net cash flows are negative and a low lapse rate is prudent, or 12.5% per annum otherwise.
- For PPI and the whole life guaranteed acceptance plan products, no lapses are assumed.

Discount rates

CA uses appropriate rates of interest, for different product types, in discounting projected liabilities. As at 31 December 2014 for the material product types, these lay between 1.25% and 2.35% (31 December 2013: between 2.10% and 3.50%).

The rates of interest shown above have been set after consideration of the risk of default on non-government bonds by applying the following adjustments to the earned yield:

(i) Risk reduction of 0.1% for supranational issuers such as the European Investment Bank;

(ii) For other issuers, a portion of the excess yield above that available on government backed bonds, where the portion varies by credit rating; and

(iii) An overall maximum margin over the equivalent term government fixed interest security of 1.5%.

Credit rating	Aaa	Aa	A	Baa	Ba	B	Caa+
Reduction	25%	40%	45%	50%	65%	75%	80%

For many of the life insurance products the interest rate risk is managed through asset/liability management strategies that seek to match the interest rate sensitivity of the assets to that of the underlying liabilities. The overall objective of these strategies is to limit the net change in value of assets and liabilities arising from interest rate movements.

Technical provisions for with-profits contracts are particularly sensitive to the interest rate used when discounting due to the existence of investment guarantees.

Renewal expenses and inflation

The renewal expenses assumed are based on the charges made to CA by its two third party insurance administration services providers, with appropriate margins. These are assumed to inflate at a mix of current inflation rates in the UK, being the Retail Price Index and the National Average Earnings Index. Explicit allowance is also made for those Governance expenses which are charged to the long-term funds.

Taxation

It has been assumed that current tax legislation and tax rates will not change.

The sensitivities of technical provisions and of components of capital to changes in assumptions are materially the same as those detailed in Note 31.

(f) Valuation of options and guarantees – UK businesses

Deterministically-valued options and guarantees

Timed Investment Funds

Certain investment funds, the 'Timed Investment Funds', carry a guarantee that the price at maturity date or death will not be less than the highest price attained between commencement and contract cessation. The cost of the guarantee can be managed by changing the investment policy adopted by each fund.

In respect of this guarantee:

(i) a monthly charge of 1⁄48% of the fund value is made; and

(ii) investment conditions were such as to require the establishment of a reserve of £390,000 as at 31 December 2014 (31 December 2013: £390,000).

The reserve for a given fund is derived as the discounted exposure at fund maturity date, the exposure being the difference between the guaranteed Timed Investment Fund value and the projected fund maturity value, with the latter projected value being derived assuming an immediate fall in value of equities within the fund of 25% and allowing for future investment returns, including presumed future equity investment return of 3.70% per annum.

Guaranteed Growth Fund

The Guaranteed Growth Fund (GGF) is a deposit-based contract which provides a return to policyholders that is linked to the average residential mortgage rate. However, the assets backing the contract are largely held as cash on deposit. There is, therefore, likely to be a shortfall between the return given to policyholders and the return earned on assets, and the value of this shortfall is reserved for.

Reserves for this product comprise a 'unit' reserve of the current value of the benefits held and a non-unit reserve for expenses.

The underlying fund at 31 December 2014 was £5.1m (31 December 2013: £5.7m). 564 policies invested in the fund (31 December 2013: 606), of which 45 (31 December 2013: 58) were paying premiums (for a total of approximately £12,000 per annum (31 December 2013: £17,000)).

For the valuation of contract liabilities the following are projected for each future year: – the benefit outgo from the fund;

- the investment return from the assets backing the fund; and
- the difference between these items.

These differences are then discounted and summed to establish the GGF loss reserve.

The following assumptions are used for calculating the loss reserve:

Rate of growth of liability:	3.47% pa
Rate of return on cash:	0.45% pa
Discount rate:	0.40% pa
Retirement age:	90% of business with policyholders retiring at age 65
	10% of business with policyholders retiring at age 70
Terminations before retirement:	3% pa

The reserve for the guarantee as at 31 December 2014 was £0.6m (31 December 2013: £0.7m).

Deferral of retirement ages

Policyholders with a Personal Retirement Account and Guaranteed Plus Retirement Plan may defer their retirement age on terms that may be beneficial to the policyholder. The cost of policyholders exercising this benefit is assessed using a prudent assumption as to the level of take-up of the option and deferral to age 75. The reserve for this option as at 31 December 2014 was £12.6m (31 December 2013: £6.1m).

Increase of premiums on Personal Retirement Account

Policyholders with a Personal Retirement Account may increase their regular premium contribution on terms that can be beneficial to the policyholder. The cost of policyholders exercising this benefit is assessed using a prudent assumption as to the level of take-up of the option. The reserve for this option as at 31 December 2014 was £0.2m (31 December 2013: £0.2m).

Insurability options

Policyholders with certain contracts have the right to increase their sum assured without underwriting, in certain circumstances. The reserve for this option as at 31 December 2014 was £0.3m (31 December 2013: £0.3m).

Guaranteed annuity options

A limited number of pension plans offer guaranteed annuity options at retirement. The cost of this option is assessed assuming a prudent assessment of the take-up of the option and of the cost. The reserve for this option as at 31 December 2014 is £0.35m (31 December 2013: £0.4m).

(g) Management of risk

The Group's approach to the management of risk which may have an impact on the measurement of capital resources and requirements, as measured on a regulatory basis, is set out in Notes 5 and 6 to these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Insurance contract provisions

(a) Analysis of insurance contract provisions by operating segment

31 December		2014			2013	
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
CA	1,010,536	193,661	816,875	1,086,369	234,011	852,358
S&P	1,126,092	6,174	1,119,918	1,102,369	6,167	1,096,202
PL	102,268	90,810	11,458	103,448	93,393	10,055
Movestic	69,147	45,291	23,856	69,877	46,323	23,554
Total insurance contract provisions	**2,308,043**	**335,936**	**1,972,107**	**2,362,063**	**379,894**	**1,982,169**
Current	196,863	26,709	170,154	215,436	35,913	179,523
Non-current	2,111,180	309,227	1,801,953	2,146,627	343,981	1,802,646
Total	**2,308,043**	**335,936**	**1,972,107**	**2,362,063**	**379,894**	**1,982,169**

(b) Analysis of movement in insurance contract provisions

Year ended 31 December		2014			2013	
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	**2,362,063**	**379,894**	**1,982,169**	**2,207,078**	**278,692**	**1,928,386**
Arising on business combination	–	–	–	103,918	93,826	10,092
Premiums received	92,148	31,090	61,058	67,072	9,468	57,604
Fees deducted	(27,898)	(2,476)	(25,422)	(24,174)	(2,751)	(21,423)
Reserves released in respect of benefits paid	(274,701)	(76,919)	(197,782)	(230,963)	(27,862)	(203,101)
Movements in provisions for contracts sold – Movestic						
– in current year	22,688	13,179	9,509	22,521	12,444	10,077
– in prior years	(6,717)	119	(6,836)	(12,546)	(5,484)	(7,062)
Investment return	135,347	13,443	121,904	256,963	13,598	243,365
Other movements	5,113	(22,394)	27,507	(27,806)	7,963	(35,769)
Balance at 31 December	**2,308,043**	**335,936**	**1,972,107**	**2,362,063**	**379,894**	**1,982,169**

(c) Process, basis and assumptions for establishing insurance contract provisions

The process, basis and assumptions for establishing insurance contract provisions for the UK businesses are materially the same as those stated in Note 30 (e) (ii), (iii) and (iv) for establishing technical provisions, except as set out in the following.

Provisions for S&P contracts with discretionary participation features ('DPF') provide for the present value of projected payments to policyholders based on guaranteed minimum investment returns, mainly at 5 per cent per annum. When the insurance contract provisions established on this basis are greater than the associated policyholder asset shares, a shareholder charge for the cost of guarantees arises.

The actual cost to shareholders depends principally on the future investment performance of the associated policyholders' assets and on the rate of discontinuance of policies prior to maturity. The method that is used to value the product guarantees is based on a market consistent evaluation of the cost, the methodology of which is set out on pages 180 to 183 in the EEV Supplementary Information. During the year a new calculation model was implemented that enhances the accuracy of the estimated policyholder guarantee costs by removing certain data groupings. Historically, for IFRS reporting purposes the cost of with-profits guarantees has been set at 110% of the equivalent cost for EEV reporting. This was largely because, for IFRS reporting purposes, it was felt necessary to add in a margin of prudence as a result of the use of the way input data was grouped in the old model. The new model utilises more granular data inputs, which has lead to a greater degree of confidence in the model. It has also increased the calculated cost by a small amount. As a result the IFRS reserves are now set at 100% of the equivalent EEV cost.

The following sets out the cumulative charge to shareholders for the cost of guarantees on these bases:

Year ended 31 December	2014 £000s	2013 £000s
At beginning of the year	**23,320**	**46,310**
Charge/(credit) to income	11,273	(22,990)
At the end of year	**34,593**	**23,320**

Had the new valuation model been used during 2013, the cumulative cost of guarantees would have been £4.2m lower at the beginning of the period and £2.1m lower at the end of the period, with no resultant charge or credit to income. When considering the adoption of this change in accounting estimate of the cost of guarantees, an alternative 'Real World' valuation approach was also considered. This 'Real World' valuation of the guarantees provides a much lower estimate of the cost of guarantees when compared to that under a market consistent valuation approach, however, the adoption of this estimation technique was not considered by management to be appropriate, as it is not generally considered to be a sound method of valuing guarantees, due to the fact that it fails to take into account the risk that is present and as a consequence, would need to be adjusted to reflect this. By introducing an appropriate risk factor, it is estimated that the resultant adjusted real world estimate of the cost of guarantees would be close to the market consistent estimate.

Swedish business (Movestic)

Group Contracts are sold on an annual basis and the Individual Contracts include an option for Movestic to increase the premium on an ongoing basis. Therefore, for both Group and Individual Contracts, Movestic adopts a reserving approach that is similar to that of a non-life insurance business, with claim reserves projected using an estimated loss ratio with reference to previous loss development for earlier years.

The insurance contract provisions comprise unearned premium provisions, outstanding claims and associated reinsurance recoveries. Except for the income protection and the waiver of premium benefits within the Individual Contracts, provisions for the insurance contracts are not discounted because of the short-term nature of the liabilities, which are generally paid by the fourth year of development for a single accident year. Income protection and waiver of premium contracts are discounted at a rate equivalent to a high quality (i.e. AA rated) corporate bond.

(d) Assumptions used in establishing insurance contract provisions

The assumptions used in establishing insurance contract provisions for the UK businesses are materially the same as those set out in Note 30 (e) (iv) for establishing technical provisions.

Swedish business (Movestic)

Unearned premiums

Unearned premiums represent a proportion of the premium relating to policies that expire after the balance sheet date. Unearned premiums are calculated automatically by the underwriting system and are released to income on a straight-line basis over the period of the policy.

Outstanding claims

Outstanding claims include notified claims, claims incurred as at the balance sheet date but not reported and an estimate of the cost of handling the claims.

The key risk in respect of notified claims is that they are paid or handled inappropriately (for example invalid or fraudulent claims are paid). Management information is reviewed on a regular basis to identify unusual trends in the payment of claims.

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of costs of settling claims already notified to Movestic, where more information about the claim event is generally available. In calculating the estimated cost of claims which have not been notified, Movestic uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

The most common methods that are used are the chain ladder method and the Bornhuetter-Ferguson method. Chain ladder methods involve the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected factors are applied to cumulative claims data for each accident year that is not fully developed to provide an estimated ultimate claims cost. The Bornhuetter-Ferguson method uses a combination of an initial estimate of the expected loss ratio and an estimate based on observed claims experience. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Insurance contract provisions (continued)

(d) Assumptions used in establishing insurance contract provisions (continued)

The use of different approaches assists in giving greater understanding of the trends inherent in the data being projected and also assists in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the policies sold. Where deemed appropriate, an allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. Although claims reserves are considered reasonable, on the basis of information available to Movestic, the ultimate liabilities will vary as a result of subsequent information and events.

Income protection and waiver of premium benefits within Individual Contracts

For reported claims, the liabilities are reviewed on a case by case basis. A discounted cash flow model is used to determine the liabilities and the key factors used are:

- the probability of `recovery' (i.e. return to work). The recovery rates depend on age, sex and length of time the claimant has been claiming the benefits;
- the mortality rate; and
- the discount rate.

For unreported claims, the claims development table is used. The development of insurance liabilities provides a measure of Movestic's ability to estimate the ultimate value of claims. The top half of the table below illustrates how Movestic's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. An accident-year basis is considered to be the most appropriate for the business written by Movestic. The information is presented on both a gross and net of reinsurance basis.

Analysis of claims development – gross

	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000
Estimate of ultimates						
End of accident year	16,105	40,184	24,749	25,604	26,845	26,439
One year later	12,105	33,010	16,010	17,177	21,569	
Two years later	12,071	31,781	14,578	16,398		
Three years later	12,020	30,301	13,853			
Four years later	11,608	30,371				
Five years later	10,860					
Current estimate of ultimate claims	10,860	30,371	13,853	16,398	21,569	26,439
Cumulative payments	8,651	15,730	9,193	9,975	10,218	5,198
In balance sheet	19,511	46,101	23,046	26,373	31,787	31,637
Provision for prior years						4,712
Liability in balance sheet						65,240

Analysis of claims development – net

	2009 £000	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000
Estimate of ultimates						
End of accident year	2,538	12,699	10,386	9,518	10,690	12,757
One year later	1,841	9,027	5,321	4,948	7,057	
Two years later	2,130	8,606	4,008	4,462		
Three years later	2,133	7,860	3,670			
Four years later	2,037	8,180				
Five years later	1,886					
Current estimate of ultimate claims	1,886	8,180	3,670	4,462	7,057	12,757
Cumulative payments	1,480	3,633	2,361	2,511	2,976	3,854
In balance sheet	3,366	11,813	6,031	6,973	10,033	16,611
Provision for prior years						841
Liability in balance sheet						22,037

(e) Sensitivity to changes in assumptions

UK businesses (CA, S&P and PL)

Assumptions are adjusted for changes in mortality, investment return, policy maintenance expenses and expense inflation to reflect anticipated changes in market conditions and market experience and price inflation.

CA, S&P and PL re-run their valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the sensitivity of the estimates to changes in assumptions in respect of its life assurance contracts. The table presented below demonstrates the sensitivity of assets and insured liability estimates to particular movements in assumptions used in the estimation process. Certain variables can be expected to impact on life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

Impact on reported net of tax profits and equity to changes in key variables:

	Change in variable %	Change in net of tax profits and equity 2014 £m	Change in net of tax profits and equity 2013 £m
CA business			
Investment return	+1	(3.0)	(3.7)
Investment return	-1	2.7	2.7
Mortality/morbidity	+10	2.7	2.5
Mortality alone	+10	3.0	3.4
Morbidity alone	+10	(0.3)	(0.9)
Policy maintenance expenses	+10	(0.8)	(1.3)
S&P business			
Investment return	+1	7.9	11.5
Investment return	-1	(7.7)	(12.1)
Mortality	+10	0.5	0.2
Policy maintenance expenses	+10	(2.8)	(2.0)
PL business			
Investment return	+1	(0.3)	–
Investment return	-1	0.1	(0.2)
Mortality/morbidity	+10	(2.1)	(3.9)
Mortality alone	+10	(2.0)	(2.0)
Morbidity alone	+10	(0.1)	(1.9)
Policy maintenance expenses	+10	(0.7)	(0.5)

The above sensitivities are calculated as an expected impact on IFRS-based profits, net of reinsurance and tax and the analysis has been prepared for a change in the stated variable, with all other assumptions remaining constant.

The sensitivities to the changes in investment returns are calculated taking into account the consequential changes to valuation assumptions.

The sensitivities to mortality and morbidity (critical illness) rates shown above are calculated on the assumption that there would be no consequential change in rates to policyholders. In practice, Group policy is to pass costs on to policyholders where it is contractually permitted and where it considers that the impact of the change is significant.

The main expense risk is that of unforeseen changes to third party administration expenses: the impact shown above quantifies a 10% increase in those expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Insurance contract provisions (continued)

(e) Sensitivity to changes in assumptions (continued)

Swedish business (Movestic)

The key sensitivities in the measurement of the Group and Individual Contracts insurance claim reserves within Movestic are a movement in the loss ratio applied to earned premium and the foreign exchange risk arising on business written in Norway. In addition, for the income protection and the waiver of premium benefits within the Individual Contracts, the claims reserves are impacted by the discount rate used. The impact of these sensitivities is shown below:

	Pre-tax profit 2014 £m	Pre-tax profit 2013 £m	Shareholders' equity 2014 £m	Shareholders' equity 2013 £m
5% increase in loss ratio				
Gross before reinsurance	(3.3)	(2.0)	(2.3)	(1.5)
Net after reinsurance	(1.2)	(1.1)	(0.8)	(0.8)
5% decrease in loss ratio				
Gross before reinsurance	3.3	2.0	2.3	1.5
Net after reinsurance	1.2	1.1	0.8	0.8
10% increase in the Norwegian Krone				
Gross before reinsurance	(0.4)	(0.4)	(0.3)	(0.3)
Net after reinsurance	(0.1)	(0.3)	-	(0.3)
10% decrease in the Norwegian Krone				
Gross before reinsurance	0.4	0.4	0.3	0.3
Net after reinsurance	0.1	0.3	-	0.3
1% increase in discount rate				
Gross before reinsurance	0.7	1.2	0.5	0.9
Net after reinsurance	0.2	0.6	0.2	0.4
1% decrease in discount rate				
Gross before reinsurance	(0.9)	(1.4)	(0.6	(1.1)
Net after reinsurance	(0.3)	(0.3)	(0.2)	(0.2)

32 Investment contracts at fair value through income and amounts deposited with reinsurer

Analysis by operating segment

31 December	2014 Investment contract liability £000	2014 Amount deposited with reinsurer £000	2014 Net £000	2013 Investment contract liability £000	2013 Amount deposited with reinsurer £000	2013 Net £000
CA	697,210	35,498	661,712	689,359	34,293	655,066
S&P	38,896	–	38,896	45,924	–	45,924
Movestic	1,653,706	–	1,653,706	1,548,120	–	1,548,120
Total	**2,389,812**	**35,498**	**2,354,314**	**2,283,403**	**34,293**	**2,249,110**
Current	78,552	545	78,007	76,826	740	76,086
Non-current	2,311,260	34,953	2,276,307	2,206,577	33,553	2,173,024
Total	**2,389,812**	**35,498**	**2,354,314**	**2,283,403**	**34,293**	**2,249,110**

The fair values of the Groups' investment contract liabilities are have been disclosed according to a three-level valuation hierarchy in Note 25.

The table above does not include any analysis with regards to Protection Life as all of its products are classified as insurance contracts under IFRS.

33 Liabilities relating to policyholders' funds held by the Group

Unit-linked
31 December

	2014 £000	**2013 £000**
Balance at 1 January	**130,237**	**61,171**
Deposits received	51,604	66,000
Fees deducted from account balances	(1,239)	(727)
Investment yield	15,472	11,002
Foreign exchange translation difference	(19,371)	(3,127)
Other movements	(11,845)	(4,082)
Balance at 31 December	**164,858**	**130,237**
Current	13,112	14,676
Non-current	151,746	115,561
Total	**164,858**	**130,237**

The fair values of the 'Liabilities relating to Policyholders' funds held by the Group' are determined according to a three-level valuation hierarchy, which is explained in Note 25.

The fair value of these liabilities is based on the aggregation of prices quoted in active markets of their associated assets (Level 1), as disclosed in Note 25.

34 Borrowings

Group
31 December

	2014 £000	**2013 £000**
Bank loan	64,327	73,040
Amount due in relation to financial reinsurance	22,969	21,337
Total	**87,296**	**94,377**
Current	17,198	13,967
Non-current	70,098	80,410
Total	**87,296**	**94,377**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34 Borrowings (continued)

Company 31 December	2014 £000	2013 £000
Bank loan	**64,327**	**73,040**
Current	11,826	8,897
Non-current	52,501	64,143
Total	**64,327**	**73,040**

The bank loan subsisting at 31 December 2014, comprises the following:

– on 7 October 2013 tranche one of a loan facility was drawn down, amounting to £30.0m. This facility is unsecured and is repayable in five increasing annual instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.25 percentage points above the London Inter-Bank Offer Rate and is repayable over a period which varies between one and six months at the option of the borrower. During the year, £4.4m of the debt was repaid.

– on 27 November 2013 tranche two of the loan facility was drawn down, amounting to £31.0m. As with tranche one, this facility is unsecured and is repayable in five increasing annual instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.25 percentage points above the London Inter-Bank Offer Rate and is repayable over a period which varies between one and six months at the option of the borrower. During the year, £4.6m of the debt was repaid.

– on 27 November 2013 a short-term loan of £12.8m was drawn down. This was originally repayable in full on 27 May 2015. During 2014, the repayment date of this loan has been extended to December 2018. The outstanding principal on the loan bears interest at a rate of 2.75 percentage points above the London Inter-Bank Offer Rate.

The fair value of the bank loan at 31 December 2014 was £64,800,000 (31 December 2013: £73,800,000).

The fair value of amounts due in relation to financial reinsurance was £23,767,650 (31 December 2013: £21,657,269). The fair value of other borrowings is not materially different from their carrying value.

Bank loans are presented net of unamortised arrangement fees. Arrangement fees are recognised in profit or loss using the effective interest rate method.

35 Other provisions

Group

	MECR £000	Other complaints redress £000	Onerous contracts £000	Other £000	Total £000
Balance at 1 January 2013	**81**	**203**	**4,147**	**730**	**5,161**
Provisions made during the year	3	2	33	1,999	2,037
Provisions used during the year	(6)	–	(455)	(886)	(1,347)
Provisions reversed during the year	(63)	(198)	(238)	(4)	(503)
Balance at 31 December 2013	**15**	**7**	**3,487**	**1,839**	**5,348**
Provisions made during the year	25	–	–	41	66
Provisions used during the year	(26)	–	(448)	(1,278)	(1,752)
Provisions reversed during the year	(2)	–	(2,933)	2	(2,933)
Balance at 31 December 2014	**12**	**7**	**106**	**604**	**729**
31 December 2013					
Current	15	7	691	1,839	2,552
Non-current	–	–	2,796	–	2,796
Total	**15**	**7**	**3,487**	**1,839**	**5,348**
31 December 2014					
Current	12	7	60	600	679
Non-current	–	–	46	4	50
Total	**12**	**7**	**106**	**604**	**729**

The reversal of provisions during the year was credited to Other Operating Income as disclosed in Note 10.

Company

	Onerous contracts £000
Balance at 1 January 2013	**3,804**
Provisions reversed during the year	(94)
Provisions used during the year	(404)
Balance at 31 December 2013	**3,306**
Provisions reversed during the year	(2,863)
Provisions used during the year	(443)
Balance at 31 December 2014	–
31 December 2013	
Current	591
Non-current	2,715
Total	**3,306**
31 December 2014	
Current	–
Non-current	–
Total	**–**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Other provisions (continued)

(a) Mortgage Endowment Complaints Redress (MECR)

Insurance contract provisions in Note 31 include a mortgage endowment complaints reserve of £2.87m, in respect of the estimate of future redress for future claims by customers in respect of past misselling of mortgage endowment policies.

As part of the redress process if the complaint is upheld an offer of redress is made to the customer where a loss has occurred. These offers are classified as payables for the first 6 months after they are made, subsequent to which they are reclassified as provisions, as the customer loses the right of redress at the level offered, but continues to have a right to enforce a claim, which the Group has the right to reassess. The provision is established at the original offer level.

(b) Other complaints redress

Offers of redress on complaints other than mortgage endowment related are classified in a manner similar to that detailed for MECR above.

(c) Onerous contracts

The Group and Company have a number of onerous operating lease contracts that have been entered into historically, whose activity and current status is described in Note 49 Operating leases. Given the terms of the contracts the Group and company have created onerous contract provisions for anticipated future net costs. Over the terms of the contracts these provisions take account of the contract terms, future payments and future mitigating income from sublets, contract by contract, to create a view as to the Group's and Company's exposure.

These provisions comprise three components: provision for vacant properties, provision for properties due to become empty at the end of their subleases, and provision for future under-recoveries of costs on subleases entered into.

At the end of 2013, a provision of £3,306,000 was held relating to the potential cost of vacant space within its then Harbour House Head Office in Preston, for which the Company had a lease arrangement until mid-2019 for the entire building although it only occupied a small proportion. This provision represented the future contractual costs not expected to be covered by sub-let income. During 2014, the Company successfully negotiated a deal to transfer the building to an independent third party, effectively ending its ongoing onerous lease obligations. As a consequence, £2,863,000 was released back to income in the year, representing the release of the residual provision.

(d) Other

One of the conditions of the acquisition of Protection Life was to migrate the accounting and policy administration processes from the Direct Line Group to one of our outsource providers. As a result of this requirement a provision of £2.0m was raised during the year, representing Management's best estimate of the costs that will be incurred to fulfill this obligation. £1.67m of this provision has been utilised to date.

36 Deferred tax assets and liabilities

Deferred tax liabilities comprise:

31 December	2014 £000	2013 £000
Net deferred tax liabilities:		
CA, S&P, PL and Other Group Activities	(7,899)	(9,502)
Movestic	(441)	(1,505)
Total	**(8,340)**	**(11,007)**
Current	(1,713)	(1,241)
Non-current	(6,627)	(9,766)
Total	**(8,340)**	**(11,007)**

CA, S&P, PL and Other Group Activities

(a) Recognised deferred tax assets and liabilities

31 December	2013 Assets/ (liabilities) £000	(Charge)/ credit in year £000	Arising on business combinations	2014 Assets/ (liabilities) £000
Profit arising on transition to new tax regime	(2,372)	539	–	(1,833)
Deferred acquisition costs	(796)	93	–	(703)
Deferred income	1,452	(167)	–	1,285
Acquired value in force	(7,786)	1,069	–	(6,717)
Property, plant and equipment	(25)	25	–	–
Unrealised and deferred investment gains	(4,317)	(15,565)	–	(19,882)
Excess expenses of management	4,317	15,565	–	19,882
Share-based Payments	–	30	–	30
Other	25	14	–	39
Total	**(9,502)**	**1,603**	**–**	**(7,899)**
Comprising:-				
Net deferred tax assets	–	–	–	–
Net deferred tax liabilities	(9,502)	1,603	–	(7,899)
Total	**(9,502)**	**1,603**	**–**	**(7,899)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Deferred tax assets and liabilities (continued)

CA, S&P, PL and Other Group Activities (continued)

(a) Recognised deferred tax assets and liabilities (continued)

31 December	2012 Assets/ (liabilities) £000	(Charge)/ credit in year £000	Arising on business combinations	2013 Assets/ (liabilities) £000
Profit arising on transition to new tax regime	(2,636)	264	–	(2,372)
Deferred acquisition costs	(1,065)	269	–	(796)
Deferred income	1,889	(437)	–	1,452
Acquired value in force	(4,857)	1,113	(4,042)	(7,786)
Property, plant and equipment	(39)	14	–	(25)
Tax losses on pensions business	4,178	(4,178)	–	–
Unrealised and deferred investment gains	(4,655)	338	–	(4,317)
Excess expenses of management	4,655	(338)	–	4,317
Insurance contract provisions	–	–	–	–
Other	39	(14)	–	25
Total	**(2,491)**	**(2,969)**	**(4,042)**	**(9,502)**
Comprising:-				
Net deferred tax assets	2,295	(2,295)	–	–
Net deferred tax liabilities	(4,786)	(674)	(4,042)	(9,502)
Total	**(2,491)**	**(2,969)**	**(4,042)**	**(9,502)**

Note (i) The deferred tax (charge)/credit to the Consolidated Statement of Comprehensive Income for the year is classified as follows:

Year ended 31 December	2014 £000	2013 £000
Income tax credit/(charge)	**1,603**	**(2,969)**

A new regime for the taxation of life assurance companies in the UK was introduced with effect from 1 January 2013. The new regime bases the taxable trading profit on IFRS profits rather than on PRA return surplus generated as under the previous rules and also treats pension business separately from life assurance business. As part of the transition to the new regime, accumulated historical profits as at 31 December 2012 were compared between the two bases and the taxable difference is being charged over ten years.

(b) Items for which no deferred tax asset is recognised

31 December	2014 £000	2013 £000
BLAGAB transitional amounts	3,810	4,286
Unrelieved expenses	174,895	266,738
Realised and unrealised investment losses	–	4,350
Total	**178,705**	**275,374**

A deferred tax asset has not been recognised in respect of unrelieved expenses, because it is not probable that there will be a sufficient level of taxable income arising from income and gains on financial assets, so that the Group can utilise the benefits therefrom. The movement in this balance reflects an increase in deferred deemed gains on Collective Investment Schemes in the period, which has decreased the unrelieved expenses at the balance sheet date.

Movestic

(a) Recognised deferred tax assets and liabilities

31 December	2013 Assets/ (liabilities) £000	(Charge)/ credit in year £000	Foreign exchange translation difference £000	2014 Assets/ (liabilities) £000
Intangible assets				
Fair value adjustment on acquisition	(572)	35	95	(442)
Equity accounting for associate	(954)	895	59	–
Property, plant and equipment	2	(1)	–	1
Total	**(1,524)**	**929**	**154**	**(441)**
Comprising:				
Net deferred tax assets	2	(1)	–	1
Net deferred tax liabilities	(1,526)	930	154	(442)
Total	**(1,524)**	**929**	**154**	**(441)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36 Deferred tax assets and liabilities (continued)

Movestic

(a) Recognised deferred tax assets and liabilities (continued)

31 December	2012 Assets/ (liabilities) £000	(Charge)/ credit in year £000	Foreign exchange translation difference £000	2013 Assets/ (liabilities) £000
Intangible assets				
Fair value adjustment on acquisition	(601)	45	(16)	(572)
Corporation tax recoverable	91	(94)	3	–
Equity accounting for associate	(601)	(371)	18	(954)
Property, plant and equipment	3	(1)	–	2
Total	**(1,108)**	**(421)**	**5**	**(1,524)**
Comprising:				
Net deferred tax assets	94	(95)	3	2
Net deferred tax liabilities	(1,202)	(326)	2	(1,526)
Total	**(1,108)**	**(421)**	**5**	**1,524**

(b) Unrecognised deferred tax assets

31 December	2014 £000	2013 £000
Corporation tax recoverable – not recognised	528	758
Total	**528**	**758**

37 Reinsurance payables

Payable to reinsurers 31 December	2014 £000	2013 £000
Payables in respect of insurance contracts	9,863	10,860
Payables in respect of investment contracts	18	21
Reinsurers' share of deferred acquisition costs and claims deposits	618	658
Total	**10,499**	**11,539**
Current	8,053	10,491
Non-current	2,446	1,048
Total	**10,499**	**11,539**

The carrying value of payables to reinsurers is a reasonable approximation of fair value.

38 Payables related to direct insurance and investment contracts

31 December		2014			2013	
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Accrued claims	45,207	14,722	30,485	40,971	11,399	29,572
Intermediaries' liabilities	2,144	–	2,144	2,301	–	2,301
Policyholder premium liabilities	2,821	–	2,821	2,481	–	2,481
Other	8,617	–	8,617	1,384	–	1,384
Total	**58,789**	**14,722**	**44,067**	**47,137**	**11,399**	**35,738**
Current	58,544	14,581	43,963	47,137	11,399	35,738
Non-current	245	141	104	–	–	–
Total	**58,789**	**14,722**	**44,067**	**47,137**	**11,399**	**35,738**

The carrying value of payables related to the direct insurance and investment contracts is a reasonable approximation of fair value.

39 Deferred income

31 December	2014 £000	2013 £000
Balance at 1 January	**7,865**	**8,884**
Release to income	(891)	(1,019)
Balance at 31 December	**6,974**	**7,865**
Current	831	906
Non-current	6,143	6,959
Total	**6,974**	**7,865**

The release to income is included in Fees and Commission Income (see Note 8).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40 Income tax liabilities

31 December	2014 £000	2013 £000
Income tax liabilities, which are all current, comprise:		
Corporation tax – CA, S&P, PL and Other Group Activities	4,168	8,012
Corporation tax – Movestic	–	–
Total	**4,168**	**8,012**

The carrying value of income tax liabilities is a reasonable approximation of fair value.

41 Other payables

Group 31 December	2014 £000	2013 £000
Accrued expenses	7,861	6,960
VAT	114	76
Employee tax	517	452
Policyholder property fund creditors	–	1,317
Other	9,975	18,299
Total	**18,467**	**27,104**
Current	18,467	27,104
Non-current	–	–
Total	**18,467**	**27,104**

Company 31 December	2014 £000	2013 £000
Accrued expenses	1,589	1,746
Other	632	688
Total	**2,221**	**2,434**
Current	2,221	2,434
Non-current	–	–
Total	**2,221**	**2,434**

The carrying value of other payables is a reasonable approximation of fair value.

42 Share capital and share premium

Group 31 December	2014 Number of shares	2014 Share capital £000	2013 Number of shares	2013 Share capital £000
Share capital	**126,552,427**	**42,600**	**115,047,662**	**42,024**
		Share premium £000		**Share premium £000**
		76,523		**42,526**

The number of shares in issue at the balance sheet date included 154,031 shares held in treasury (31 December 2013: 194,183).

Share capital for the Group includes the impact of "reverse acquisition accounting" associated with Chesnara plc's acquisition of Countrywide Assured Life Holdings Ltd (CALH) from Countrywide plc (Countrywide) on 24 May 2004. As a result of this, included within share capital of the Group is £41,501,000, which represents the amount of issued share capital of Countrywide Assured Life Holding (the legal subsidiary) immediately before the acquisition. As a result of this accounting treatment the Group share capital differs from the Chesnara plc company position, which is set out below.

On 5 December 2014, 11,504,765 new shares were issued to existing shareholders, as part of a fund raising exercise in respect of the proposed acquisition of the Waard Group of companies. The equity issue raised £35.6m. Transaction costs of £1.0m were incurred in respect of the fund raising and have been deducted from equity.

Company 31 December	2014 Number of shares	2014 Share capital £000	2013 Number of shares	2013 Share capital £000
Authorised **Ordinary shares of 5p each**	**201,000,000**	**10,050**	**201,000,000**	**10,050**
Issued **Ordinary shares of 5p each**	**126,552,427**	**6,328**	**115,047,662**	**5,752**
		Share premium £000		**Share premium £000**
		76,523		**42,526**

The number of shares in issue at the balance sheet date included 154,031 shares held in treasury (31 December 2013: 194,183).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Treasury shares

Group and Company **31 December**	**2014** **£000**	**2013** **£000**
Balance at 31 December	**168**	**212**

44 Other reserves

Group **31 December**	**2014** **£000**	**2013** **£000**
Capital redemption reserve	50	50
Foreign exchange translation reserve	(691)	7,153
Balance at 31 December	**(641)**	**7,203**

Company **31 December**	**2014** **£000**	**2013** **£000**
Capital redemption reserve	**50**	**50**

45 Retained earnings

Group Year ended 31 December	2014 £000	2013 £000
Retained earnings attributable to equity holders of the parent company comprise:		
Balance at 1 January	**155,561**	**126,297**
Profit for the year	25,575	49,363
Share based payment	114	–
Dividends		
Final approved and paid for 2012	–	(12,921)
Interim approved and paid for 2013	–	(7,178)
Final approved and paid for 2013	(13,357)	–
Interim approved and paid for 2014	(7,374)	–
Balance at 31 December	**160,519**	**155,561**

The interim dividend in respect of 2013, approved and paid in 2013 was paid at the rate of 6.25p per share. The final dividend in respect of 2013, approved and paid in 2014, was paid at the rate of 11.63p per share so that the total dividend paid to the equity shareholders of the Parent Company in respect of the year ended 31 December 2013 was made at the rate of 17.88p per share.

The interim dividend in respect of 2014, approved and paid in 2014, was paid at the rate of 6.42p per share to equity shareholders of the Parent Company registered at the close of business on 12 September 2014, the dividend record date.

A final dividend of 11.98p per share in respect of the year ended 31 December 2014 payable on 22 May 2015 to equity shareholders of the Parent Company registered at the close of business on 10 April 2015, the dividend record date, was approved by the Directors after the balance sheet date. The resulting total final dividend of £15.1m has not been provided for in these financial statements and there are no income tax consequences.

The following summarises dividends per share in respect of the year ended 31 December 2014 and 31 December 2013:

Year ended 31 December	2014 p	2013 p
Interim – approved and paid	6.42	6.25
Final – proposed/paid	11.98	11.63
Total	**18.40**	**17.88**

Company Year ended 31 December	2014 £000	2013 £000
Balance at 1 January	**112,534**	**96,791**
Profit for the year	41,214	35,842
Share based payment	114	–
Dividends paid		
Final approved and paid for 2012	–	(12,921)
Interim approved and paid for 2013	–	(7,178)
Final approved and paid for 2013	(13,357)	–
Interim approved and paid for 2014	(7,374)	–
Balance at 31 December	**133,131**	**112,534**

Details of dividends, approved and paid, are set out in the ‘Group’ section above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46 Employee benefit expense, including Directors

Year ended 31 December	CA £000	S&P £000	Movestic £000	Other Group Activities £000	2014 £000	2013 £000
Wages and salaries	953	484	7,203	1,392	10,032	10,211
Social security costs	109	55	2,582	159	2,905	2,986
Pension costs-defined contribution plans	76	39	1,392	112	1,619	1,709
Total	**1,138**	**578**	**11,177**	**1,663**	**14,556**	**14,906**
Average number of employees						
Company					22	23
Subsidiaries					128	125
Total					**150**	**146**

Directors
Note 52 provides detail of compensation to Directors of the Company.

UK-based employees
UK-based employees are all employed by Chesnara plc.

At the end of May 2005 the Group allowed eligible employees to enter a pension scheme known as the Chesnara plc Stakeholder Scheme, on a basis where employer contributions are made to the scheme at the same rate as would be payable had their membership of their predecessor scheme continued, provided that employee contributions also continued to be made at the same rate. The employee may opt to request the Company to pay employer contributions into a personal pension plan, in which instance, employer contributions will be made on the same terms as for the Chesnara plc Stakeholder Scheme.

The employee who joined the Group as a result of the acquisition of CWA Life Holdings plc continues to be a member of the pre-existing defined contribution Group Personal Pension scheme, to which employer and employee contributions are made.

The Group has, for the period covered by these financial statements, only made contributions to defined contribution plans to provide pension benefits for employees upon retirement and, otherwise, has no residual obligation or commitments in respect of any defined benefit scheme.

The Group has established frameworks for approved and unapproved discretionary share option plans which may, at the discretion of the Remuneration Committee, be utilised for granting options to Executive Directors and to other Group employees. Options have been granted to Executive Directors in the period, in relation to the share-based payment components of the new Executive incentive schemes that were introduced in the year. Further details can be found in the Directors' Remuneration Report Section and in Note 47 – Share Based Payments on page 169.

Swedish-based employees
The Swedish Business participates in a combined defined benefit and defined contribution scheme operated by Försäkringsbranschen Pensionskassa (the 'Scheme'). The Scheme is a multi-employer scheme with participants including other Swedish insurance companies not related to the Group. The Scheme provides, for those born in 1978 or earlier, benefits to employees which are linked to their final salary and to the amount of time working for companies which are members of the Scheme. For those employees born in 1979 or later, the scheme operates on a defined contribution basis.

Assets and liabilities are held on a pooled basis and are not allocated by the Trustee to any individual company. Consequently, reliable information is not available to account for the Scheme as a defined benefit scheme and therefore, in accordance with IAS 19 Employee Benefits, the Scheme is accounted for as a defined contribution scheme.

Contributions to the Scheme are based on the funding recommendations of the independent qualified actuary: the contributions paid to the Scheme subsequent to the acquisition of the Swedish Business on 23 July 2009 and up to 31 December 2013, totalled SEK16,066,525 (£1,505,725). During 2014 further contributions of SEK 5,608,000 (£496,333) were made.

The employers within the Scheme are responsible collectively for the funding of the Scheme as a whole and therefore in the event that other employers exit from the Scheme, remaining employers would be responsible for the ongoing funding. The collective nature of the Scheme results in all participating entities sharing the actuarial risk associated with the Scheme.

Försäkringsbranschens Pensionskassa ("FPK") issues an audited annual report (under Swedish law-limited IFRS) each year. The last available published report was as at 31 December 2013.

The annual report states that the Scheme's surplus is SEK 1,312m (£123.9m) as at 31 December 2013 (SEK 469m (£44.6m) as at 31 December 2012). As at 31 December 2013, the fund had assets under management of SEK 1,130m (£1,067m), 134 employer insurance companies participating in the Scheme and 26,000 insured individuals.

From the available information, it cannot be determined with certainty as to whether there would be a change in the required employer funding rate, although there is currently no deficit in the Scheme.

47 Share-based payments

On 1 January 2014, a new executive bonus scheme was introduced which had two components.

(a) Short-term incentive scheme (STI scheme)
(b) Long-term incentive scheme (LTI scheme)

Chesnara plc issued equity-settled share based payments to the three Executive Directors. Equity settled share-based payments are measured at fair value at the date of the grant, and expensed on a straight-line over the vesting period, based on the Group's estimate of shares that will eventually vest.

(a) Short-term Incentive Scheme (STI scheme)

The STI scheme is based upon a 1 year performance period measured against IFRS, EEV operating profit and strategic group objectives. Upon meeting the necessary performance targets, the Company has granted an award in the form of a right to receive a cash amount of up to 75% of the gross salary. In the event that the gross cash payment due is greater than £20,000, a mandatory 35% of the cash award is deferred into shares, which has a vesting period of three years. Therefore the award is 65% settled in cash and 35% settled by a share option award, which cannot be exercised for three years.

The bonus award for the year is £493,000. Of the bonus included, 35% is deferred in shares for three years and is subject to forfeiture. The deferred share award will be made following the end of the performance period by the Remuneration Committee. The deferred amount will be divided by the share price on the award date and the number of share awards will be awarded. The share awards will be accounted for per IFRS 2, under Equity Settled share-based payments.

The Group has recorded liabilities of £401,000 with respect to the 65% element that is to be paid as a cash bonus. The remaining £92,000 will be deferred over the vesting period and an expense of £22,000 has been recorded in the current year.

(b) Long-term Incentive Scheme (LTI Scheme)

In May 2014, the Group granted 169,000 nil priced share options with a vesting period of three years. These awards were subject to performance conditions tied to the Company's financial performance in respect of growth in embedded value and total shareholder return ('TSR').

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before options vest.

Fair value is measured by use of the Monte Carlo model of the TSR condition. The LTI Scheme also contains embedded value growth. As these are non-market performance conditions they are not included in the determination of fair value of share options at the grant date. The fair value of the non-market base condition was determined to be 310.25p, which was the share price as at 20 May 2014, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2014 Long-term Incentive Scheme	Options Number £000	Weighted Average exercise price £
Outstanding at the beginning of the year	–	–
Granted during the year	169	–
Forfeited during the year	(52)	–
Cancelled during year	–	–
Outstanding at the end of the year	117	–
Exercisable at the end of the year	–	–

The weighted average contractual life is 10 years.

The inputs into the Monte Carlo model are as follows:

Valuation method	Monte Carlo
Weighted average share price (pence)	310.25
Weighted average exercise price (pence)	nil
Weighted average fair value of options granted (pence)	183.08
Expected volatility	32.10%
Expected life	3 years
Risk free rate	1.46%
Expected dividend yield	0%

Expected volatility was determined by calculating the historical volatility of the Company's share price over the previous 10 years.

The Group recognised total expense of £84,000 related to equity-settled share based payments transactions in 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Earnings per share

Earnings per share are based on the following:

Year ended 31 December	2014	2013
Profit for the year attributable to shareholders (£000)	25,575	49,363
Weighted average number of ordinary shares	115,711,981	114,851,282
Basic earnings per share	22.10p	42.98p
Diluted earnings per share	22.08p	42.98p

The weighted average number of ordinary shares in respect of the years ended 31 December 2014 is based upon 126,552,427 shares in issue less 154,031 own shares held in treasury. The weighted average number of ordinary shares in respect of the years ended 31 December 2013 was based upon 115,047,662 shares in issue less 196,380 own shares held in treasury.

There were 117,000 share options outstanding at 31 December 2014 (2013: nil). Accordingly, there is dilution of the average number of ordinary shares in issue in respect of 2014

49 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

Operating lease rentals Year ended 31 December	2014 Non-investment properties £000	2014 Motor vehicles £000	2014 Total £000	2013 Non-investment properties £000	2013 Motor vehicles £000	2013 Total £000
Less than one year	828	99	927	1,237	88	1,325
Between one and two years	642	83	725	1,139	46	1,185
Between two and five years	1,709	39	1,748	1,949	20	1,969
More than five years	–	–	–	266	–	266
Expenses recognised in the year in respect of operating leases	**536**	**72**	**555**	**1,432**	**110**	**1,542**

On 31 December 2014, the Group leased a property under an operating lease which it part occupies in the course of its day-to-day business. The lease expires on 2 December 2019, with an option to renew the lease after that date. Lease payments are reviewed every five years to reflect market rentals. The lease does not include any contingent rentals. The Group also leases a number of office premises which are no longer used for Group purposes. The leases typically run for approximately a further 2 years after the balance sheet date. Lease payments are reviewed every five years to reflect market rentals. None of the leases includes contingent rentals. These leased properties are sublet by the Group. Sublease payments as detailed below are expected to be received during the following years. The Group has recognised a provision of £106,000 at 31 December 2014 (31 December 2013: £3,487,000) in respect of these leases (see Note 35).

Leases as lessor

The Group subleases out both investment properties from its investment portfolio and the office premises which are no longer used for Group purposes. The future minimum lease payments under non-cancellable leases are as follows:

Sub lease rentals Year ended 31 December	2014 Investment properties £000	2014 Non-investment properties £000	2014 Total £000	2013 Investment properties £000	2013 Non-investment properties £000	2013 Total £000
Less than one year	39	42	81	1,218	52	1,270
Between one and two years	–	4	4	1,048	18	1,066
Between two and five years	–	–	–	2,841	4	2,845
More than five years	–	–	–	4,389	–	4,389
Rental income recognised in the year	**499**	**52**	**551**	**4,604**	**92**	**4,696**
Repairs and maintenance costs recognised in the year	**411**	**24**	**435**	**1,142**	**60**	**1,202**

50 Contingencies

Past sales

The Group has made provision for the estimated cost of settling complaints in respect of past sales of endowment mortgages. Although the provisions are regularly reviewed, the final outcome could be different from the provisions established as these costs cannot be calculated with certainty and are influenced by external factors beyond the control of management, including future regulatory actions.

51 Capital commitments

There were no capital commitments as at 31 December 2014 or as at 31 December 2013.

52 Related party transactions

(a) Identity of related parties

The shares of the Company were widely held and no single shareholder exercised significant influence or control over the Company.

The Company has related party relationships with:

(i) key management personnel who comprise only the Directors of the Company;

(ii) its subsidiary companies;

(iii) its associated company; and

(iv) other companies over which the Directors have significant influence.

(b) Related party transactions

(i) Transactions with key management personnel.

Key management personnel comprise of the Directors of the Company. There are no executive officers other than certain of the Directors. Key management compensation is as follows:

Year ended 31 December	2014 £000	2013 £000
Short-term employee benefits	1,593	1,612
Post-employment benefits	65	131
Long-term employment benefits	161	–
Total	**1,819**	**1,743**

In addition to their salaries the Company also provides non-cash benefits to Directors, and contributes to a post employment defined contribution pension plan on their behalf, or where regulatory contribution limits are reached, .pay an equivalent amount as an addition to base salary.

The following amounts were payable to Directors in respect of bonuses and incentives:

	2014 £000	2013 £000
Annual bonus scheme (included in the short-term employee benefits above)	493	616
Long-term incentive plan	161	330
Compensation for loss of office	384	–
Total	**1,038**	**946**

These amounts have been included in Accrued Expenses as disclosed in Note 41.

The amounts payable under the annual bonus scheme were payable within one year.

As at 31 December 2014, nil is payable within one year in respect of the long-term incentive plan (as at 31 December 2013: £292,105).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52 Related party transactions (continued)

(b) Related party transactions (continued)

(ii) Transactions with subsidiaries

The Company undertakes centralised administration functions, the costs of which it charges back to its operating subsidiaries. The following amounts which effectively comprised a recovery of expenses at no mark up were credited to the Consolidated Statement of Comprehensive Income of the Company for the respective periods:

Year ended 31 December	2014 £000	2013 £000
Recovery of expenses	**2,629**	**2,800**

(iii) Transactions with associate

Movestic Livförsäkring AB and its associate Modernac SA

Year ended 31 December	2014 £000	2013 £000
Reinsurance premiums paid	(9,829)	(10,708)
Reinsurance recoveries received	4,600	5,727
Reinsurance commission received	1,853	2,675
	(3,376)	(2,306)
Amounts outstanding as at balance sheet date	**(4,654)**	**(5,148)**

Movestic Livförsäkring AB had the following amounts outstanding at the balance sheet date:

31 December 2013	Amounts owed by associate £000	Amounts owed to associate £000
Modernac S.A.	**–**	**4,654**

31 December 2012	Amounts owed by associate £000	Amounts owed to associate £000
Modernac S.A.	**–**	**5,148**

These amounts have been included in other payables as disclosed in Note 41 and other receivables as disclosed in Note 26.

53 Group entities

Control of the Group

The issued share capital of Chesnara plc the Group parent company is widely held, with no single party able to control 20% or more of such capital or of the rights which such ownership confers.

Group Subsidiary Companies

Name	Country of Incorporation or Registration	Ownership interest 31 December 2014	Ownership interest 31 December 2013	Functional Currency
Countrywide Assured plc	England & Wales	100% of all share capital (1)	100% of all share capital (1)	Sterling
Countrywide Assured Life Holdings Limited	England & Wales	100% of all share capital	100% of all share capital	Sterling
Countrywide Assured Services Limited	England & Wales	100% of all share capital	100% of all share capital	Sterling
Countrywide Assured Trustee Company Limited	England & Wales	100% of all share capital	100% of all share capital	Sterling
Movestic Livförsäkring AB	Sweden	100% of all share capital	100% of all share capital	Swedish Krona
Modernac S.A.	Luxembourg	49% of all share capital (2)	49% of all share capital (2)	Swedish Krona
Movestic Kapitalförvältning AB	Sweden	100% of all share capital (2)	100% of all share capital (2)	Swedish Krona
Protection Life Company Limited (previously Direct Line Life Insurance Company Limited)	England & Wales	100% of all share capital (3)	100% of all share capital (3)	Sterling
Chesnara Holdings B.V.	Netherlands	100% of all share capital (4)	100% of all share capital (4)	Euro

(1) Held indirectly through Countrywide Assured Life Holdings Limited.
(2) Held indirectly through Movestic Livförsäkring AB.
(3) Acquired on 28 November 2013.
(4) Company formed on 25 November 2014.

SECTION E

EEV SUPPLEMENTARY INFORMATION

IN THIS SECTION

DIRECTORS' RESPONSIBILITIES STATEMENT IN RESPECT OF THE EEV BASIS SUPPLEMENTARY INFORMATION

The Directors have chosen to prepare Supplementary Information in accordance with the EEV Principles issued in May 2004 by the CFO Forum of European Insurance Companies and expanded by the Additional Guidance on European Embedded Value Disclosures issued in October 2005.

When compliance with the EEV Principles is stated, those principles require the Directors to prepare supplementary information in accordance with the Embedded Value Methodology ('EVM') contained in the EEV Principles and to disclose and explain any non-compliance with the EEV guidance included in the EEV Principles.

In preparing the EEV basis supplementary information, the Directors have:

- Prepared the supplementary information in accordance with the EEV Principles;
- Identified and described the business covered by the EVM;
- Applied the EVM consistently to the covered business;
- Determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently;
- Made estimates that are reasonable and consistent; and
- Described the basis on which business that is not covered business has been included in the supplementary information, including any material departures from the accounting framework applicable to the Group's financial statements.

By order of the Board

Peter Mason Chairman 30 March 2015	John Deane Chief Executive Officer 30 March 2015

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF CHESNARA PLC ON THE EEV BASIS SUPPLEMENTARY INFORMATION

We have audited the EEV Basis Supplementary Information of Chesnara plc for the year ended 31 December 2014 which comprises the summarised EEV consolidated income statement, the summarised EEV consolidated balance sheet and the related notes 1 to 11. The financial reporting framework that has been applied in their preparation is the EEV Principles issued in May 2004 by the CFO Forum of European Insurance Companies and expanded by the Additional Guidance on European Embedded Value Disclosures issued in October 2005 ("the EEV Principles").

We have reported separately on the statutory group financial statements of Chesnara plc for the year ended 31 December 2014. The EEV Basis Supplementary Information should be read in conjunction with the financial statements prepared on an IFRS basis.

This report is made solely to the company's directors in accordance with our engagement letter and solely for the purpose of expressing an opinion on whether the EEV Basis Supplementary Information has been properly prepared in accordance with the EEV principles. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in an independent auditors' report and for no other purpose. To the fullest extent permitted by law, we will not accept or assume responsibility to anyone other than the company, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors

As explained more fully in the Directors' Responsibility Statement in respect of the EEV Basis Supplementary Information, the Directors are responsible for the preparation of the EEV Basis Supplementary Information.

Our responsibility

Our responsibility is to audit and express an opinion on the EEV Basis Supplementary Information in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

Scope of review

An audit involves obtaining evidence about the amounts and disclosures in the EEV Supplementary Information sufficient to give reasonable assurance that the Supplementary Information is free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Supplementary Information. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited EEV Supplementary Information and to identify any information that is apparently materially incorrect based on, or materially inconsistent with the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Conclusion

In our opinion, the EEV Basis Supplementary Information for the year ended 31 December 2014 has been properly prepared in accordance with the EEV principles using the methodology and assumptions set out on pages 180 to 193.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester,
United Kingdom
30 March 2015

SUMMARISED EEV CONSOLIDATED INCOME STATEMENT

31 December	Note	2014 £000	2013 £000
Operating profit of covered business	**6(b)**	37,522	8,901
Other operational result	**6(b)**	(7,409)	(2,276)
Operating profit		**30,113**	**6,625**
Variation from longer-term investment return	**6(b)**	32,040	54,646
Effect of economic assumption changes	**6(b)**	(7,451)	16,447
Profit before tax and before exceptional item		**54,702**	**77,718**
Exceptional items			
Profit recognised on business combination		–	12,283
Effect of modelling adjustments	**6(a)**	–	4,073
Profit before tax		**54,702**	**94,074**
Tax	**6(b)**	(10,455)	(7,307)
Profit for the period attributable to the equity holders of the parent company		**44,247**	**86,767**
Earnings per share			
Based on profit for the year		38.24	75.55p
Diluted profit per share			
Based on profit for the year		38.20	75.55p

The notes and information on pages 180 to 193 form part of this supplementary information.

SUMMARISED EEV CONSOLIDATED BALANCE SHEET

31 December		2014	2013
Assets	**Note**	**£000**	**£000**
Value of in-force business	**5, 8**	243,671	262,161
Deferred acquisition costs arising on unmodelled business		523	487
Acquired value of customer relationships		245	419
Property and equipment		477	673
Investment in associate		4,388	4,088
Deferred tax asset		1,827	509
Reinsurers' share of insurance contract provisions		295,350	328,810
Amounts deposited with reinsurers		34,510	33,102
Investment properties		5,520	20,387
Financial assets			
Equity securities at fair value through income		475,983	479,617
Holdings in collective investment schemes at fair value through income		3,516,424	3,440,992
Debt securities at fair value through income		377,193	370,666
Insurance and other receivables		45,360	46,382
Prepayments		4,821	4,889
Policyholders' funds held by the Group		164,858	130,237
Derivative financial instruments		3,580	2,956
Total financial assets		4,588,219	4,475,739
Reinsurers' share of accrued policy claims		14,722	11,399
Income taxes		1,962	2,608
Cash and cash equivalents		241,699	184,263
Total assets		**5,433,113**	**5,324,645**
Liabilities			
Insurance contract provisions		2,266,196	2,323,643
Other provisions		729	5,348
Financial liabilities			
Investment contracts at fair value through income		2,396,953	2,293,836
Borrowings		94,323	100,290
Derivative financial instruments		49	387
Liabilities relating to policyholders' funds held by the Group		164,858	130,237
Total financial liabilities		2,656,183	2,524,750
Reinsurance payables		10,150	11,154
Payables related to direct insurance and investment contracts		58,789	47,137
Income taxes		4,168	8,012
Other payables		18,467	27,104
Bank overdraft		1,189	1,127
Total liabilities		**5,015,871**	**4,948,275**
Net assets		**417,242**	**376,370**
Equity			
Share capital		42,600	42,024
Share premium		76,523	42,526
Treasury shares		(168)	(212)
Foreign exchange reserve		(3,335)	13,927
Other reserves		50	50
Retained earnings		301,572	278,055
Total shareholders' equity	**5, 8**	**417,242**	**376,370**

The notes and information on pages 180 to 193 form part of this supplementary information.

Approved by the Board of Directors on 30 March 2015 and signed on its behalf by:

David Rimmington
Finance Director

John Deane
Chief Executive Officer

NOTES TO THE EEV SUPPLEMENTARY INFORMATION

1 Basis of preparation

This section sets out the detailed methodology followed for producing these Group financial statements which are supplementary to the Group's primary financial statements which have been prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the EU. These financial statements have been prepared in accordance with the European Embedded Value ('EEV') principles issued in May 2004 by the European CFO Forum and supplemented by Additional Guidance on EEV Disclosures issued by the same body in October 2005. The principles provide a framework intended to improve comparability and transparency in embedded value reporting across Europe.

In order to improve understanding of the Group's financial position and performance, certain of the information presented in these financial statements is presented on a segmental basis: the business segments are the same as those described in Note 7 to the consolidated financial statements prepared on the IFRS basis.

2 Covered business

The Group uses EEV methodology to value the bulk of its long-term business (the 'covered business'), which is written primarily in the UK and Sweden, as follows:

(i) for the UK Business, the covered business of CA and S&P comprises the business's long-term business being those individual life insurance, pensions and annuity contracts falling under the definition of long-term insurance business for UK regulatory purposes. The covered business for the PL segment comprises the business's long-term protection business and Payment Protection Insurance business.

(ii) for the Swedish Business (comprising the Movestic segment), the covered business comprises the business's long-term pensions and savings unit-linked business. Group life and sickness business, including waiver of premium and non-linked individual life assurance policies are not included in the covered business: the result relating to this business is established in accordance with IFRS principles and is included within 'other operational result' within the consolidated summarised income statement.

(iii) The operating expenses of the holding company, Chesnara plc, are allocated across the segments.

Under EEV principles no distinction is made between insurance and investment contracts, as there is under IFRS, which accords these classes of contracts different accounting treatments.

3 Methodology

(a) Embedded value

Overview

Shareholders' equity comprises the embedded value of the covered business, together with the net equity of other Group companies, including that of the holding company which is stated after writing down fully the carrying value of the covered business.

The embedded value of the covered business is the aggregate of the shareholder net worth ('SNW') and the present value of future shareholder cash flows from in-force covered business (value of in-force business) less any deduction for (i) the cost of guarantees within S&P, and (ii) the cost of required capital. It is stated after allowance has been made for aggregate risks in the business. SNW comprises those amounts in the long-term business, which are either regarded as required capital or which represent surplus assets within that business.

New business

CA, S&P and PL

Much of the covered business is in run-off and is, accordingly, substantially closed to new business. Up to 31 December 2014 the UK businesses did still sell a small amount of new business but, overall, the contribution from new business to the results established using EEV methodology is not material. Accordingly, not all of those items related to new business values, which are recommended by the EEV guidelines, are reported in this supplementary financial information.

Movestic

New business, in relation to the pensions and savings covered business is taken as all business where contracts are signed and new premiums paid during the reporting period, for both new policies and premium increases on existing business, but excluding standard renewals. New business premium volumes as disclosed in "Enhance value through new business" on pages 22 to 23 are not consistent with this definition, as they include non-covered business.

New business premium volumes for the year are as follows:

Pensions and savings covered business 31 December	2014 £m	2013 £m
New business premium income	47.4	46.0
Regular premium increments	15.8	16.0
Total new business premium income*	**63.2**	**62.0**

*Basis: annualised premium plus 1/10 single premium translated into sterling at the 2014 average rate of SEK 11.2989 = £1 (2013: SEK 10.1901) = £1).

The new business contribution has been assessed as at the end of the year, using opening assumptions.

Value of in-force business
The cash flows attributable to shareholders arising from in-force business are projected using best estimate assumptions for each component of cash flow.

The present value of the projected cash flows is established by using a discount rate which reflects the time value of money and the risks associated with the cash flows which are not otherwise allowed for. There is a deduction for the cost of holding the required capital, as set out below.

In respect of Movestic there are certain non-linear exposures of shareholder profit to asset returns arising from variable administrative fees and variable investment fund rebates which are modelled deterministically rather than stochastically.

Participating business
For participating business within the S&P business the Group maintains the assets and liabilities in separate with-profits funds. In accordance with the Principles and Practices of Financial Management, in the first instance all benefits, which in some cases include guaranteed minimum investment returns, are paid from policyholder assets within the fund. The participating business effectively operates as a smoothed unit-linked contract subject to minimum benefit guarantees. The with-profits funds contain assets which are attributable to shareholders as well as those attributable to policyholders. Assets attributable to shareholders can only be released from the fund subject to meeting prudent liabilities in respect of minimum benefits and the frictional cost of this restriction has been allowed for in determining the value of the in-force business.

Fundamentally, the value of the with-profits in-force business is driven by the fund management charges levied on the policyholder assets, subject to the effect of minimum benefit guarantees.

Taxation
The present value of the projected cash flows arising from in-force business takes into account all tax which is expected to be paid under current legislation, including tax which would arise if surplus assets within the covered business were eventually to be distributed. For the UK business, allowance has been made for planned reductions in corporation tax, as announced by the Chancellor in his budget speech on 20 March 2013.

The value of the in-force business has been calculated on an after-tax basis and is grossed up to the pre-tax level for presentation in the income statement. The amount used for the grossing up is the amount of shareholder tax, excluding those payments made on behalf of policyholders, being policyholder tax in the UK businesses and yield tax in Movestic.

Cost of capital
The valuation approach used requires consideration of ‘frictional’ costs of holding shareholder capital: in particular, the cost of tax on investment returns and the impact of investment management fees can reduce the face value of shareholder funds. For CA, the expenses relating to corporate governance functions eliminate any taxable investment return in shareholder funds, while investment management fees are not material. The cost of holding the required capital to support the covered business (see Note 3(b)) is reflected as a deduction from the value of in-force business.

Financial options and guarantees
CA
The principal financial options and guarantees in CA are (i) guaranteed annuity rates offered on some unit-linked pension contracts and (ii) a guarantee offered under Timed Investment Funds that the unit price available at the selected maturity date (or at death, if earlier) will be the highest price attained over the policy’s life. The cost of these options and guarantees has been assessed, in principle, on a market-consistent basis, but, in practice, this has been carried out on approximate bases, which are appropriate to the level of materiality of the results.

S&P
The principal financial options and guarantees in S&P are (i) minimum benefits payable on maturity or retirement for participating business; (ii) the option to extend the term under the Personal Retirement Account contract on terms potentially beneficial to the policyholder; (iii) the option to increase premiums under the Personal Retirement Account contract on terms potentially beneficial to the policyholder; and (iv) certain insurability options offered.

The cost of guaranteeing a minimum investment return on participating contracts, being the only material guarantee, has been assessed on a market consistent basis. This has involved the use of a stochastic asset model, which is designed to establish a cost of guarantees which is consistent with prices in the market at the valuation date, for example the prices of derivative instruments. For the remaining options and guarantees the cost has been assessed on an approximate basis, appropriate to the level of materiality of the results.

PL
There are no material financial options and guarantees within PL.

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (CONTINUED)

3 Methodology (continued)

(a) Embedded value (continued)

Movestic

In respect of Movestic, some contracts provide policyholders with an investment guarantee, whereby a minimum rate of return is guaranteed for the first 5 years of the policy, at a rate of 3% per annum. The value of the guarantee is ignored as it is not material to the results.

Allowance for risk

Allowance for risk within the covered business is made by:

(i) setting required capital levels by reference to the assessment of capital needs made by the Directors of the regulated entities within the respective businesses;

(ii) setting the risk discount rate, which is applied to the projected cash flows arising on the in-force business, at a level which includes an appropriate risk margin (see Note 3(c)); and

(iii) explicit allowance for the cost of financial options and guarantees and, where appropriate, for reinsurer default.

Internal group company

EEV Guidance requires that actual and expected profit or loss incurred by an internal group company on services provided to the covered business should be included in allowances for expenses. The covered business in Movestic is partially managed by an internal group fund management company. Not all relevant future income and expenses of that company have been included in the calculation of embedded value. However, the effect is not considered to be material.

Consolidation adjustments

Consolidation adjustments have been made to:

(i) eliminate the investment in subsidiaries;

(ii) allocate group debt finance against the segment to which it refers; and

(iii) allocate corporate expenses as explained in Note 4(d).

(b) Level of required capital

The level of required capital of the covered business reflects the amount of capital that the Directors consider necessary and appropriate to manage the respective businesses. In forming their policy the Directors have regard to the minimum statutory requirements and an internal assessment of the market, insurance and operational risks inherent in the underlying products and business operations. The capital requirement resulting from this assessment represents:

(i) for CA plc (comprising the CA, S&P and PL segments), 162.5% of the long-term insurance capital requirement ('LTICR') together with 100% of the resilience capital requirement ('RCR'), as determined by the regulations of the Prudential Regulation Authority in the UK;

(ii) for Movestic, 150% of the regulatory solvency requirement as determined by Finansinspektionen in Sweden.

The required level of regulatory capital is provided as follows:

(i) for the UK Business, by the retained surplus within the long-term business fund and by share capital and retained earnings within the shareholder funds of the regulated entity; and

(ii) for Movestic, by share capital and additional equity contributions from the parent company, net of the accumulated deficit in the regulated entity, these components together comprising shareholder's equity.

Movestic is reliant, in the short to medium term, on further equity contributions from the parent company, Chesnara plc.

(c) Discount rates

The discount rates are a combination of the reference rate and a risk margin. The reference rate reflects the time value of money and the risk margin reflects any residual risks inherent in the covered business and makes allowance for the risk that future experience will differ from that assumed. In order to reduce the subjectivity when setting the discount rates, the Group has decided to adopt a 'bottom up' market-consistent approach to allow explicitly for market risk.

Using the market-consistent approach, each cash flow is valued at a discount rate consistent with that used in the capital markets: in accordance with this, equity-based cash flows are discounted at an equity discount rate and bond-based cash flows at a bond discount rate. In practice a short-cut method known as the 'certainty equivalent' approach has been adopted. This method assumes that all cash flows earn the reference rate of return and are discounted at the reference rate.

In general, and consistent with the market's approach to valuing financial instruments for hedging purposes, the reference rate is based on swap yields. These have been taken as mid swap yields available in the market at the end of the reporting period.

Allowance also needs to be made for non-market risks. For some of these risks, such as mortality and expense risk, it is assumed that the shareholder can diversify away any uncertainty where the impact of variations in experience on future cash flows is symmetrical. For those risks that are assumed to be diversifiable, no adjustment has been made. For any remaining risks that are considered to be non-diversifiable risks, there is no risk premium observable in the market and, therefore, a constant margin has been added to the risk margin. The margin added reflects the assumed risks within the businesses and is 50 basis points for CA, S&P and PL (as at 31 December 2013: 50 basis points), and 100 basis points for Movestic (as at 31 December 2013: 100 basis points). This margin is applied to the basic value of in-force business prior to the deductions for financial options and guarantees and the cost of required capital. No margin is added for any liquidity premium.

(d) Analysis of profit

The contribution to operating profit, which is identified at a level which reflects an assumed longer-term level of investment return, arises from three sources:

(i) new business;

(ii) return from in-force business; and

(iii) return from shareholder net worth.

Additional contributions to profit arise from:

(i) variances between the actual investment return in the year and the assumed long-term investment return; and

(ii) the effect of economic assumption changes.

The contribution from new business represents the value recognised at the end of each year in respect of new business written in that year, after allowing for the cost of acquiring the business, the cost of establishing the required technical provisions and after making allowance for the cost of capital, calculated on opening assumptions.

The return from in-force business is calculated using closing assumptions and comprises:

(i) the expected return, being the unwind of the discount rates over the year applied to establish the value of in-force business at the beginning of the year;

(ii) variances between the actual experience over the year and the assumptions made to establish the value of business in force at the beginning of the year; and

(iii) the net effect of changes in future assumptions, made prospectively at the end of the year, from those used in establishing the value of business in force at the beginning of the year, other than changes in economic assumptions.

The contribution from shareholder net worth comprises the actual investment return on residual assets in excess of the required capital.

(e) Assumption setting

There is a requirement under EEV methodology to use best estimate demographic assumptions and to review these at least annually with the economic assumptions being reviewed at each reporting date. The current practice is detailed below.

Each year the demographic assumptions are reviewed as part of year-end processes and hence were reviewed in December 2014.

The detailed projection assumptions, including mortality, morbidity, persistency and expenses reflect recent operating experience. Allowance is made for future improvement in annuitant mortality based on experience and externally published data. Favourable changes in operating experience, particularly in relation to expenses and persistency, are not anticipated until the improvement in experience has been observed. Holding company expenses (for the Chesnara Group such expenses relate largely to listed company functions) are allocated across the segments in proportion to the value before tax of the in-force business. Hence the expense assumptions used for the cash flow projections include the full cost of servicing this business.

The economic assumptions are reviewed and updated at each reporting date based on underlying investment conditions at the reporting date. The assumed discount rates and inflation rates are consistent with the investment return assumptions.

In addition, the demographic assumptions used at 31 December 2014 are considered to be best estimate and, consequently, no further adjustments are required. In respect of the CA Business, the assumptions required in the calculation of the value of the annuity rate guarantee on pension business have been set equal to best-estimate assumptions.

(f) Pension schemes

In Movestic, where the Group participates in a combined defined benefit and defined contribution scheme, future contributions to the scheme are reflected in the value of in-force business.

(g) Financial reinsurance

In respect of Movestic the Group uses financial reinsurance to manage the impact of its new business strain. Whilst this liability is valued at fair value within the IFRS statements, allowing for an option which provides the Group with the right to settle the liability early on beneficial terms, when valuing the shareholder net worth within the EEV it is considered more appropriate to assess this liability at a higher cost, reflecting the likelihood of the option not being utilised.

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (CONTINUED)

4 Assumptions

(a) Investment returns

Investment returns are assumed to be equal to the reference rate, as covered in Note 3(c). For linked business, the aggregate return has been determined by the reference rate less an appropriate allowance for tax.

The rates presented below are indicative spot rates:

31 December	CA		S&P		PL*		Movestic	
	2014	2013	2014	2013	2014	2013	2014	2013
Investment Return					1.80%	2.80%		
5 year	1.46%	2.18%	1.46%	2.18%	–	–	0.65%	2.18%
10 year	1.88%	3.11%	1.88%	3.11%	–	–	1.27%	2.87%
15 year	2.12%	3.48%	2.12%	3.48%	–	–	1.63%	3.12%
20 year	2.26%	3.58%	2.26%	3.58%	–	–	1.82%	3.20%
25 year	2.29%	3.59%	2.29%	3.59%	–	–	1.82%	3.20%
30 year	2.30%	3.56%	2.30%	3.56%	–	–	1.82%	3.20%
Inflation – RPI	2.60%	3.00%	2.60%	3.00%	2.60%	3.00%	1.42%	1.82%

*For PL a single rate is applied for all durations.

(b) Actuarial assumptions

The demographic assumptions used to determine the value of the in-force business have been set at levels commensurate with the underlying operating experience identified in the periodic actuarial investigations.

Certain products contain provisions that provide for the charges in respect of mortality risk to be reviewable. In these cases assumptions for future experience and charges are assumed to be linked and assumptions are only updated when decisions have been made regarding product charges, so as not to capitalise any benefits that may not accrue to shareholders.

(c) Taxation

Projected tax has been determined assuming current tax legislation and rates continue unaltered, except where future tax rates or practices have been announced. The tax rates for the UK business allow for changes in Corporation Tax as announced by the Chancellor in his budget speech of 20 March 2013, so reflect a reduction from the current rate of 21.50% to 20% from April 2015.

(d) Expenses

The expense levels are based on internal expense analysis investigations and are appropriately allocated to the new business and policy maintenance functions.

For CA, S&P and PL, these have been determined by reference to:

(i) the outsourcing agreements in place with our third-party business process administrators;

(ii) anticipated revisions to the terms of such agreements as they fall due for renewal; and

(iii) corporate governance costs relating to the covered business.

For Movestic, these have been determined by reference to:

(i) an expense analysis in which all expenses were allocated to covered and uncovered business, with expenses for the covered business being allocated to acquisition and maintenance activities; and

(ii) expense drivers, being, in relation to acquisition costs, the number of policies sold during the year and, in relation to maintenance expenses, the average number of policies in force during the year.

Holding company expenses (for the Chesnara Group such expenses relate largely to listed company functions) are allocated across the segments on a basis that reflects each segment's economic consumption of such costs.

EEV Guidance requires that no allowance is made for future productivity improvements in expense assumptions. For the UK business, for expenses relating to policy administration this requirement is met. As the UK company is essentially closed to new business, those governance expenses which are not immediately variable can reasonably be expected to reduce through management control in the future, though the timing and scale of such reductions is not fixed. A prudent estimate of the reductions has been allowed for within the expense assumptions.

(e) Discount rate

An explicit constant margin is added to the reference rate shown in (a) above to cover any remaining risks that are considered to be non-market, non-diversifiable risks, as there is no risk premium observable in the market. This margin, which is 50 basis points for CA, S&P and PL (as at 31 December 2013: 50 basis points) and 100 basis points for Movestic (as at 31 December 2013: 100 basis points), gives due recognition to the relative sensitivity of the value of in-force business to the discount rate for the different businesses, and to the fact that:

a) For CA:

(i) the covered business is closed to new business;

(ii) there is no significant exposure in the with-profit business, which is wholly reinsured;

(iii) expense risk is limited as a result of the outsourcing of substantially all policy administration and related functions to third-party business process administrators; and

(iv) for much of the life business the Group has the ability to vary risk charges made to policyholders.

b) For S&P and PL:

(i) the covered business is closed to new business; and

(ii) expense risk is limited as a result of the outsourcing of substantially all policy administration and related functions to third-party business process administrators.

c) For Movestic:

(i) the covered business remains open;

(ii) the in-force business is relatively small;

(iii) reinsurance is used to significantly reduce insurance risks; and

(iv) a number of the risks provide diversification benefits within the Chesnara Group, in relation to reinsurance counterparties, market exposures and policyholder populations.

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (CONTINUED)

5 Analysis of shareholders' equity

31 December 2014	CA £000	S&P £000	PL £000	Movestic £000	Other group activities £000	Total £000
Regulated entities						
Capital required	19,894	44,225	40,865	13,911	–	118,895
Free surplus	58,786	18,211	2,655	20,989	–	100,641
Regulatory capital resource of regulated entities	**78,680**	**62,436**	**43,520**	**34,900**	**–**	**219,536**
Adjustments to shareholder net worth:						
Deferred acquisition costs	–	–	–	(51,210)	–	(51,210)
Financial reinsurance liability	–	–	–	(5,179)	–	(5,179)
Software asset adjustment	–	–	–	(3,716)	–	(3,716)
Adjustment to provisions on insurance contracts	–	3,667	–	–	–	3,667
Deferred tax	2,240	–	–	–	–	2,240
Policyholder funds	–	(16,319)	–	–	–	(16,319)
Other asset/liability adjustments	(47)	5	1	5,644	–	5,603
Adjusted shareholder net worth	**80,873**	**49,789**	**43,521**	**(19,561)**	**–**	**154,622**
In-force value of covered business	67,007	11,540	19,060	146,064	–	243,671
Embedded value of regulated entities	**147,880**	**61,329**	**62,581**	**126,503**	**–**	**398,293**
Less: amount financed by borrowings	–	(25,367)	(38,960)	–	–	(64,327)
Embedded value of regulated entities attributable to shareholders	**147,880**	**35,962**	**23,621**	**126,503**	**–**	**333,966**
Net equity of other Group companies	–	–	–	1,936	81,340	83,276
Total shareholders' equity	**147,880**	**35,962**	**23,621**	**128,439**	**81,340**	**417,242**

31 December 2013

	CA £000	S&P £000	PL £000	Movestic £000	Other group activities £000	Total £000
Regulated entities						
Capital required	23,776	43,447	37,845	16,863	–	121,931
Free surplus	32,386	44,750	1,397	17,969	–	96,502
Regulatory capital resource of regulated entities	**56,162**	**88,197**	**39,242**	**34,832**	**–**	**218,433**
Adjustments to shareholder net worth:						
Deferred acquisition costs	–	–	–	(54,498)	–	(54,498)
Financial reinsurance liability	–	–	–	(4,358)	–	(4,358)
Software asset adjustment	–	–	–	(5,004)	–	(5,004)
Adjustment to provisions on insurance contracts	–	2,602	–	–	–	2,602
Deferred tax	2,372	–	–	–	–	2,372
Policyholder funds	–	(14,807)	–	–	–	(14,807)
Other asset/liability adjustments	322	2	–	5,455	–	5,779
Adjusted shareholder net worth	**58,856**	**75,994**	**39,242**	**(23,573)**	**–**	**150,519**
In-force value of covered business	67,171	30,482	25,507	139,001	–	262,161
Embedded value of regulated entities	**126,027**	**106,476**	**64,749**	**115,428**	**–**	**412,680**
Less: amount financed by borrowings	–	(29,699)	(43,341)	–	–	(73,040)
Embedded value of regulated entities attributable to shareholders	**126,027**	**76,777**	**21,408**	**115,428**	**–**	**339,640**
Net equity of other Group companies	–	–	–	1,894	34,836	36,730
Total shareholders' equity	**126,027**	**76,777**	**21,408**	**117,322**	**34,836**	**376,370**

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (CONTINUED)

5 Analysis of shareholders' equity (continued)

EEV free surplus, as shown on the previous two pages, represents the balance of the shareholder net worth above the capital required. The movement in free surplus is analysed as follows:

Year ended 31 December 2014	CA £000	S&P £000	PL £000	Movestic £000	Total £000
Free surplus at beginning of the year	**32,386**	**44,750**	**1,397**	**17,969**	**96,502**
Dividend paid to parent	(17,000)	(31,000)	–	–	(48,000)
Synergies and adjustments arising from Part VII transfer, including adjustments to required capital	–	–	(2,902)	–	(2,902)
Surplus arising in the year	39,518	3,727	4,278	68	47,591
Adjustments to required capital	3,882	(778)	(118)	2,952	5,938
Increase in policyholder funds cover for capital requirement	–	1,512	–	–	1,512
Free surplus at end of the year	**58,786**	**18,211**	**2,655**	**20,989**	**100,641**

Year ended 31 December 2013	CA £000	S&P £000	PL £000	Movestic £000	Total £000
Free surplus at beginning of the year	**37,142**	**27,513**	**–**	**15,127**	**79,782**
Dividend paid to parent	(22,250)	(17,750)	–	–	(40,000)
Surplus arising in the year	14,303	31,246	191	2,350	48,090
Adjustments to required capital	3,191	4,284	1,206	492	9,173
Increase in policyholder funds cover for capital requirement	–	(543)	–	–	(543)
Free surplus at end of the year	**32,386**	**44,750**	**1,397**	**17,969**	**96,502**

The movement in the in-force value of covered business comprises:

Year ended 31 December 2014	CA £000	S&P £000	PL £000	Movestic £000	Total £000
Value at beginning of year	**67,171**	**30,482**	**25,507**	**139,001**	**262,161**
Amount charged to foreign exchange reserve	–	–	–	(19,817)	(19,817)
Amount credited/(charged) to operating profit	(164)	(18,942)	(6,447)	26,880	1,327
Value at end of year	**67,007**	**11,540**	**19,060**	**146,064**	**243,671**

Year ended 31 December 2013	CA £000	S&P £000	PL £000	Movestic £000	Total £000
Value at beginning of year	**67,040**	**18,537**	**–**	**124,503**	**210,080**
Amount arising on acquisition	–	–	25,646	–	25,646
Amount charged to foreign exchange reserve	–	–	–	(1,491)	(1,491)
Amount credited/(charged) to operating profit	131	11,945	(139)	15,989	27,926
Value at end of year	**67,171**	**30,482**	**25,507**	**139,001**	**262,161**

S&P and PL

EEV shareholders equity for the S&P and PL segments is presented net of the borrowings that were used to fund their respective acquisitions.

Movestic

The adjusted shareholder net worth of Movestic is that of the regulated entity, which includes also the net worth attributable to the non-covered business within the regulated entity. Accordingly, for Movestic, the embedded value of regulated entities comprises the embedded value of covered business and the value of the non-covered business of the regulated entity, the latter component being valued on an IFRS basis.

6 Summarised statement of changes in equity and analysis of profit/(loss)

(a) Changes in equity may be summarised as:

Statement of changes in equity
Year ended 31 December

		2014 £000		2013 £000
Shareholders' equity at beginning of the year		**376,370**		**311,145**
Profit for the year attributable to shareholders before modelling adjustments	44,247		82,694	
Effect of modelling adjustments	–		4,073	
Profit for the year		**44,247**		**86,767**
Issue of new shares				
Share capital		576		–
Share premium		33,971		3
Sale of treasury shares		70		5
Foreign exchange reserve movement		(17,261)		(1,451)
Dividends paid		(20,731)		(20,099)
Shareholders' equity at end of the year		**417,242**		**376,370**

Effect of modelling adjustments

Year ended 31 December 2013

Positive modelling adjustments during 2013 of £4.1m relate entirely to the Movestic business. These have arisen due to refinements being made to the way in which modelling of commission is performed, which is now performed at a more granular level.

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (CONTINUED)

6 Summarised statement of changes in equity and analysis of profit/(loss) (continued)

(b) The profit/(loss) for the year before modelling adjustments is analysed as:

Year ended 31 December 2014	CA £000	S&P £000	PL £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Covered business							
New business contribution	794	–	–	794	8,904	–	9,698
Return from in-force business							
Expected return	1,490	(548)	1,062	2,004	5,145	–	7,149
Experience variances	6,110	(4,803)	(673)	634	(93)	–	541
Operating assumption changes	23,766	(4,632)	(2,915)	16,219	(5,219)	–	11,000
Return on shareholder net worth	1,626	7,508	–	9,134	–	–	9,134
Operating profit/(loss) of covered business	**33,786**	**(2,475)**	**2,526**	**28,785**	**8,737**	**–**	**37,522**
Variation from longer-term investment return	21,373	(8,582)	1,085	13,876	18,164	–	32,040
Effect of economic assumption changes	(5,163)	(3,121)	512	(7,772)	321	–	(7,451)
Profit/(loss) of covered business before tax	**49,996**	**(14,178)**	**(929)**	**34,889**	**27,222**	**–**	**62,111**
Tax thereon				(12,237)	–	–	(12,237)
Profit of covered business after tax				**22,652**	**27,222**	**–**	**49,874**
Results of non-covered business and of other group companies							
Profit/(loss) before tax				–	262	(7,671)	(7,409)
Tax				–	894	888	1,782
Profit/(loss) after tax				**22,652**	**28,378**	**(6,783)**	**44,247**

Year ended 31 December 2013	CA £000	S&P £000	PL £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Covered business							
New business contribution	704	13	–	717	7,196	–	7,913
Return from in-force business							
Expected return	1,389	151	61	1,601	3,929	–	5,530
Experience variances	7,590	4,695	–	12,285	(6,490)	–	5,795
Operating assumption changes	(4,295)	4,458	–	163	(10,233)	–	(10,070)
Return on shareholder net worth	185	(452)	–	(267)	–	–	(267)
Operating profit/(loss) of covered business	**5,573**	**8,865**	**61**	**14,499**	**(5,598)**	**–**	**8,901**
Variation from longer-term investment return	22,394	11,414	–	33,808	20,838	–	54,646
Effect of economic assumption changes	(3,596)	22,463	–	18,867	(2,420)	–	16,447
Profit of covered business before tax	**24,371**	**42,742**	**61**	**67,174**	**12,820**	**–**	**79,994**
Tax thereon				(7,639)	–	–	(7,639)
Profit of covered business after tax				**59,535**	**12,820**	**–**	**72,355**
Results of non-covered business and of other group companies							
Profit/(loss) before tax				–	2,677	(4,953)	(2,276)
Exceptional profit arising on purchase of Protection Life				–	–	12,283	12,283
Tax				–	(468)	800	332
Profit after tax				**59,535**	**15,029**	**8,130**	**82,694**

The results of the non-covered business and of other group companies before tax and before exceptional item are presented as 'other operational result' in the consolidated income statement.

7 Sensitivities to alternative assumptions

The following tables show the sensitivity of the embedded value as reported at 31 December 2014, and of the new business contribution of Movestic, to variations in the assumptions adopted in the calculation of the embedded value. Sensitivity analysis is not provided in respect of the new business contribution of UK business for the year ended 31 December 2014 as the reported level of new business contribution is not considered to be material (see Note 3(a)).

	Embedded value						New business contribution
	UK business					Swedish business	Swedish business
	CA Pre-tax £m	S&P Pre-tax £m	PL Pre-tax £m	Tax £m	UK Post-tax £m	Post-tax £m	£m
Published value as at 31 December 2014	**170.7**	**61.3**	**62.6**	**(22.8)**	**217.8**	**126.5**	**7.6**
Changes in embedded value/new business contribution arising from:							
Economic sensitivities							
100 basis point increase in yield curve	(1.2)	9.7	(3.0)	(1.1)	4.4	1.0	(0.2)
100 basis point reduction in yield curve	2.5	(9.8)	3.3	0.4	(3.6)	(1.0)	0.2
10% decrease in equity and property values	(10.3)	(12.6)	–	2.5	(20.3)	(13.2)	(0.2)
Operating sensitivities							
10% decrease in maintenance costs	1.9	4.8	1.4	(1.0)	7.1	7.0	0.8
10% decrease in lapse rates	2.6	(1.0)	0.1	–	1.7	9.0	1.5
5% decrease in mortality/morbidity rates:							
Assurances	0.9	0.5	1.6	(0.2)	2.8	0.1	–
Annuities	(2.1)	(0.3)	n/a	–	(2.4)	n/a	n/a
Reduction in the required capital to statutory minimum	0.4	0.4	1.3	–	2.2	–	–

The key assumption changes represented by each of these sensitivities are as follows:

Economic sensitivities

(i) 100 basis point increase in the yield curve: The reference rate is increased by 1% and the rate of future inflation has also been increased by 1% so that real yields remain constant;

(ii) 100 basis point reduction in the yield curve: The reference rate is reduced by 1% and the rate of future inflation has also been reduced by 1% so that real yields remain constant; and

(iii) 10% decrease in the equity and property values. This gives rise to a situation where, for example, a Managed Fund unit liability with a 60% equity holding would reduce by 6% in value.

Operating sensitivities

(i) 10% decrease in maintenance expenses, giving rise to, for example, a base assumption of £20 per policy pa reducing to £18 per policy pa;

(ii) 10% decrease in persistency rates giving rise to, for example, a base assumption of 10% of policy base lapsing pa reducing to 9% pa;

(iii) 5% decrease in mortality/morbidity rates giving rise to, for example, a base assumption of 95% of the parameters in a selected mortality/morbidity table reducing to 90.25% of the parameters in the same table, assuming no changes are made to policyholder charges or any other management actions; and

(iv) The sensitivity to the reduction in the required capital to the statutory minimum shows the effect of reducing the required capital from that defined in Note 3(b) to the minimum requirement prescribed by regulation.

In each sensitivity calculation all other assumptions remain unchanged except where they are directly affected by the revised economic conditions: for example, as stated, changes in interest rates will directly affect the reference rate.

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (CONTINUED)

8 Reconciliation of shareholders' equity on the IFRS basis to shareholders' equity on the EEV basis

31 December 2014	CA £000	S&P £000	PL £000	Movestic £000	Other Group Activities £000	Total £000
Shareholders' equity on the IFRS basis	**92,573**	**53,059**	**57,608**	**58,840**	**16,753**	**278,833**
Reclassifications						
Debt finance	–	(25,367)	(38,960)	–	64,327	–
Other	(260)	–	–	–	260	–
Adjustments						
Deferred acquisition costs	(3,516)	–	–	(26,910)	–	(30,426)
Deferred income	6,427	–	–	–	–	6,427
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(7,582)	–	–	–	–	(7,582)
Adjustments to provisions on insurance contracts, net of reinsurers' share	(23)	1,284	–	–	–	1,261
Acquired in-force value	(7,908)	(4,554)	(14,087)	(40,205)	–	(66,754)
Acquired value of customer relationships	–	–	–	(898)	–	(898)
Software assets	–	–	–	(3,715)	–	(3,715)
Adjustment to borrowings	–	–	–	(7,027)	–	(7,027)
Deferred tax	1,162	–	–	2,290	–	3,452
Shareholder net worth	**80,873**	**24,422**	**4,561**	**(17,625)**	**81,340**	**173,571**
Value of in-force business	67,007	11,540	19,060	146,064	–	243,671
Shareholders' equity on the EEV	**147,880**	**35,962**	**23,621**	**128,439**	**81,340**	**417,242**
Shareholder net worth comprises:						
Shareholder net worth in regulated entities	80,873	49,789	43,521	(19,561)	–	154,622
Shareholders' net equity in other Group companies	–	–	–	1,936	81,340	83,276
Debt finance	–	(25,367)	(38,960)	–	–	(64,327)
Total	**80,873**	**24,422**	**4,561**	**(17,625)**	**81,340**	**173,571**

31 December 2013

	CA £000	S&P £000	PL £000	Movestic £000	Other group activities £000	Total £000
Shareholders' equity on the IFRS basis	**74,994**	**93,863**	**55,276**	**61,431**	**(38,462)**	**247,102**
Reclassifications						
Debt finance	–	(29,699)	(43,341)	–	73,040	–
Other	(258)	–	–	–	258	–
Adjustments						
Deferred acquisition costs	(4,026)	–	–	(23,264)	–	(27,290)
Deferred income	7,261	–	–	–	–	7,261
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(11,020)	–	–	–	–	(11,020)
Adjustments to provisions on insurance contracts, net of reinsurers' share	33	(12,697)	–	–	–	(12,664)
Acquired in-force value	(9,751)	(5,172)	(16,034)	(49,873)	–	(80,830)
Acquired value of customer relationships	–	–	–	(1,164)	–	(1,164)
Software assets	–	–	–	(5,004)	–	(5,004)
Adjustment to borrowings	–	–	–	(5,913)	–	(5,913)
Deferred tax	1,623	–	–	2,108	–	3,731
Shareholder net worth	**58,856**	**46,295**	**(4,099)**	**(21,679)**	**34,836**	**114,209**
Value of in-force business	67,171	30,482	25,507	139,001	-	262,161
Shareholders' equity on the EEV basis	**126,027**	**76,777**	**21,408**	**117,322**	**34,836**	**376,370**
Shareholder net worth comprises:						
Shareholder net worth in regulated entities	58,856	75,994	39,242	(23,573)	–	150,519
Shareholders' net equity in other Group companies	–	–	–	1,894	34,836	36,730
Debt finance	–	(29,699)	(43,341)	–	–	(73,040)
Total	**58,856**	**46,295**	**(4,099)**	**(21,679)**	**34,836**	**114,209**

9 Earnings per share

Year ended 31 December	2014 p	2013 p
Basic earnings per share		
Based on profit for the year	38.24	75.55
Diluted earnings per share		
Based on profit for the year	38.20	75.55

10 Foreign exchange translation reserve

A foreign exchange translation reserve arises on the translation of the financial statements of Movestic, the functional currency of which is the Swedish Krona, into pounds sterling, which is the presentational currency of the Group financial statements. Items in the consolidated income statement are translated at the average exchange rate of SEK 11.2989 = £1 ruling in the year ended 31 December 2014 (year ended 31 December 2013: SEK 10.1901 = £1), while all items in the balance sheet are stated at the closing rates ruling at the reported balance sheet date, being SEK 12.0680 = £1 at 31 December 2014 (SEK 10.5919 = £1 at 31 December 2013). The differences arising on translation using this methodology are recognised directly in shareholders' equity within the foreign exchange translation reserve.

The reported embedded value is sensitive to movements in the SEK: £ exchange rate. Had the exchange rate as at 31 December 2014 been 10% higher at SEK 13.2748 = £1, then the reported embedded value of £417.2m as at 31 December 2014 would have been reported as £404.7m.

SECTION F

ADDITIONAL INFORMATION

IN THIS SECTION

FINANCIAL CALENDAR

31 March 2015
Results for the year ended 31 December 2014 announced.

9 April 2015
Ex dividend date.

10 April 2015
Dividend record date.

15 April 2015
Published Financial Statements issued to shareholders.

15 May 2015
Annual General Meeting.

19 May 2015
Interim Management Statement for the quarter ending 31 March 2015.

22 May 2015
Dividend payment date.

28 August 2015
Interim results for the 6 months ending 30 June 2015 announced.

19 November 2015
Interim Management Statement for the quarter ending 30 September 2015 announced.

KEY CONTACTS

Registered and Head Office
2nd Floor, Building 4
West Strand Business Park
West Strand Road
Preston
Lancashire
PR1 8UY

Tel: 01772 972050
Fax: 01772 482244
www.chesnara.co.uk

Legal Advisors
Ashurst LLP
Broadwalk House
5 Appold Street
London
EC2A 2HA

Addleshaw Goddard LLP
100 Barbirolli Square
Manchester
M2 3AB

Auditor
Deloitte LLP
Chartered Accountants and Statutory Auditor
PO Box 500
2 Hardman Street
Manchester
M60 2AT
United Kingdom

Registrars
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Stockbrokers
Panmure Gordon
One New Change
London
EC4M 9AF

Canaccord Genuity Limited
88 Wood Street
London
EC2V 7QR

Bankers
National Westminster Bank plc
135 Bishopsgate
London
EC2M 3UR

The Royal Bank of Scotland
8th Floor, 135 Bishopsgate
London
EC2M 3UR

Lloyds TSB Bank plc
3rd Floor, Black Horse House
Medway Wharf Road
Tonbridge
Kent
TN9 1QS

Public Relations Consultants
Newgate Threadneedle
5th Floor
33 King William Street
London
EC4R 9AS

Corporate Advisors
Canaccord Genuity Limited
88 Wood Street
London
EC2V 7QR

NOTICE OF ANNUAL GENERAL MEETING

This document is important and requires your immediate attention

If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if you reside elsewhere, another appropriately authorised financial adviser.

If you have sold or otherwise transferred all of your shares in Chesnara plc, please pass this document (together with the accompanying proxy form) as soon as possible to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

Company No. 4947166

Chesnara plc
Notice is given that the 2015 Annual General Meeting of Chesnara plc will be held at the offices of Panmure Gordon (UK) Limited, One New Change, London EC4M 9AF on 15 May 2015 at 11a.m. for the business set out below. Resolutions 1 to 13 inclusive will be proposed as ordinary resolutions and resolutions 14 to 16 inclusive will be proposed as special resolutions.

1. To receive and adopt the audited accounts for the financial year ended 31 December 2014, together with the reports of the directors and auditor thereon.

2. To declare a final dividend of 11.98 pence per share for the financial year ended 31 December 2014.

3. To approve the directors' remuneration report (other than the part of it which contains the directors' remuneration policy statement) for the year ended 31 December 2014.

4. To elect John Deane as a director.

5. To re-elect Peter Mason as a director.

6. To re-elect Veronica Oak (neé France) as a director.

7. To re-elect David Brand as a director.

8. To re-elect Mike Evans as a director.

9. To re-elect Peter Wright as a director.

10. To reappoint Deloitte LLP as auditor of the Company to hold office until the conclusion of the next general meeting of the Company at which accounts are laid before shareholders.

11. To authorise the directors to fix the auditor's remuneration.

12. That, from the passing of this resolution until the earlier of 14 November 2015 and the conclusion of the Company's next Annual General Meeting, the Company and all companies which are its subsidiaries at any time during such period are authorised:

(a) to make donations to political parties or independent election candidates;

(b) to make donations to political organisations other than political parties; and

(c) to incur political expenditure

up to an aggregate total amount of £100,000, with the individual amount authorised for each of heads (a) to (c) above being limited to £100,000. Any such amounts may comprise sums paid or incurred in one or more currencies. Any sum paid or incurred in a currency other than sterling shall be converted into sterling at such rate as the board may decide is appropriate. Terms used in this resolution have, where applicable, the meanings that they have in Part 14 of the Companies Act 2006.

13. That the directors be and they are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into such shares ("Allotment Rights"), but so that:

(a) the maximum amount of shares that may be allotted or made the subject of Allotment Rights under this authority are shares with an aggregate nominal value of £4,213,280, of which:

(i) half may be allotted or made the subject of Allotment Rights in any circumstances; and

(ii) the other half may be allotted or made the subject of Allotment Rights pursuant to any rights issue (as referred to in the Financial Conduct Authority's listing rules) or pursuant to any arrangements made for the placing or underwriting or other allocation of any shares or other securities included in, but not taken up under, such rights issue;

(b) this authority shall expire 18 months after the passing of this resolution or, if earlier, on the date of the Company's next Annual General Meeting;

(c) the Company may make any offer or agreement before such expiry which would or might require shares to be allotted or Allotment Rights to be granted after such expiry; and

(d) all authorities vested in the directors on the date of the notice of this meeting to allot shares or to grant Allotment Rights that remain unexercised at the commencement of this meeting are revoked.

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

14. That, subject to the passing of the resolution numbered 13 in the notice convening this meeting, the directors be and they are hereby empowered, pursuant to sections 570 and 573 of the Companies Act 2006, to allot equity securities (as defined in section 560 of that Act) pursuant to the authority conferred on them by the foregoing resolution numbered 13 in the notice of this meeting or by way of a sale of treasury shares as if section 561 of that Act did not apply to such allotment or sale, provided that this power shall be limited to:

(a) the allotment of equity securities or sale of treasury shares in connection with any rights issue or open offer (each as referred to in the Financial Conduct Authority's listing rules) or any other pre-emptive offer that is open for acceptance for a period determined by the directors to the holders of ordinary shares on the register on any fixed record date in proportion to their holdings of ordinary shares (and, if applicable, to the holders of any other class of equity security in accordance with the rights attached to such class), subject, in each case, to such exclusions or other arrangements as the directors may deem necessary or appropriate in relation to fractions of such securities, the use of more than one currency for making payments in respect of such offer, any such shares or other securities being represented by depositary receipts, treasury shares, any legal or practical problems in relation to any territory or the requirements of any regulatory body or any stock exchange; and

(b) the allotment of equity securities or sale of treasury shares for cash (otherwise than as mentioned in sub-paragraph (a) above), provided that the maximum aggregate nominal value of equity securities allotted and treasury shares sold does not exceed £315,996

and shall expire 18 months after the passing of this resolution or, if earlier, on the date of the Company's next Annual General Meeting save that, before the expiry of this power, the Company may make any offer or agreement which would or might require equity securities to be allotted and/or treasury shares to be sold after such expiry.

15. That the Company be and is hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 to make one or more market purchases (as defined in section 693 of that Act) of ordinary shares of 5p each in the capital of the Company, provided that:

(a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 12,639,839;

(b) the minimum price (exclusive of expenses) which may be paid for such ordinary shares is 5p per share;

(c) the maximum price (exclusive of expenses) which may be paid for such ordinary shares is the maximum price permitted under the Financial Conduct Authority's listing rules or, in the case of a tender offer (as referred to in those rules), 5% above the average of the middle market quotations for those shares (as derived from the Daily Official List of London Stock Exchange plc) for the five business days immediately preceding the date on which the terms of the tender offer are announced;

(d) the authority hereby conferred shall expire 18 months after the passing of this resolution or, if earlier, on the date of the Company's next Annual General Meeting; and

(e) the Company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be completed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract or contracts.

16. That a general meeting of the Company (other than an Annual General Meeting) may be called on not less than 14 clear days' notice.

By order of the Board

Mary Fishwick
Company Secretary
Registered office:
Building Four
West Strand Business Park
West Strand Road
Preston
Lancashire
PR1 8UY

30 March 2015

NOTES

1. Any member who is entitled to attend and vote at this Annual General Meeting is entitled to appoint another person, or two or more persons in respect of different shares held by him, as his proxy to exercise all or any of his rights to attend and to speak and to vote at the Annual General Meeting.

2. A member wishing to attend and vote at the Annual General Meeting in person should arrive prior to the time fixed for its commencement. A member that is a corporation can only attend and vote at the Annual General Meeting in person through one or more representatives appointed in accordance with section 323 of the Companies Act 2006. Any such representative should bring to the Annual General Meeting written evidence of his appointment, such as a certified copy of a board resolution of, or a letter from, the corporation concerned confirming the appointment. Any member wishing to vote at the Annual General Meeting without attending in person or (in the case of a corporation) through its duly appointed representative must appoint a proxy to do so. A proxy need not be a member of the Company. A form of proxy for this Annual General Meeting is enclosed and, in order to be valid, must be completed in accordance with the instructions that accompany it and then be delivered by hand only (together with any power of attorney or other authority under which it is signed, or a certified copy of such item), to the Company's Registrars, Capita Asset Services at, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or in accordance with the reply paid details, by 11 a.m. on Wednesday 13 May 2015. Alternatively, members may appoint a proxy online by following the instructions for the electronic appointment of a proxy at www.capitashareportal.com, by entering the company name "Chesnara plc" and following the on screen instructions. To be a valid proxy appointment, the member's electronic message confirming the details of the appointment completed in accordance with those instructions must be transmitted so as to be received by the same time. Members who hold their shares in uncertificated form may also use the "CREST" voting service to appoint a proxy electronically, as explained below. The appointment of a proxy will not preclude a member from attending and voting at the Annual General Meeting.

3. CREST members who wish to appoint one or more proxies through the CREST system may do so by using the procedures described in "the CREST voting service" section of the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed one or more voting service providers, should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or a proxy instruction made using the CREST voting service to be valid, the appropriate CREST message (a "CREST proxy appointment instruction") must be properly authenticated in accordance with the specifications of CREST's operator, Euroclear UK & Ireland Limited ("Euroclear"), and must contain all the relevant information required by the CREST Manual. To be valid, the message (regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy) must be transmitted so as to be received by Capita Asset Services (ID RA10), by 11 a.m. on Wednesday 13 May 2015, which is acting as the Company's "issuer's agent". After this time, any change of instruction to a proxy appointed through the CREST system should be communicated to the appointee through other means. The time of the message's receipt will be taken to be when (as determined by the timestamp applied by the CREST Applications Host) the issuer's agent is first able to retrieve it by enquiry through the CREST system in the prescribed manner. Euroclear does not make available special procedures in the CREST system for transmitting any particular message. Normal system timings and limitations apply in relation to the input of CREST proxy appointment instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or a CREST sponsored member or has appointed any voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. CREST members and, where applicable, their CREST sponsors or voting service providers should take into account the provisions of the CREST Manual concerning timings as well as its section on "Practical limitations of the system". In certain circumstances, the Company may, in accordance with the Uncertificated Securities Regulations 2001 or the CREST Manual, treat a CREST proxy appointment instruction as invalid.

NOTES (CONTINUED)

4. Copies of Directors' service contracts and letters of appointment are available for inspection at the registered office of the Company during normal business hours each business day. They will also be available for inspection at the Annual General Meeting for at least 15 minutes prior to and during the Annual General Meeting.

5. The time by which a person must be entered on the register of members in order to have the right to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast) is 6.00 p.m. on Wednesday 13 May 2015. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the Annual General Meeting.

6. The right to appoint proxies does not apply to persons nominated to receive information rights under section 146 of the Companies Act 2006, as such rights can only be exercised by the member concerned. Any person nominated to enjoy information rights under section 146 of the Companies Act 2006 who has been sent a copy of this notice of Annual General Meeting is hereby informed, in accordance with section 149(2) of the Companies Act 2006, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this Annual General Meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

7. As at 27 March 2015 (being the last practicable date prior to the publication of this document), the Company's issued share capital consisted of 126,552,427 ordinary shares, carrying one vote each. The total voting rights in the Company as at 27 March 2015 (being the last practicable date prior to the publication of this document) were 126,398,396.

8. Information regarding this Annual General Meeting, including information required by section 311A of the Companies Act 2006, is available at www.chesnara.co.uk. Any electronic address provided either in this notice or any related documents (including the proxy appointment form) may not be used to communicate with the Company for any purposes other than those expressly stated.

9. In accordance with section 319A of the Companies Act 2006, any member attending the Annual General Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the Annual General Meeting, but no such answer need be given if (a) to do so would interfere unduly with the preparations for the Annual General Meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question or (c) it is undesirable in the interests of the Company or the good order of the Annual General Meeting that the question be answered.

10. Under section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement in accordance with section 528 of the Companies Act 2006 setting out any matter relating to (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

The notes on the following pages give an explanation of the proposed resolutions:

Resolution 1:

Report and accounts
The Companies Act 2006 requires the directors of a public company to lay its annual report and accounts before the company in general meeting, giving shareholders the opportunity to ask questions on the contents. The annual report and accounts comprise the audited financial statements, the auditor's report, the directors' report, the directors' remuneration report and, the directors' strategic report. In accordance with the UK Corporate Governance Code, the Company proposes, as an ordinary resolution, a resolution on its annual report and accounts for the year ended 31 December 2014.

Resolution 2:

Final dividend
The payment of the final dividend requires the approval of shareholders in general meeting. If the Annual General Meeting approves resolution 2, the final dividend of 11.98 pence per share will be paid on 22 May 2015 to ordinary shareholders who are on the register of members at the close of business on 10 April 2015 in respect of each ordinary share.

Resolution 3:

Approval of the directors' remuneration report
In accordance with the Companies Act 2006, the Company proposes an ordinary resolution to approve the directors' remuneration report for the financial year ended 31 December 2014. The directors' remuneration report can be found on pages 60 to 79 of the 2014 report and accounts and, for the purposes of this resolution, does not include the parts of the directors' remuneration report containing the Directors' Remuneration Policy Report set out on pages 62 to 69. The vote on this resolution is advisory only and the directors' entitlement to remuneration is not conditional on it being passed.

Resolutions 4 - 9 inclusive:

Election - Re-election of directors
Under the Company's articles of association, all new directors and one third of the existing directors must be elected or retire by rotation at each Annual General Meeting and no director may serve beyond three years without being re-elected by shareholders. Accordingly, John Deane will be elected as a director at the 2015 Annual General Meeting. In accordance with its view of best practice, the Board of Directors has decided that, in addition, all of the Non-Executive Directors will retire at every Annual General Meeting. As a result, Peter Mason, Veronica Oak, David Brand, Mike Evans and Peter Wright will retire at the 2015 Annual General Meeting.

John Deane, Peter Mason, Veronica Oak, David Brand, Mike Evans and Peter Wright are all put forward by the Board of Directors for election and re-election at the 2015 Annual General Meeting. Brief biographical details of each of them can be found on page 53 of this document. The Chairman confirms that, following a rigorous selection process and formal performance evaluation of these Directors by the board, they are effective and demonstrate commitment to the role. The remaining directors therefore unanimously recommend that each of these directors be elected or re-elected as a director of the Company.

Resolutions 10 and 11:

Re-appointment and remuneration of auditors
The Company is required to appoint an auditor, at each general meeting before which accounts are laid, to hold office until the end of the next such meeting. Deloitte LLP has indicated that it is willing to continue to act as the Company's auditor. You are asked to re-appoint Deloitte LLP and, following normal practice, to authorise the directors to determine its remuneration. The directors recommend the appointment.

Resolution 12:

Political donations
It has always been the Company's policy that it does not make political donations. This remains the Company's policy.

Part 14 of the Companies Act 2006 imposes restrictions on companies making political donations to any political party or other political organisation or to any independent election candidate unless they have been authorised to make donations at a general meeting of the Company. Whilst the Company has no intention of making such political donations, that Act includes broad and ambiguous definitions of the terms "political donation" and "political expenditure" which may apply to some normal business activities which would not generally be considered to be political in nature.

The directors therefore consider that, as a purely precautionary measure, it would be prudent to obtain the approval of the shareholders to make donations to political parties, political organisations and independent election candidates and to incur political expenditure up to the specified limit. The directors intend to seek renewal of this approval at future Annual General Meetings, but wish to emphasise that the proposed resolution is a precautionary measure for the above reason and that they have no intention of making any political donations or entering into party political activities.

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

Resolution 13

Power to allot shares

The directors are currently authorised to allot shares and to grant rights to subscribe for or to convert any security into shares of the Company, but their authorisation ends on the date of this year's Annual General Meeting. This resolution seeks to renew the directors' authority to allot shares.

The Association of British Insurers ("ABI") has published guidance to the effect that ABI members will regard as routine a request for authorisation to allot new shares in an amount of up to one third of the existing issued share capital and additionally that they will regard as routine requests to authorise the allotment of a further one third, provided that such additional authority is applied to fully pre-emptive rights issues only and the authorisation is valid for one year only.

This authority was conferred on the directors at last year's Annual General Meeting and the directors recommend that the Company should have this additional headroom this year. This authority is limited to a maximum nominal amount of £4,213,280 (representing 84,265,600 ordinary shares), which represents approximately two thirds in aggregate of the total ordinary share capital in issue (excluding treasury shares) as at 27 March 2015 (being the latest practicable date prior to the publication of this document). Of this amount, 42,132,800 ordinary shares (representing approximately one third in aggregate of the total ordinary share capital in issue, excluding treasury shares) can only be allotted pursuant to a rights issue.

As at 27 March 2015 (being the latest practicable date prior to the publication of this document), the Company held 154,031 treasury shares, being approximately 0.12% of the total ordinary share capital in issue (calculated exclusive of treasury shares).

The renewed authority will expire 18 months after the passing of this resolution or, if earlier, on the date of the next Annual General Meeting.

The directors have no present intention of exercising this authority. The purpose of giving the directors this authority is to maintain the Company's flexibility to take advantage of any appropriate opportunities that may arise.

Resolutions 14

Disapplication of pre-emption rights

This resolution, which will be proposed as a special resolution, seeks to renew the authority conferred on the Directors at last year's Annual General Meeting to issue equity securities or sell treasury shares for cash without first offering them to existing shareholders in proportion to their existing shareholdings. Other than in connection with a rights or other similar issue or scrip dividend (where difficulties arise in offering shares to certain overseas shareholders and in relation to fractional entitlements), the authority contained in this resolution will be limited to an aggregate nominal value of £315,996 (representing 6,319,920 ordinary shares), which represents approximately 5% of the Company's issued equity share capital (excluding treasury shares) as at 27 March 2015 (being the latest practicable date prior to the publication of this document). The renewed authority will expire 18 months after the passing of this resolution or, if earlier, on the date of the of the next Annual General Meeting. This is a standard resolution for most UK listed companies each year.

In accordance with the Statement of Principles on disapplying pre-emption rights issued in July 2008 by the Pre-Emption Group (which is supported by the Association of British Insurers, the National Association of Pension Funds Limited and the Investment Managers Association), the board confirms its intention that no more than 7.5% of the issued share capital will be issued or sold for cash on a non pre-emptive basis during any rolling three year period. The Directors have no present intention of exercising this authority.

Resolution 15:

Authority to purchase own shares
This resolution, which will be proposed as a special resolution, is to renew the authority granted to the Directors at last year's Annual General Meeting, which expires on the date of this year's Annual General Meeting, and to give the Company authority to buy back its own ordinary shares in the market as permitted by the Companies Act 2006. The authority limits the number of shares that can be purchased to a maximum of 12,639,839 (representing 10% of the issued ordinary share capital of the Company (excluding treasury shares) as at 27 March 2015 (being the latest practicable date prior to the publication of this document)) and sets the minimum and maximum prices. This authority will expire no later than 18 months after the date of the Annual General Meeting.

Your Directors believe that the Company should continue to have the authority to purchase its own shares. The authority will be exercised only if the Directors believe that to do so would result in an increase in earnings per share and would promote the success of the Company for the benefit of its shareholders generally. To the extent that any shares so purchased are held in treasury (see below), earnings per share will be enhanced until such time, if any, as such shares are resold or transferred out of treasury.

Any purchases of ordinary shares would be by means of market purchases through the London Stock Exchange.

Sections 724 – 732 inclusive of the Companies Act 2006 provide that shares held in treasury can be cancelled, sold for cash or, in appropriate circumstances, used to meet obligations under employee share schemes. Any shares held in treasury would not be eligible to vote nor would any dividend be paid on any such shares. If any ordinary shares purchased pursuant to this authority are not held by the Company as treasury shares, then such shares would be immediately cancelled, in which event the number of ordinary shares in issue would be reduced.

The Directors believe that it continues to be desirable for the Company to have this choice. Holding the repurchased shares as treasury shares gives the Company the ability to re-issue them quickly and cost effectively and provides the Company with additional flexibility in the management of its capital base. No dividends will be paid on, and no voting rights will be exercised in respect of, treasury shares. In 2014, 40,152 shares were transferred out of treasury to meet sharesave plan options.

Resolution 16

Notice of general meetings
The Companies Act 2006 requires the notice period for general meetings of the Company to be at least 21 days, but, as a result of a resolution which was passed by the Company's shareholders at last year's Annual General Meeting, the Company is currently able to call general meetings (other than an Annual General Meeting) on not less than 14 clear days' notice. In order to preserve this ability, shareholders must approve the calling of meetings on not less than 14 clear days' notice. Resolution 16 seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Companies (Shareholders' Rights) Regulations 2009 before it can call a general meeting on less than 21 days' notice.

The shorter notice period would not be used as a matter of routine for general meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

The Directors recommend all shareholders to vote in favour of all of the above resolutions, as the Directors intend to do in respect of their own shares, and consider that they are in the best interests of the Company and its shareholders as a whole.

GLOSSARY

ABI	Association of British Insurers – Represents the collective interests of the UK's insurance industry.
AGM	Annual General Meeting.
ALM	Asset Liability Management – management of risks that arise due to mismatches between assets and liabilities.
APE	Annual Premium Equivalent – an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.
CA	Countrywide Assured plc.
CALH	Countrywide Assured Life Holdings Limited and its subsidiary companies.
Directors or Board	The directors of the Company as at the date of this document whose names are set out on page 53 of this document.
DPF	Discretionary Participation Feature – A contractual right under an insurance contract to receive, as a supplement to guaranteed benefits, additional benefits whose amount or timing is contractually at the discretion of the issuer.
Dutch Business	Waard Group, consisting of Waard Leven N.V., Hollands Welvaren Leven N.V., Waard Schade N.V. and Tadas Verzekeringen B.V.
EEV	European Embedded Value.
FCA	Financial Conduct Authority.
FI	Finansinspektionen, being the Swedish Financial Supervisory Authority.
Form of Proxy	The form of proxy relating to the General Meeting being sent to Shareholders with this document.
FSMA	The Financial Services and Markets Act 2000 of England and Wales, as amended.
GCR	Group Capital Resources – in accordance with the UK's regulatory regime for insurers it is the sum of the individual capital resources for each of the regulated related undertakings less the book-value of investments by the Group in those capital resources.
GCRR	Group Capital Resource Requirement – in accordance with the UK's regulatory regime for insurers it is the sum of individual capital resource requirements for the insurer and each of its regulated undertakings.
Group	The Company and its existing subsidiary undertakings.
Guardian	Guardian Assurance plc.
HCL	HCL Insurance BPO Services Limited.
IFRS	International Financial Reporting Standards.
IFA	Independent Financial Adviser.
IGD	Insurance Groups Directive – The European directive setting out the current capital adequacy regime for insurance groups.
KPI	Key performance indicator.
London Stock Exchange	London Stock Exchange plc.
LTICR	Long-Term Insurance Capital Requirement – Capital required to be held for regulatory purposes in respect of investment, expense and insurance risks.
LTI	Long-Term Incentive Scheme – A reward system designed to incentivise employees' long-term performance.
MCEV	Market Consistent Embedded Value.
Movestic	Movestic Livförsäkring AB.
Modernac	Modernac SA , an associated company which is 49% owned by Movestic.
Official List	The Official List of the Financial Conduct Authority.
Ordinary Shares	Ordinary shares of five pence each in the capital of the Company.
ORSA	Own Risk and Solvency Assessment.
PRA	Prudential Regulation Authority.
PL	Protection Life Company Limited.
QRT	Quantitative Reporting Template.
RCR	Risk Capital Requirement – additional amounts of capital required to be held for regulatory purposes as a result of two stress tests.
Resolution	The resolution set out in the notice of General Meeting set out in this document.
RMF	Risk Management Framework.
Shareholder(s)	Holder(s) of Ordinary Shares.
Solvency II	A fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a set of EU-wide capital requirements and risk management standards that will replace the current Solvency I requirements.
STI	Short-Term Incentive Scheme – A reward system designed to incentivise employees' short-term performance.
Swedish Business	Movestic and its subsidiaries and associated companies.
S&P	Save & Prosper Insurance Limited and Save & Prosper Pensions Limited.
TCF	Treating Customers Fairly – a central PRA principle that aims to ensure an efficient and effective market and thereby help policyholders achieve a fair deal.
TSR	Total Shareholder Return, measured with reference to both dividends and capital growth.
UK or United Kingdom	The United Kingdom of Great Britain and Northern Ireland.
UK Business	CA, S&P, CALH and PL.
VIF	Value of In-force business.

Registered and Head Office
Building Four, West Strand Business Park,
West Strand Road, Preston, Lancashire PR1 8UY
T +44 (0)1772 972050 **F** +44 (0)1772 482244
www.chesnara.co.uk

Designed by The Chase