



Chesnara

Annual Report & Accounts
2015

WELCOME TO THE CHESNARA ANNUAL REPORT 2015

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.



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NOTE ON TERMINOLOGY

As explained in note 8 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; City of Westminster Assurance Company Limited, which was acquired by the Group in 2005, the long-term business of which was transferred to Countrywide Assured plc during 2006; and Protection Life Company Limited which was acquired by the Group in 2013, the long-term business of which was transferred into Countrywide Assured plc in 2014;
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;
Movestic	which was purchased on 23 July 2009 and comprises the Group's Swedish business, Movestic Livförsäkring AB and its subsidiary and associated companies;
The Waard Group	which was acquired on 19 May 2015 and comprises three insurance companies; Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V.; and a service company, Tadas Verzekering; and
Other Group Activities	which represents the functions performed by the parent company, Chesnara plc. Also included in this segment are consolidation adjustments.

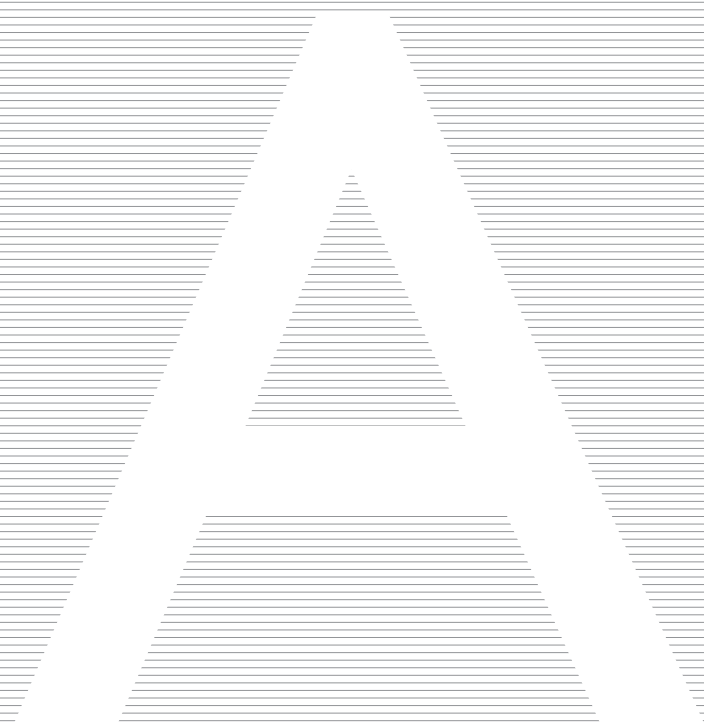
Following the Part VII transfer on 31 December 2014 of the long-term business of Protection Life Company Limited into Countrywide Assured plc, the business of Protection Life (PL) is now reported within the CA segment, effective from 1 January 2015. Previously PL was reported as a separate segment. Comparative information has been restated to reflect this change.

IN THIS REPORT & ACCOUNTS:

- i. The **CA** & **S&P** 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. The '**Waard Group**' segment may also be referred to as the '**Dutch business**';
- iv. '**CA plc**' refers to the legal entity Countrywide Assured plc, which includes the long-term business of **CA**, **CWA**, **S&P** and **PL**;
- v. '**CWA**' refers to the long-term business of City of Westminster Assurance Company Limited, which subsidises within Countrywide Assured plc;
- vi. '**S&P**' refers collectively to the original business of Save & Prosper Insurance Limited and Save & Prosper Pensions Limited, which subsidises within Countrywide Assured plc;
- vii. '**PL**' refers to the long-term business that was, prior to the Part VII transfer into CA plc on 31 December 2014, reported within Protection Life Company Limited and was reported as a separate segment for IFRS reporting purposes;
- viii. '**PL Ltd**' refers to the legal entity Protection Life Company Limited;
- ix. '**Movestic**' may also refer to Movestic Livförsäkring AB, as the context implies; and
- x. '**Acquisition of the Waard Group**' refers to the purchase of the Waard Group, based in the Netherlands, on 19 May 2015.

IN THIS SECTION

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SECTION A OVERVIEW



AN INTRODUCTION

Chesnara plc is a Life Assurance and Pensions consolidator. It has operations in the UK, Sweden and the Netherlands. The Dutch business was acquired during the year and mainly consists of term-life policies, is closed to new business, and has c.80,000 policies. The UK business is closed to new business whereas our Swedish subsidiary continues to run a profitable new business operation.

ABOUT CHESNARA

Who we are

- We are a responsible and profitable company engaged in the management of Life and Pension policies in the UK, Sweden and the Netherlands.
- Chesnara plc was formed in 2004 and 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, an open Life and Pensions business in Sweden and a closed-book group in the Netherlands.

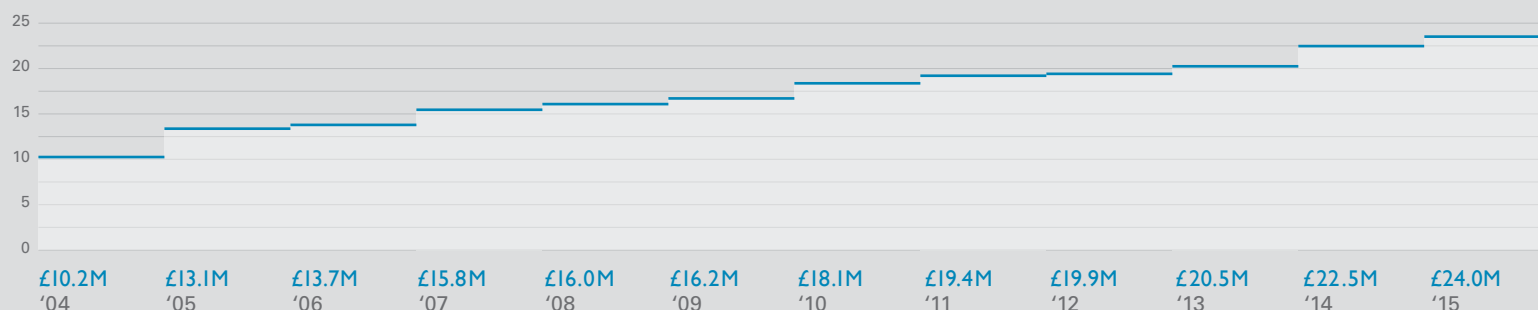
What we do

- We administer c.910,000 Life and Pension policies for our policyholders: 349,000 in the UK, 481,000 in Sweden and 80,000 in the Netherlands.
- We manage £4.9 billion of funds (£2.8 billion in the UK, £1.9 billion in Sweden and £0.2 billion in the Netherlands).
- We operate to high regulatory standards, ensure we offer effective service levels and strong solvency levels as we aim to deliver fair outcomes 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.
- We are committed to delivering our stated strategic objectives of:
 1. Maximising value from our existing businesses.
 2. Making further life and pensions acquisitions where they meet stringent assessment criteria.
 3. Value enhancement through the writing of profitable new business in Sweden.

WHAT MATTERS TO OUR SHAREHOLDERS

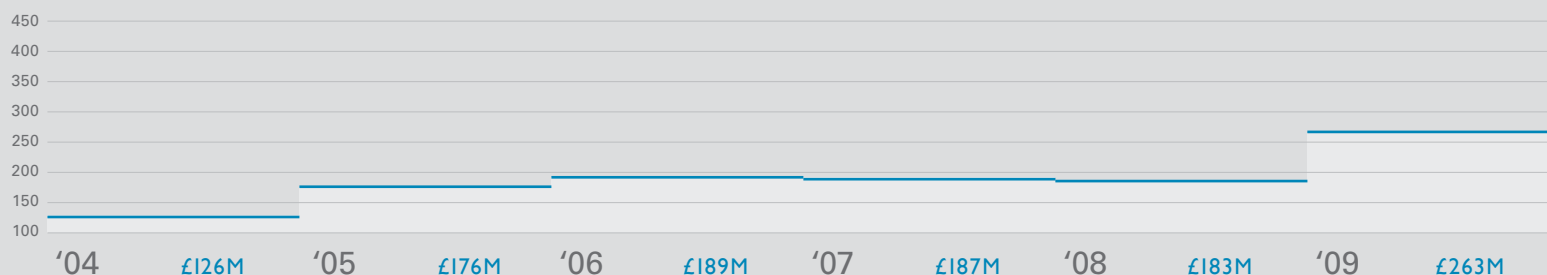


PROVEN ATTRACTIVE DIVIDEND HISTORY



GROUP EEV HISTORY

The Embedded value of the Group has grown significantly since incorporation. The reported growth is net of £194m of cumulative dividends.



Chesnara lists on the London Stock Exchange, following its acquisition of CA plc.

Chesnara acquires CWA from Irish Life and Permanent plc for £47.8m. EEV gain of £30.3m arising on acquisition and £22.0m new share capital issued.

The long-term business of CWA was transferred to CA plc.

Steady operating profit on covered business to support dividend payment in year.

Steady operating profit on covered business supports dividend payment in year.

Chesnara acquires Movestic, an open Swedish Life and Pensions business, for £20m, resulting in an EEV gain of £54.2m on acquisition.

The Chesnara investment proposition is based upon cash emergence 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 2015 has continued at levels in line with the prior year and continues to exceed our annual dividend.

In addition to an attractive dividend yield, growth is delivered through Swedish new business and value adding acquisitions. Our 5 year Total Shareholder Return exceeds that of the FTSE 350 higher yield index.

How we operate

- We maintain a corporate governance team in the UK responsible for ensuring prudential and conduct risk regulatory compliance, risk and capital management, and oversight of our overseas subsidiaries and our predominantly outsourced UK business.
- 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

Providing security through strong solvency. Effective customer service operations together with competitive fund performance whilst giving full regard to all regulatory matters support our aim to ensure policyholders receive good returns and service in line with policy expectations.

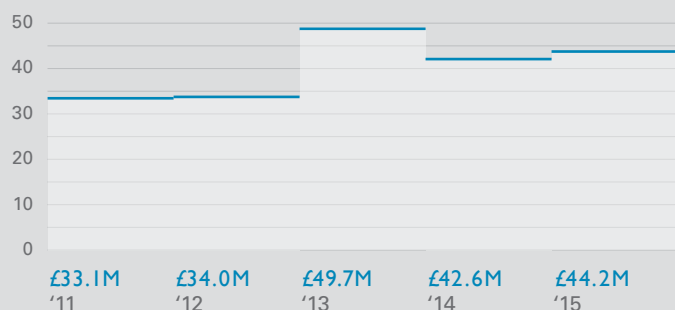
Shareholder

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 dividends to be made from the subsidiaries to Chesnara, which fund the attractive dividend strategy and support our desire to be a 'low maintenance' share for our shareholders.

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.

GROSS CASH GENERATION
£44.2M IN 2015 (2014: £42.6m).

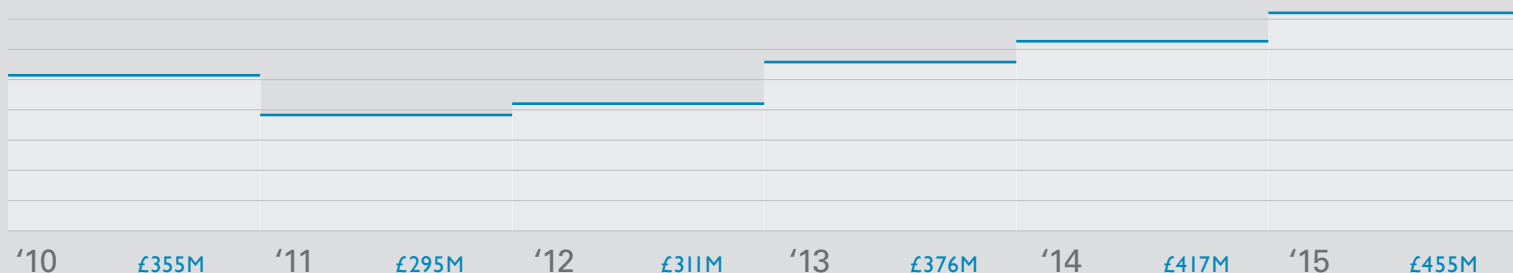
This represents the operational cash generated from the existing business.



RETURNS TO SHAREHOLDERS

5 YEAR TSR: 98.5%
2015 YEAR TSR: 4.1%
2015 DIVIDEND YIELD: 5.7%*

*based on share price at 31 December 2015.



S&P acquired from JPMorgan for £63.5m and Movestic acquires the business of Aspis Liv, a small Swedish Life and Health insurer. These result in a combined gain on acquisition of £41.0m. £25.7m new share capital issued in the year.

The long-term business of S&P is transferred to CA plc. Falls in both equity markets and bond yields result in a reduction in EEV in the year.

S&P de-authorised from conducting regulated activities following transfer into CA plc. Investment market factors support the increase in EEV in the year.

Chesnara acquires Protection Life from Direct Line Group plc for £39.3m, resulting in an EEV gain on acquisition of £12.3m. Strong investment markets drive EEV growth.

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

Chesnara purchases the Waard Group, a Dutch Life insurer, resulting in a day 1 EEV gain of £21.3m.

2015 HIGHLIGHTS

FINANCIAL

 IFRS PRE-TAX PROFIT
£42.8M

IFRS pre-tax profit for the year ended 31 December 2015 of £42.8m (year ended 31 December 2014: £28.8m). **Financial Review page 28**

 GROSS CASH GENERATION
£44.2M NOTE 2

Gross cash generated in the year of £44.2m (year ended 31 December 2014: £42.6m). **Cash Generation page 30**

 NET CASH GENERATION
£82.4M NOTE 2

Net cash generation of £82.4m (2014: £71.1m) includes £44.2m of gross cash generation and £39.9m of cash generation arising on the acquisition of the Waard Group. **Cash Generation page 30**

 EEV
£455.2M

Increase in EEV of £38.0m from £417.2m at 31 December 2014 to £455.2m at 31 December 2015, stated after dividend distributions of £23.5m in the year. **Financial Review page 32**













 EEV EARNINGS AFTER TAX
£57.5M

EEV earnings net of tax of £57.5m (year ended 31 December 2014: £44.2m), before modelling adjustments. **Financial Review page 31**

 MOVESTIC EEV NEW BUSINESS CONTRIBUTION
£5.7M

Movestic has generated a new business contribution of £5.7m in the year (year ended 31 December 2014: £8.9m). **Financial Review page 31**

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
-  Risk appetite

 GROUP SOLVENCY
SOLVENCY I
305%

 SOLVENCY II ^{Note 3}
146%

Strong Insurance Group Directive solvency cover of 305% (31 December 2014: 284%). Group Solvency II ratio of 146% does not use any elements of the Long-Term Guarantee Package, including transitional arrangements. **Business Review pages 23 to 25**

 FULL YEAR DIVIDEND INCREASE
2.9%

Total dividends for the year increased by 2.9% to 18.94p per share (6.61p interim and 12.33p proposed final). This compares with 18.40p per share in 2014 (6.42p interim and 11.98p final).

OPERATIONAL AND STRATEGIC

 COMPLETED ACQUISITION OF
THE WAARD GROUP DURING THE YEAR

The Waard Group acquisition, announced in December 2014, received regulatory approval in the period and was completed on 19 May 2015. **Business Review page 21**

 ENHANCEMENTS TO
GOVERNANCE MODEL

Enhancements to our governance model have been made during the year. This has included the completion of Governance Maps across the Group and its divisions, the development of divisional and Group-wide ORSA processes and improvements to our risk management framework following the recruitment of a Group CRO.

 COMPLETION OF
SOLVENCY II
READINESS PROGRAMME

During the year significant effort has been put in across the Group to ensure that we were ready for Solvency II going live on 1 January 2016. The development programme was completed in the year. **Business Review pages 23 to 25**

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.
2. Gross and net cash generation are defined as follows:
 - i. Gross cash generation:

This represents the operational cash that has been generated in the period. The cash generating capacity of the Group is largely a function of the movement in the solvency position of the insurance subsidiaries within the Group, and takes account of the buffers that management has set to hold over and above the solvency requirements imposed by our regulators.
 - ii. Net cash generation:

This represents the cash that has become available for distribution to shareholders during the period. It builds on 'gross cash generation' and makes adjustments for items (either positive or negative) that affect the availability of cash for distribution. For example, capital releases arising from capital restructuring and one-off cash generation from acquisitions.
 - iii. Both the gross and net cash generation measures above have been determined with reference to the Solvency I regulatory framework.
3. The Solvency II numbers referred to in the highlights above and throughout the rest of this document have not been subject to external audit. Our first solo Solvency II reporting to our local regulators is due on 19 May 2016.

CHAIRMAN'S STATEMENT

“ 2015 has been a busy and successful year for Chesnara.



The UK business has generated cash in line with expectations and at a level sufficient to support Chesnara's dividend by itself.

The acquisition of the Waard Group has created significant cash resource and, of equal importance, our entry to the Dutch market has enhanced the outlook for our ongoing acquisition strategy.

Movestic has continued to grow and has begun to make a material contribution to the Group's cash generation.

Lastly, we have delivered our Solvency II readiness programme and remain well-capitalised under the new regime, with a ratio of 146%. We have not used transitional arrangements and the ratio is stated after the proposed final dividend.

A handwritten signature in black ink, appearing to be 'P. Mason', written in a cursive style.

Peter Mason, Chairman

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 & values of treating customers fairly and adopting a robust approach to regulatory compliance.

MAXIMISE VALUE FROM EXISTING BUSINESS

£44.2m of gross cash generation which includes a positive contribution from Movestic of £5.1m.

See page 18 for further information.

ACQUIRE LIFE AND PENSIONS BUSINESSES

Completion of the Waard Group acquisition, resulting in recognition of one-off cash generation item of £39.9m.

See page 21 for further information.

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

New business profits of £5.7m in Movestic continue to contribute Embedded value growth although profits are down compared to prior year (2014: £8.9m). New business also contributes to growth in funds under management.

See page 22 for further information.

Maximise value from existing business

Our existing books have performed well in the year. The UK business has reported marginally positive economic profits despite there being a continued level of short-term volatility. Although the UK business remains the primary source of dividend funding, the continued growth in Movestic fund values and income flows has resulted in Movestic beginning to make a material positive contribution to the Group's cash generation model.

We expect the transition to SII to create a further short-term increase in surplus capital within our divisions and hence additional cash distribution potential. Our 2015 cash generation results do not recognise this potential additional divisional cash. We intend to defer recognition until we have a fully audited Solvency II balance sheet and a full understanding of any potential barriers to the additional surplus becoming available for distribution.

The embedded values of the in-force books have also increased during the year. In particular the value of Movestic has benefitted from increases in income derived from an 11% growth in funds under management.

Acquire life and pensions businesses

The completion of the acquisition of the Waard Group has had a material positive impact on the Group's financial position and acquisition outlook.

The Waard Group is well capitalised and the surplus of £44.2m over and above our target capital requirements represents a future source of cash. This will either support the Chesnara dividend or fund further acquisitions. The acquisition also increased the Group's embedded value by £21.3m.

Net cash generation of £82.4m which includes gross cash of £44.2m from the existing business and £39.9m from the Waard Group acquisition.

Enhance value through profitable new business

The downturn in new business profits from Movestic is slightly disappointing; however the level of profit in the year remains very much in line with Chesnara's strategic positioning. Profit from new business is only one aspect of the Movestic overall profit growth and other aspects such as continued funds under management growth and an increase in average fees more than compensate for the small downturn in the value of new business. Our future expectations from new business remain to deliver modest profits from a realistic market share of 10-15% of our target market (average 2015 market share of 11.7%) and the new business will support the overall growth of the Movestic funds.

Solvency II

Over recent years Solvency II has created a great deal of work and also a degree of uncertainty across the industry. I am pleased to report that there is now clear light at the end of the Solvency II tunnel. Despite the significant effort associated with Solvency II we have not lost focus on our core business objectives. The fact that Solvency II has been delivered during a period which included two successful acquisitions, continued Movestic growth and UK cash emergence at levels higher than expected, is testament to the strength of the Chesnara business model and also the dedication and abilities of the entire Chesnara team and our outsource partners. Importantly, we also assess the outcome from the transition to Solvency II to be positive, in that:

- The Group Solvency II ratio is significantly in excess of both statutory and internal Board requirements, which are set at a higher hurdle rate for the purposes of managing the day to day business.
- The absolute level of surplus over and above the internal Board requirement is broadly consistent between Solvency I and Solvency II at a divisional level, with the total Group surplus under Solvency II remaining healthy.
- The Risk and Governance requirements under Solvency II have always aligned well with the established Chesnara approach. Solvency II does require an increased level of formality, transparency and rigour which if operated efficiently will enhance the Chesnara governance framework.
- The capital requirements model under Solvency II creates a clear and transparent link between the business model and the resultant capital required. This will help the Board better understand how the risks within the business and any decisions we make impact capital and solvency. This will in turn improve risk-based decision making and enhance capital management.
- We have delivered Solvency II in a very cost effective manner.

Regulation

Compliance with regulation remains a priority for the Group, not least Solvency II. We have continued to maintain a positive and constructive relationship with regulatory bodies across the Group.

Within the UK the FCA has recently issued its report regarding the 'Fair treatment of long-standing customers in the life insurance sector'. At the time of this report the findings are subject to a three month consultation period. As a result of this review the FCA announced the launch of an investigation into whether disclosure of paid up and early transfer charges to the customers of Countrywide Assured and other providers was adequate to enable those customers to make informed decisions.

We will of course co-operate fully with the FCA in its investigation. We also note that no conclusion has yet been reached as to whether there have been any breaches of regulatory requirements within CA.

With regards to the broader review, we would envisage it will result in the need for changes to processes and customer communications to meet these new best practice standards. We will fully commit to any such industry enhancement programme when the scope and expectations are better known post consultation and whilst we expect there will be a cost for this work we do not expect it will have a material impact on our financial model.

During July 2015 the Government launched a consultation linked to the new pension freedoms introduced in the UK, entitled 'Pension transfers and early exit charges'. In the consultation response the Government has indicated that it has passed legislation to enable the FCA to consider whether caps on certain exit charges should be introduced, and at what level. To date we have supported the ABI acting on behalf of the industry as a whole in relation to this subject, and will support the FCA in delivering the work it has been charged with performing following the Government's consultation. Analysis indicates that should exit fees on pension policies be capped at 5% then the impact on the embedded value of Chesnara is not material.

Investment proposition

The performance in the year has resulted in strong returns to shareholders in the form of the continuation of our attractive dividend strategy whilst also ensuring we retain sufficient resources to support future growth.

5.7% dividend yield based on share price at 31 December 2015

People

Chesnara's success has always been built upon a culture whereby the Board, management and staff all recognise their responsibility of safe-guarding the interests of our stakeholders. We have always placed a high importance on transparency and integrity and managing the business in a compliant and responsible manner. Continuity of culture is a challenge particularly when we make acquisitions or when there is a change in Senior Management. In light of this I am particularly pleased to report that John Deane, appointed as our new CEO at the beginning of the year, has done an excellent job in his first year, building upon all the positive qualities that have served Chesnara well over the years. As we have integrated the Waard Group it has become clear that local management fit very well into the Chesnara culture. They operate in a professional and transparent manner giving full regard to regulatory compliance.

Governance and Risk Management

During the year we have developed and embedded Governance Maps across the Group. We have also invested significant time in the production of revised principles and policies. These developments will ensure robust and consistent governance and capital management across the enlarged Chesnara Group.

Chesnara has always given appropriate consideration to the risks to which the business is exposed. To further enhance our management of risk we have recruited a Group Chief Risk Officer during the year. The new Group Chief Risk Officer has taken a lead role in the development of risk appetite statements, our Own Risk and Solvency Assessments (ORSAs) and is well on the way to enhancing our risk management framework across the group.

The improved risk management processes together with the continued Board focus on risk assessment means high quality risk management will continue to be a key strength at the heart of Chesnara's ongoing success.

Outlook

Much has been said regarding the potential impact on British industry should the referendum in July regarding British membership of the EU result in a 'leave' vote. The longer term economic impacts of staying in the EU or leaving remain uncertain and as a result we continue to monitor the situation closely. We do, however, believe that the impact of a 'leave' vote will not materially affect Chesnara's business.

Our financial and governance foundations are strong and our existing books continue to generate reassuring levels of cash. In addition, with more certainty about the impact of Solvency II across the industry and with our entry to the Dutch market, the acquisition outlook is increasingly positive. I am therefore confident that Chesnara can continue to deliver against its strategic objectives and provide value to policyholders and shareholders.



Peter Mason
Chairman
30 March 2016

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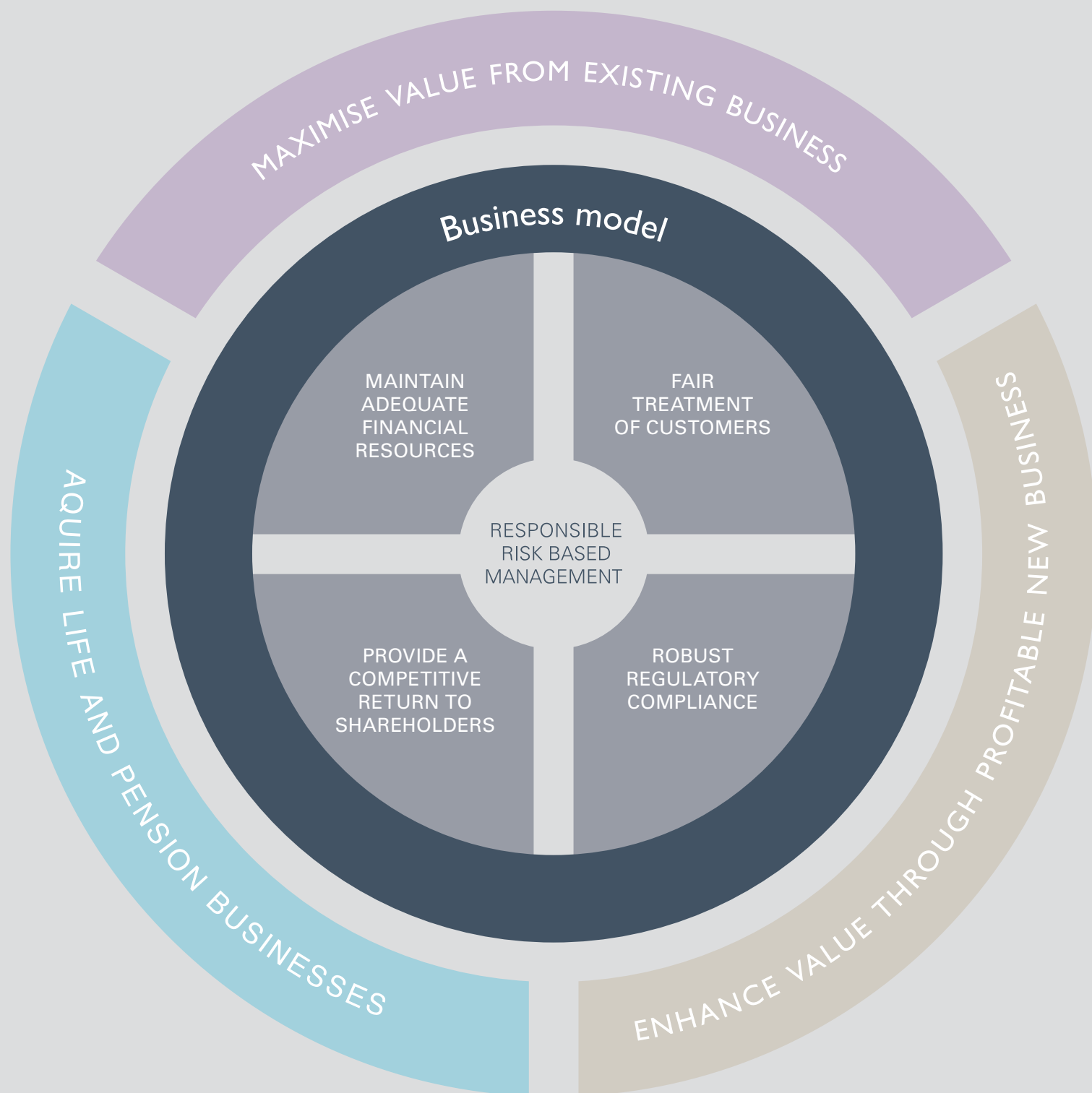
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SECTION B STRATEGIC REPORT



OVERVIEW OF STRATEGY, CULTURE & VALUES AND BUSINESS MODEL

Our strategy focuses on delivering value to shareholders and policyholders (see pages 16 and 17). The strategy is delivered through a proven business model (see page 16) underpinned by a robust risk management and governance framework (now based on SII requirements) and by adapting our established culture & values (see pages 14 and 15).



**STRATEGIC OBJECTIVES,
CULTURE & VALUES**

OVERVIEW

CULTURE & VALUES

Our strong culture & values underpin everything we do.

A summary of our culture & values and why they are important, coupled with management’s actions this year and their impact are summarised on pages 14 and 15.

BUSINESS MODEL

Our strategic objectives and culture & values are delivered through the operation of our business model, as described on pages 16 and 17.

MAXIMISE VALUE FROM EXISTING BUSINESS

An overview of why we focus on this objective, our delivery against it during 2015 along with our views on 2016 and beyond can be found on pages 16 and 17.

Further analysis of the outcomes of this objective for 2015, split by operating territory, can be found in the Business Review on pages 18 to 20.

ACQUIRE LIFE AND PENSIONS BUSINESSES

An overview of why we focus on this objective, our delivery against it during 2015 along with our views on 2016 and beyond can be found on pages 16 and 17.

Further analysis of the outcomes of this objective during 2015 can be found in the Business Review on page 21.

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

An overview of why we focus on this objective, our delivery against it during 2015 along with our views on 2016 and beyond can be found on pages 16 and 17.

Further analysis of the outcomes of this objective during 2015 can be found in the Business Review on page 22.

CULTURES & VALUES

“ Our long established and proven culture & values underpin the delivery of our core strategic objectives. Risk management is at the heart of our robust governance framework. Our values are strongly influenced by the recognition of our responsibility to a range of key stakeholders including policyholders, regulators, employees and our investors.

CULTURE & VALUES		WHY IMPORTANT
Responsible risk-based management for the benefit of all of our stakeholders	<p>Maintaining adequate financial resources is at the heart of good business conduct. Effective capital management is a critical focus and a key requirement upon which all our cultural objectives are dependent. Further information regarding the Group’s solvency position is included in the business review on pages 23 to 25.</p>	<p>Risk taking is a key part of our business model – taking the ‘right risks’ and managing them well is essential to our success. We achieve this by understanding the key risk drivers of the business plan and strategy, and by making sure we monitor these risks and take appropriate risk-based decisions in a timely fashion, for the benefit of all of our stakeholders.</p>
Fair treatment of customers		<p>The fair treatment of customers across the Group is our primary responsibility. It is also important to the Chesnara business strategy as it promotes stronger relationships with our customers and regulators. When applying the terms of our customer contracts, coupled with the developing guidance from local regulators on the application of policy conditions, we place a high priority on taking account of the treatment of our customers while balancing the interests of our other stakeholders.</p>
Provide a competitive return to our shareholders		<p>As a public company it is imperative that we offer an attractive investment case. Given the majority of our investors hold our shares in ‘income funds’, it is important that we deliver an attractive and sustainable dividend. We also recognise the benefits of being a ‘low maintenance’ investment offering clarity and consistency of performance.</p>
Robust regulatory compliance		<p>Working constructively with our regulators and complying with regulatory requirements is imperative to the delivery of our objectives. The regulators’ desire for robust and responsible governance is very much a principal aim of the Chesnara Directors.</p>

WHAT WE HAVE DONE

The appointment of a Group Chief Risk Officer together with the ongoing delivery of our Solvency II programme of change has resulted in significant improvements to an already robust risk management framework. Key developments include:

- Development of a Risk Appetite and Limit system.
 - Refreshed Capital Management and Risk policies.
 - Development of Group and Divisional ORSAs.
 - Enhancements to our risk-based acquisition assessment model.
 - Established Governance Maps across the Group.
 - Embedded Own Risk and Solvency Assessment processes and aligned with Strategic Planning.
-
- Across the Group we have delivered a good standard of customer service.
 - In the UK our administrative outsource service partners have delivered within stringent service level requirements.
 - Purchased and efficiently integrated the Waard Group.
 - Service standards in Sweden remain strong as evidenced by external surveys undertaken by brokers.
 - Unit-linked policy returns in Movestic remain competitive based on both fund benchmarks and external unit-linked policy performance surveys.
 - Fund performance in the UK was below benchmark for two of our three primary managed funds (see page 18 for further detail).
 - Where complaints do arise we continue to manage them in accordance with regulatory best practice.
 - A new complaints registration system was introduced in the Netherlands, in accordance with regulatory requirements.
 - Across the Group we closely monitor any regulatory developments to ensure we continue to treat customers fairly in accordance with regulatory requirements and their contract terms.

- The Waard Group acquisition and Movestic new business profits increased Embedded Value.
- The Waard Group acquisition generated significant distributable cash.
- Effective transition to Solvency II.
- Continuation of our dividend strategy.

- Effective delivery of Solvency II.
- Positive relationship with the DNB built up through the Waard Group acquisition process.
- Established Governance Maps across the Group.
- Supported the work performed by the FCA in relation to its 'legacy review' work.

OUTCOME

- Strengthened controls reducing risk likelihood and impact of adverse outcomes for shareholders and policyholders.
- Increased Board awareness of the risk drivers and solvency position.
- More focused and timely Board awareness of material risk matters.
- Stronger linkage between risk, capital and strategy.
- More carefully considered risk taking and risk-based decision making.
- More robust governance.
- Positive regulatory relationships.
- Solvency II ready prior to go live date of 1 January 2016.

- General low level of complaints that have been received across the Group has continued.
- In the UK the Financial Ombudsman Service continues to agree with our decision on the majority of complaints referred to them for adjudication.
- Good service standards and customer outcomes in Sweden have supported continued IFA new business levels within our target market share range.
- The acquisition of the Waard Group business during the year has had no adverse impact on service levels or customer outcomes.

- Dividend track record continues.
- **2.9%** dividend growth.
- dividend yield of **5.7%** based on share price at 31 December 2015.

- Ongoing constructive relationship with UK and Swedish regulators. We have had confirmation that the PRA is the Group Supervisor under Solvency II.
- Obtained regulatory approval from the DNB for the acquisition of the Waard Group.
- No material breaches of any internal governance policies and principles.
- Subsequent to year end, on 3 March 2016 the FCA announced that they will perform an investigation into whether disclosure of paid up and early transfer charges to the customers of Countrywide Assured and other providers was adequate to enable those customers to make informed decisions, following their 'legacy review' data collection exercise that was announced and performed during 2014.

OUR STRATEGY

STRATEGIC OBJECTIVE	WHY THIS MATTERS	HOW WE DELIVER OUR BUSINESS MODEL
<p>MAXIMISE VALUE FROM EXISTING BUSINESS</p>	<p>The existing in-force books are the principal source of cash generation and are hence at the heart of the investment case.</p>	<p>In the UK Chesnara adopts an outsourced business model. Governance oversight and Corporate management is provided by a highly experienced centralised governance team. This governance team also ensures robust and consistent governance practice across the Group, although operational autonomy is devolved to Sweden and the Netherlands to ensure we benefit from our strong divisional management teams. Core operations are not outsourced in Sweden or the Netherlands because it would not suit the open business model or inherited model in those territories respectively.</p>
<p>ACQUIRE LIFE AND PENSIONS BUSINESSES</p>	<p>Chesnara is primarily a closed book operation and as such will inevitably lose scale over time. Acquisitions maintain the effectiveness of the operating model. In addition, well considered and appropriately priced acquisitions will create a source of value enhancement and sustain the cash generation potential of the Group.</p>	<p>Identify potential deals through an effective network of advisers and industry associates.</p> <p>We work cooperatively with regulators and assess deals applying well established criteria which consider the impact on cash generation and embedded value under best estimate and stressed scenarios.</p> <p>The financial benefits are viewed in the context of the impact the deal will have on the enlarged Group's risk profile.</p> <p>Transaction risk is minimised through stringent risk-based due diligence procedures and the senior management team's acquisition experience and track record.</p> <p>We fund deals with debt, equity or cash depending on the size and cash flows of each deal.</p>
<p>ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS</p>	<p>Whilst new business profits are a relatively modest component of the Chesnara financial model, they are an important and welcome regular source of value growth which supplements growth delivered from our periodic acquisitions.</p>	<p>New business activity is only carried out in Sweden, where we primarily focus on unit-linked pensions and savings. We distribute through IFAs and target a realistic share of our target market of between 10-15%. To achieve higher volumes would require a pricing strategy that may compromise the keen focus on ensuring the business we write is profitable.</p>

HOW WE MEASURE DELIVERY

WHAT WE DID IN 2015

PRIORITIES FOR 2016 AND BEYOND



Cash generation

We measure gross cash from the closed book which is defined as the movement in the surplus of capital resources over capital requirements set by management. As such cash can be generated by either profits arising in the period or a reduction in capital requirements.

Continued focus on sound governance including the implementation of Solvency II, together with good performance by our outsource partners has resulted in cash emerging in line with expectations in the UK. Although, the UK remains the primary source of cash, Movestic has reached sufficient scale during 2015 that it has begun to contribute positively to this core objective. The Waard Group, being a very well-capitalised business, brings with it surplus cash that is available for distribution in an orderly fashion. Fund performance in the UK was below benchmark for two of our three primary managed funds (see page 18).

Embedding Solvency II across the Group and further enhancing our Governance framework are a key focus. The Group's priority is to continue to service customers in an efficient and effective manner, reacting appropriately to any regulatory changes that may emerge. Movestic will continue to aim to improve margins and deliver fund growth such that they become an increasingly positive contributor to this corporate objective. Movestic will develop its IT systems and processes to ensure the growth can be well managed with no deterioration of service levels.

We will continue to closely monitor fund performance across the Group, including the UK where fund performance was below benchmark in 2015 for two of our three primary managed funds.



Value optimisation

Value is measured by reference to the movement in embedded value.



Customer outcomes

This is measured through monitoring:

- customer service metrics;
- policyholder fund performance against industry and market expectations;
- customer complaint levels; and
- our compliance with regards to regulatory conduct matters.



Cash generation

Collectively our future acquisitions must be suitably cash generative to continue to fund the Chesnara dividend strategy.

We completed the acquisition of the Waard Group which delivered positively against all our assessment measures, generating £39.9m of immediate cash and increasing the Group's EEV by £21.3m. The acquisition has provided a safe solution for the policyholders and there has been no service deterioration throughout the business transfer.

Continue to demonstrate we offer a safe proposition for acquired businesses.

Proactively investigate and assess opportunities in our target markets, namely the UK and the Netherlands.



Value enhancement

Acquisitions are required to have a positive impact on the embedded value per share under best estimate and certain more adverse scenarios.



Customer outcomes

Acquisitions must ensure we protect, or ideally enhance, customer interests.



Risk appetite

Acquisition should normally align with the Group's documented Risk Appetite. If a deal is deemed to sit outside our risk appetite the financial returns must be suitably compelling.



Value enhancement

We measure the amount of embedded value added through the writing of new contracts. The value added takes full account of all costs incurred so as to ensure the profit represents true incremental value.

During the year Movestic generated new business profits of £5.7m.

Movestic will continue to enhance the product offering in terms of fund range and performance. This, together with ongoing improvements to the sales process and infrastructure, is expected to result in Movestic moving up its 10-15% market share target. Pricing policy and cost control will mean the targeted modest sales growth results in a corresponding increase in profits.

BUSINESS REVIEW

MAXIMISE VALUE FROM EXISTING BUSINESS | UK

Value has continued to emerge from the UK business across all key financial metrics.

Highlights

- Completion of Governance Map during the year.
- No significant impact following pension freedoms introduction to date.
- Good gross (operational) cash generation of £42.5m underpinning net cash generation of £40.8m.
- Solvency II ready.

Review of the year

The UK business has seen some significant internal changes during 2015, mainly arising through preparing for a number of regulatory changes impacting the business. This has included Solvency II, which applied from 1 January 2016, the application of the Senior Insurance Managers Regime (SIMR), coupled with ensuring that our operations and processes were appropriately adapted to support the enactment of increased freedoms given to policyholders with pension products. During the year management has continued to support any open regulatory matters, including a review into exit and transfer charges on pension products and the FCA's review on the fair treatment of long-standing customers.

The operational changes that have been made in relation to Solvency II and the SIMR are very positive to the business and continue to support our objective of value maximisation. For example Solvency II introduces, through the ORSA process, improved linkage between assessing/managing risk and decision making. The development of a UK Governance Map to support a Group-wide Governance Map implementation programme helped prepare the division for the implementation of the SIMR on 7 March 2016. Good governance is central to ensuring that our business is well controlled and in particular will bring enhancements to our risk management framework and reporting of risk, something that will continue to be developed and implemented during 2016, led by our new Chief Risk Officer.

Solvency II has also introduced a new lens through which management looks at the regulatory capital of the UK business, where the 'standard formula' is applied. Further insight on the quantitative impact of moving from Solvency I to Solvency II can be found on page 23.

As a predominantly outsourced operation a key part of managing value is through having well controlled oversight over our outsource providers, who cover policyholder administration, accounting, actuarial and

investment management services. Our contracts are managed through regular relationship meetings and are underpinned by robust contractual Service Level Agreements (SLAs) which encompass a variety of quality, risk management, regulatory compliance and policyholder treatment measures. The investment management outsourcing is overseen by CA plc's Investment Committee. Our outsourcers have continued to deliver strongly across all service targets.

Following the Part VII transfer of the Protection Life business into CA plc on 31 December 2014 the de-regulation process of Protection Life Company Limited has now been completed, thereby making £2.9m of additional capital available to the Group.

Financial performance

The UK business has continued to deliver strongly across its key financial metrics of Solvency, IFRS profit, EEV profit, and Cash Generation. Further analysis behind these metrics can be found on pages 23 and 26 to 33.

Value driver metrics

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.

The reduction in funds under management during the year is primarily driven by the reduction in policy numbers. Investment markets during 2015 have displayed volatility, but closed broadly in line with the start of the year.

Fund performance

Despite volatile global equity markets the performance of our investment management

partners has contributed to positive returns in our main managed funds during the year ended 31 December 2015 though below the benchmark for the CA Pension Managed fund and CWA Balanced Managed fund. The last times these funds were below benchmark were 2011 and 2013 respectively.

Policy attrition

As a closed book, policy numbers are expected to reduce over time. The reduction in policy numbers in 2015 is marginally up compared with the prior year. The impact of the new pension freedoms on policyholder attrition levels has been closely monitored by management and, whilst a small 'spike' was witnessed, the overall policy count reduction year on year is only slightly up, increasing from 6.9% to 7.5%.

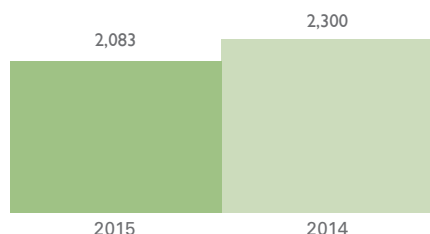
Risks associated with the strategic objective

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, assets held by shareholders to provide security for these guarantees are invested in cash and long-term bonds. Consequently our results will be negatively affected by falls in equity values, which impact assets backing policyholder liabilities, and/or falls in bond yields, which impact 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.

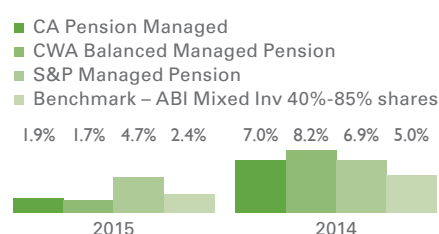
Increased lapses on cash generative products are also a risk to the delivery of this strategic objective. This risk is managed through:

- Close monitoring of persistency levels.
- Active investment management with the aim of delivering competitive policyholder investment returns.
- Outsourcer service levels that ensure strong customer service standards.
- Customer retention processes.

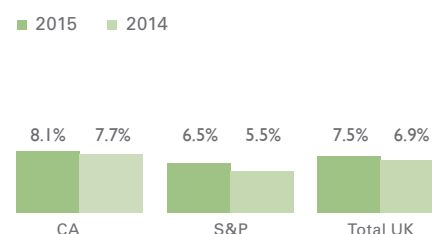
Unit-linked funds under management (£m)



Fund performance



Policy attrition, based on policy count



BUSINESS REVIEW

MAXIMISE VALUE FROM EXISTING BUSINESS | SWEDEN

Strong value emergence driven by growth in assets under management and improvements in performance fee rebates.

Highlights

- Division has generated positive cash results in the year.
- Improved performance fee rebate levels.
- Continued good growth in assets under management.
- Solvency II ready.

Review of the year

The Swedish division has delivered strong growth during the year supporting the Group's strategic objective of maximising value from its existing businesses. Two key factors have driven this value generation:

- (i) improved fund performance fee rebates as a result of various investment management changes that were made during late 2014 and have continued into 2015; and
- (ii) good growth in funds under management.

Being able to provide a wide range of funds to its policyholders is a key differentiator of Movestic compared with its more traditional competitors. Movestic's funds are continually reviewed and where appropriate new funds are added to satisfy its policyholder requirements. During 2015 additional 'white label' funds have been launched, building on three new funds that were made available during 2014. These have been delivered through revised funding structures which have resulted in higher fee generation than previously. Successful renegotiations with certain fund managers have delivered additional performance fee rebate income during the year.

To support its continued growth strategy and to deliver enhancements to the way existing business is managed, the Division has started to invest further in its business processes and systems. This will facilitate more effective policyholder/distributor communications and policy management. The business management layer of the new system will also support more streamlined business reporting, in particular the regular reporting that is required to Regulators under Solvency II.

With Solvency II becoming effective from 1 January 2016, during 2015 the business has delivered its Solvency II development programme such that it is now ready across all aspects of the new regime. In particular, governance and risk management

enhancements have been made, all of which will deliver value generation through enhanced risk-based decision making and business control. The prudential management aspects of Solvency II have also resulted in a new way in which management assess the capital within the business and how it meets the capital requirements. Further information on this has been included on page 23.

Financial performance

The Swedish business has performed well during the year across all key financial metrics, specifically regarding its cash generation. Further analysis behind these metrics can be found on pages 26 to 33.

Value driver metrics

New business

A review of the new business operation of Movestic is covered on page 22.

Assets under management

Assets under management are a key value driver of the business through providing a source of revenue in the forms of performance fee rebates from asset managers and charges to policyholders. Assets under management have grown by 11% during the year, closing at SEK 24.3bn. Underpinning the growth in assets under management are three key drivers:

- performance of the new business operation (see page 22);
- overall performance of investments within the funds (see below); and
- behaviour of policyholders (see below).

Investment performance: Overall funds under management have returned growth of 4.9% for policyholders during 2015. Good investment return not only supports income generation for the business but is also important in retaining existing policyholders and attracting new ones. The fund performance analysis below shows that 38 out of 59 funds out-performed their benchmark index during the year.

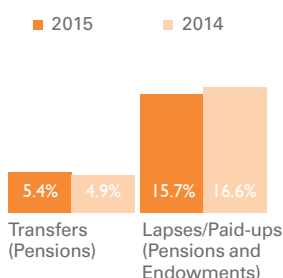
Policyholder behaviour: The number of policies that have either become paid up, or have surrendered, has decreased when compared with 2014. There has been a slight increase in policyholders transferring out their policies to another provider during the year, which has also resulted in the transfers-in to transfers-out ratio becoming less favourable compared with 2014.

Transfers within the Swedish Division can depend on a number of factors, including competitor offerings agitating the transfer market and changes in relationships with brokers. The net impact of these factors has resulted in transfers-out being slightly up on the prior year.

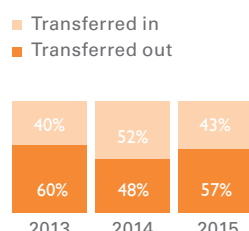
Risks associated with the strategic objective

- High levels of lapses and transfers remains a risk. Given that the Movestic product proposition already offers significantly more portability for transferring pensions than the general market, our view is that 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.
- Loss of key brokers can result in increases in the level of transfers-out.
- Regulatory change can potentially impact the cash flows arising from the in-force book. For example, there remains ongoing debate in Sweden regarding possible changes to up-front fees and rebate commissions.
- From a Group perspective we are exposed to foreign currency fluctuations which impacts the sterling value emerging from the Swedish operations.

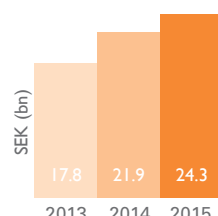
Policy attrition



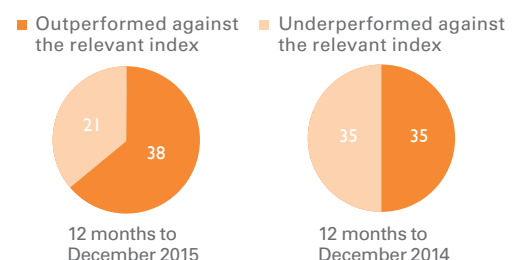
Transfers



Assets under management



Fund performance (for those with benchmarks)



BUSINESS REVIEW

MAXIMISE VALUE FROM EXISTING BUSINESS | NETHERLANDS

Positive emergence of value in line with expectations from the newly acquired Waard Group.

Highlights

- Full year IFRS pre-tax profit of £2.6m is broadly in line with expectations and provides a useful estimate of future in force book profit expectations Note 1.
- EEV of £74.1m at 31 December 2015, which includes £9.3m in relation to future profit cash flows.
- Positive gross (operational) cash generation, and one-off cash generation on acquisition of £39.9m.
- Business now fully integrated into Chesnara governance processes.
- Solvency II ready.

Review of the year

The Dutch Division has delivered a full year IFRS result that is broadly in line with expectations, and the solvency position of the business is strong. The one-off positive impact on cash generation of the Group of £39.9m arising upon acquisition has been further enhanced by additional positive cash generation in the period of £4.0m.

Summary of the in-force book

The Waard Group book consists of c.80,000 policies, the majority of which are term assurance contracts, with the balance relating to unemployment and disability cover and unit-linked savings contracts.

In addition to the insured contracts, the Waard Group is, through its service-company subsidiary, responsible for the administration of c.79,000 policies for third party insurers.

There are three key areas of focus for the in-force book, namely: management of the assets, regulatory compliance and ensuring that a high quality service to policyholders is continued in terms of administration service levels.

Policy attrition levels for 2014 and 2015 remain at a steady level of circa 8% across the total in-force book and are in line with the anticipated book run-off.

Key value drivers

The business is administered and governed by an established and high quality team, combining operational excellence with strong customer contact. The internet is increasingly used to combine these two items. The business operates to high governance standards and there is a positive relationship with the Dutch regulator.

Since the acquisition completed on 19 May 2015, the Waard Group business has been integrated into Chesnara’s governance processes including the financial reporting routines.

Profits emerge primarily as a result of positive mortality experience on the term assurance contracts. The third party administration contributes only modest additional profit, while covering an adequate element of the fixed cost base. Further acquisitions should provide additional economies of scale.

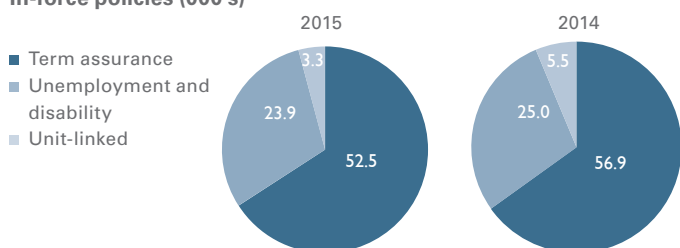
Risks associated with the strategic objective

- The primary risk to the profit and cash emergence is that mortality experience increases significantly and exceeds the assumed rates.
- Increased lapses on cash generative products are also a risk to the delivery of this strategic objective. This risk is managed through close monitoring of persistency levels, service levels that ensure strong customer service standards and our pro-active approach to the renewal process to keep retention rates high.

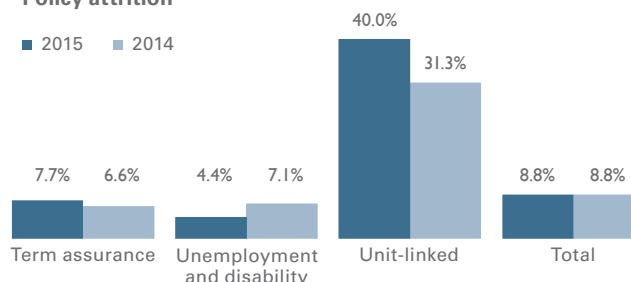
- There is also a risk that expenditure levels exceed those assumed in reserves and provisions. Expense assumptions are deemed to be realistic and the cost base is well controlled, predictable and within direct management influence.
- Although regulatory developments are not in themselves a risk to the value emergence, management recognises the long-term benefits of robust governance. Regulatory change can impact the cash potential of the business if it directly impacts the cash flows from the products (such as through emerging regulatory best practice) or increases the likelihood of increased book attrition. There is full indemnification from the previous owner of the Waard Group regarding the compensation arrangements currently in place for certain unit-linked products historically sold.
- As with our Swedish division, the Group is exposed to foreign currency fluctuations which impacts the sterling value emerging from the Dutch operations.

Note 1 – Only the proportion of this total profit relating to the post acquisition period (19 May 2015 to 31 December 2015) is consolidated into the Chesnara Group IFRS income statement, amounting to £0.9m.

In-force policies (000’s)



Policy attrition



BUSINESS REVIEW

ACQUIRE LIFE AND PENSIONS BUSINESSES

“ We completed the acquisition of the Waard Group during May 2015. The Group embedded value increased by £21.3m and the net cash generation has increased by £39.9m as a direct consequence of the acquisition. Over and above the direct and immediate financial benefits the acquisition creates opportunity to progress further value-adding deals in the Dutch market. ”

Highlights

- Completion of the acquisition of the Waard Group in the Netherlands for £50.1m resulting in £21.3m increase in Group Embedded Value.
- £39.9m of additional cash distribution potential created.
- Entry to a third territory of the Group assessed as having significant further market consolidation potential.

Review of the year*Acquisition of the Waard Group*

On 19 May 2015 we completed the acquisition of the Waard Group in the Netherlands for £50.1m (€69.9m). The deal was financed through raising £34.5m of equity during late 2014, with the remainder being funded through existing cash resources. The acquisition has created an excellent opportunity to operate in a new market within which life insurance consolidation is in its early stages. The deal was originally assessed positively on all four elements of our assessment scorecard. The table below illustrates how these actual benefits arose on acquisition:

**CASH GENERATION:**

The solvency position on acquisition confirms that significant surplus (£39.9m) is available for distribution in an orderly fashion over a three year period.

**EMBEDDED VALUE:**

The actual discount to embedded value of 29.8% has resulted in an embedded value increment of £21.3m.

**STRATEGIC OPPORTUNITY:**

Initial evidence of potential deal opportunities reaffirms our view that Chesnara can benefit from closed book market consolidation in the Netherlands.

**RISK CONSIDERATIONS:**

Business, market and regulatory developments during the period support our initial positive assessment of the risk profile of the business.

UK market

There has recently been a general lull in closed book market activity in the UK, driven in part by uncertainty resulting from Solvency II and regulatory developments. That said, there has been some activity recently, and we believe the factors which will drive further consolidation persist, namely 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. In the short-term we have increased our focus on Western Europe, in particular investigating opportunities in the Dutch market following the acquisition of the Waard Group.

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 track record and good reputation with our regulators, ensures we are aware of most viable opportunities in the UK and Western Europe. To support 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. Importantly we have rolled the acquisition process out into the Dutch management team, who have begun to implement the process in the Dutch market. This ensures we get the benefits of local market knowledge complemented by closed book consolidation experience and expertise provided by the Chesnara management team.

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, in the context of other non-financial measures including the level of risk and the degree of strategic fit and opportunity.

Acquisition outlook

We remain confident that all the commercial and economic drivers for consolidation remain positive in the UK. The acquisition of the Waard Group provides significant potential in the Dutch market and 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.

Risks associated with this strategic objective

- There is the risk that if we do not deliver against this objective then the investment case for Chesnara diminishes over time.
- 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.
- The broader target market also reduces the risk of inappropriate opportunities being progressed on the grounds that better optionality will enable us to identify better fit deals at a more competitive price.
- As our acquisition strategy currently places greater focus more on non-UK markets we become increasingly exposed to currency risk. 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.

BUSINESS REVIEW

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS | SWEDEN

New business profits continue to enhance Movestic's embedded value and support the overall fund growth, although a difficult market for transfers and staff vacancies in the sales team have resulted in a slight downturn compared to 2014.

Highlights

- New business profit of £5.7m (2014: £8.9m).
- 4.9% reduction in new business volumes.
- Average market share of 11.7% is within target 10-15% range.

Review of the year

After two years of new business growth we have seen a downturn in new business volumes in 2015. The transfer market was particularly competitive during the first half of the year and unit-linked products came under pressure from the traditional market products which offered attractive guaranteed returns. As expected the level of guarantees being offered has not been sustainable and the unit-linked market has become more competitive during the second half of the year. The transfer market is profitable and hence is a natural target for Movestic given its focus on sustainable profit margins. Revised pricing for transfers has reinvigorated transfer volumes in the second half of the year. This, together with the aforementioned reduction in traditional guarantees has contributed to a strong second half of 2015, during which new business volumes exceeded those in the second half of 2014.

During the year Movestic has seen changes in key sales positions. This resulted in some short-term vacancies in the sales team. This will have contributed somewhat to the reduction in sales during the year. Importantly, the team is now fully staffed and ready to build on the positive improvements seen towards the end of 2015.

Market share

The market share of our specific target market, namely the company paid unit linked market was within our target range of between 10% to 15%. We did lose a little market share compared to 2014 due in part to the impact of a reorganisation of the sales team. Management plans which completed during the second half of the year have had a positive impact on market shares in the final quarter and we aim to consolidate towards the middle of our target market share range during 2016.

Development of innovative product concepts and margin enhancement

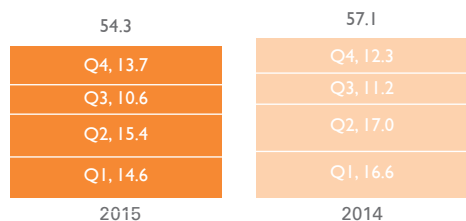
A differentiating feature of Movestic is the carefully selected fund range which over time has proven to perform very well compared to similar offerings. The work to further develop and improve the fund range is continually given highest priority. During the year the work with 'white-labelled' Movestic funds has continued and intensified. The benefits of the new 'white-labelled' funds, enabled through the set-up of a new Movestic SICAV (fund structure) in 2014, mean that in addition to being well matched to policyholder requirements, Movestic receives a higher proportion of the product value chain thereby improving new business margins. Three new Movestic funds have been launched during the year, building on the first three being launched during 2014. A further five new Movestic funds are planned to be launched during 2016.

Risks associated with this strategic objective

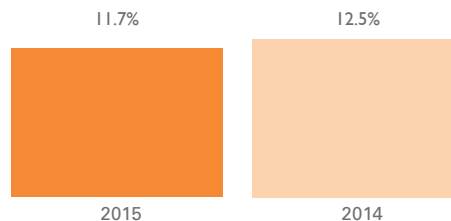
- The attractiveness of unit linked products can be influenced by economic conditions especially as some traditional products offer guaranteed returns in uncertain times. In light of this the recent good general equity performance is encouraging. Also, Swedish investors tend not to adopt an 'all or nothing approach' to equity exposure and hence there will always be a certain level of unit-linked demand. The recent reductions in traditional product guarantees have reduced this product bias risk.
- New business volumes are sensitive to the quality of service to the IFA 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 this 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 historically.
- The competitive market puts pressure on new sales margins. Movestic's margins have generally held up well although the improved terms offered for the higher margin transfer business is evidence of the pressure on margins. Movestic has redressed the margin balance by successfully focussing on achieving better terms in the fund operation.

Trend analysis of new business premium income (£m)



Movestic's share of new unit-linked company-paid pension business



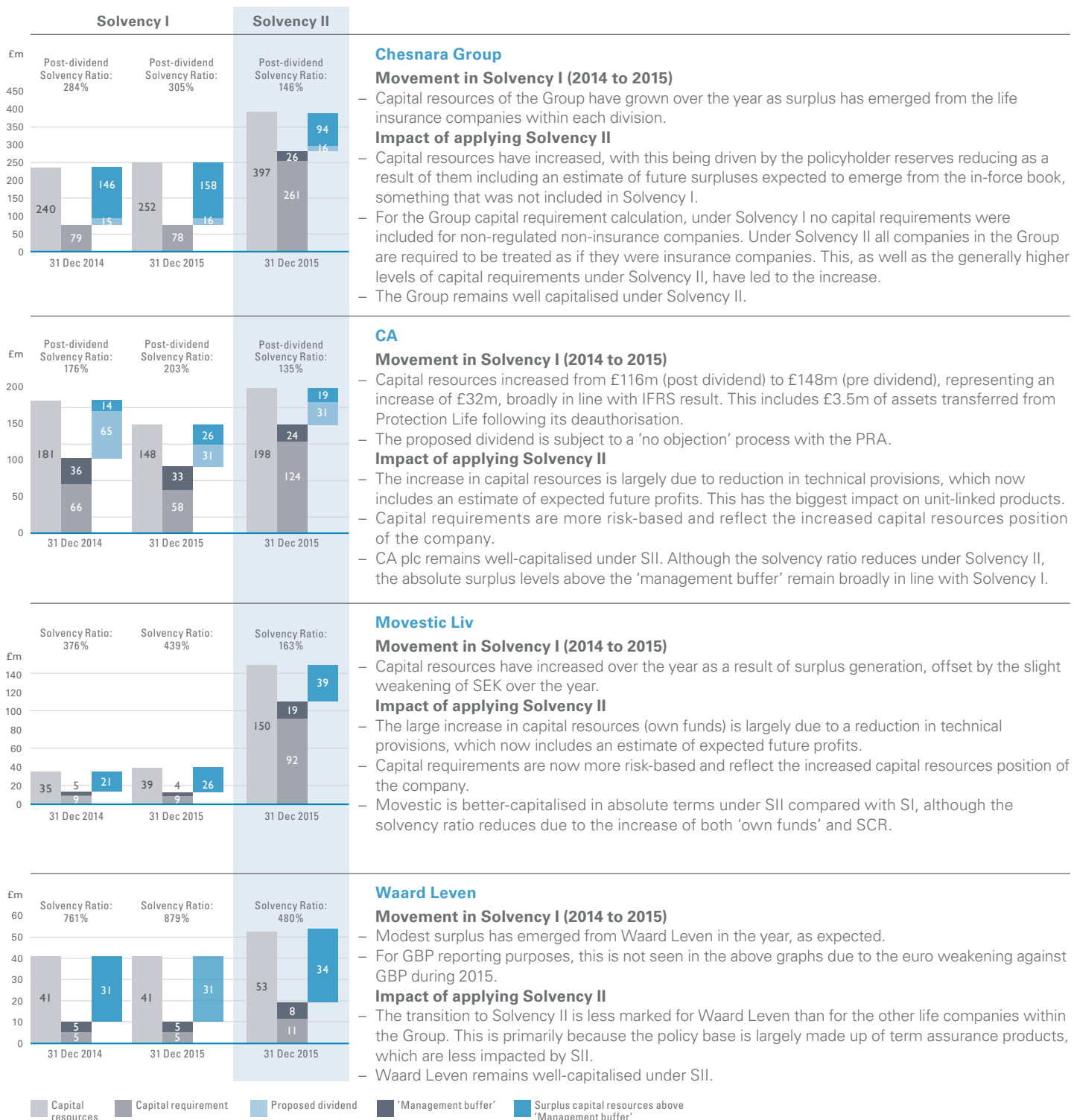
BUSINESS REVIEW

CAPITAL MANAGEMENT – SOLVENCY I AND SOLVENCY II

Managing the Group and subsidiaries' capital positions appropriately is a critical part of ensuring we remain true to the Group's culture & values, which includes a clear focus on maintaining adequate financial resources. We are well-capitalised at a Group and subsidiary level under both Solvency I and Solvency II. In applying Solvency II we have not used any elements of the Long-Term Guarantee Package, including transitional arrangements.

The Group and its subsidiaries manage capital in accordance with their respective capital management policies, which are based on the requirements of our Regulators. These policies introduce the concept of a 'management buffer', which is incremental to the Regulatory capital requirements.

The graphs below show a summary of the solvency position of the Group and its principal subsidiaries under Solvency I, along with a comparison to the year end unaudited Solvency II position.



BUSINESS REVIEW

TRANSITION TO SOLVENCY II

CURRENT SITUATION

SOLVENCY II

Solvency margins and targets

Pillar 1

Under the Solvency I regime different practices for reserving for longer-term business made it difficult to compare the solvency position of insurance companies across Europe.

Under the Solvency II regime regulators across Europe set consistent rules, including a common 'standard formula' based capital requirement (unless companies adopt to use an alternative 'Internal Model' approach). In applying Solvency II we have not used any elements of the Long-Term Guarantee Package, including transitional arrangements. Our capital requirements have been determined using the 'standard formula'.

Pillar 2

Additional capital requirements are set by local regulators. For example in the UK companies are required to establish a risk-based assessment of the required level of capital specific to the circumstances of that business.

The ORSA, part of SII Pillar 2, requires firms to consider their 'Overall Solvency Needs Assessment' and in particular, how their internal assessment of capital compares with that under Pillar 1. However, whether or not Companies end up with a Pillar 2 number that differs to Pillar 1 depends on their individual circumstances.

Companies hold an additional 'management buffer' at a level appropriate for that business but agreed with the regulator.

Companies hold an additional 'management buffer' at a level appropriate for that business.

Solvency I **Ratio:** **305%**
Surplus above requirement: **£158.8m**
Constraining pillar **Pillar I**

Solvency II **Ratio:** **146%**
Surplus above requirement: **£120.5m**
Constraining pillar **Pillar I**

Company valuations

- Embedded Value reporting is the primary measure by which investors value Life and Pension businesses.
- Embedded Values are deemed to represent a reasonable commercial value because they recognise expected future profits arising on long-term policies.

At face value Solvency II valuations do not fully recognise all the future cash flows that Embedded Value reporting was in part developed to recognise, and hence one of the consequences is that new or amended metrics for the value of a company may emerge in 2016 based on Solvency II and Embedded Value.

Risk Management Framework

Given the nature of Life Insurance, most insurers in Europe have well-established frameworks and procedures for identifying and managing existing risk profile. The ICAS regime that was introduced in the UK in 2004 strengthened links between Risk and Capital, but fell short of achieving links with Strategic Planning. An equivalent to the ICAS regime was not introduced in all of Continental Europe, resulting in some countries not having a secondary risk-based capital regime.

Solvency II places Risk and Capital management at the heart of the business; in particular with the ORSA which pulls together Strategy, Risk and Capital into a single report. There is also more emphasis on taking a forward-looking approach to risk management and greater value is placed on stress and scenario testing. Formality around the application and documentation of governance has also been strengthened.

ISSUES AND CHALLENGES

- The fact that solvency ratios when expressed in percentage terms are lower than under Solvency I should not be misinterpreted as there being a deterioration of the financial stability of companies in the industry.
- Dual SCR environment with a mix of 'internal' model firms and 'standard formula' firms creates further challenges regarding cross-sector company comparisons.
- Companies can take advantage of a 'long-term guarantee package', which comprises the 'matching adjustment', 'volatility adjustment' and 'transitional measures'. No companies within the Group have used any elements of this. The existence of the option to apply these measures creates a potential risk of unfair direct comparison between companies. Investors are also likely to be keen to look through the impact of such adjustments.
- Solvency II is a risk-based regime and therefore should naturally support lower risked organisations such as Chesnara (primarily closed to new business, limited guarantee exposure, mainly unit-linked contracts) operating at a lower level of capital, without there being any implication of lower levels of financial stability.

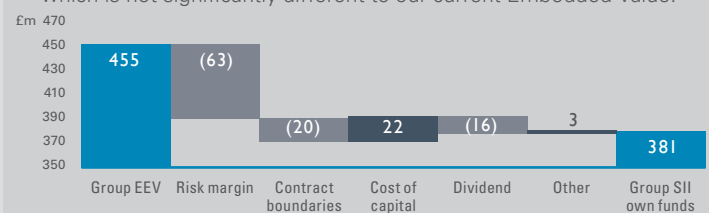
- Solvency II valuations undervalue Chesnara compared to Embedded Value because:
 - Contract Boundaries – Solvency II rules do not allow for the recognition of future cash flows on certain in-force contracts, despite a high probability of receipt.
 - Risk margin – the Solvency II rules require a significant 'risk margin' which is held on the Solvency II balance sheet as a liability, which is considered to be materially above a realistic cost.
- For IFRS reporting purposes technical provisions for non-participating insurance contracts will still be based on Solvency I, and investment contracts will continue to be valued under IAS 39. Both of these differ to Solvency II, adding a further complication when comparing different valuation metrics.

Risk management has been traditionally viewed as an overhead to the business and Solvency II potentially increases the burden by increasing the requirements for processes we need to carry out and documentation we need to maintain. However, risk management is increasingly being viewed as a value-adding activity resulting in a reduction in financial volatility and losses and better service for policyholders. If done well, for example, it can significantly increase the level of certainty around the anticipated benefits from acquisitions. Overall, the key is in striking the right balance and ensuring focus of risk management activity is directed appropriately.

IMPLICATIONS AND OUTCOMES

- Total Group surplus above the SCR remains robust under Solvency II.
- Transition does not adversely impact Chesnara dividend paying capacity.
- Not using transitional arrangements ensures a clear and transparent view of our solvency and avoids potential complexities or operating constraints associated with managing transitional arrangements.
- Application of the standard formula reflects Chesnara's relatively simple business model whilst also ensuring Chesnara continues to deliver on its aim to keep the business as clear and simple to manage and understand as possible.

- Chesnara has continued to produce Embedded Value figures in the 2015 Report & Accounts.
- Embedded Value measurement, in its current form, is expected to be reviewed by the industry and many companies may phase out its use, probably with a replacement reflecting Solvency II valuations. Whilst we have not concluded our deliberations we note that for Chesnara Solvency II valuations understate our commercial value.
- We expect that a revised valuation metric will be an adjusted Solvency II valuation with adjustments for items where the Solvency II rules mean the realistic commercial value of Chesnara is not fairly recognised. The chart below shows the major changes between Embedded Value and Solvency II.
- The revised valuation approach will include adjustments to the Solvency II value to add back items such as 'contract boundaries'. The foreseen adjustments are expected to result in a revised valuation which is not significantly different to our current Embedded Value.



- More robust and more clearly documented Group Governance resulting in greater Group consistency and sound management and decision making.
- Enhanced risk-based acquisition process resulting in 'safer transactions' and ultimately enhancing risk-based return on investment.
- Regular review and enhancement of internal and outsourcer control environment resulting in a reduction in operational incidents and financial losses.
- Improved management understanding of the key risk drivers and the sensitivity of key business performance measures to those drivers – driving more risk informed decision making, enhancing profits.
- More clearly articulated Risk Appetite and a supporting Risk Limit System that enables management to objectively monitor whether the business is operating within its Risk Appetite.
- A shared understanding of our approach to risk management across the Group resulting in consistent standards and a shared risk culture.

FINANCIAL REVIEW

The key performance indicators below are a reflection of how we have performed in delivering our three strategic objectives and our core culture & values. 2015 has seen strong net cash generation of £82.4m, together with the robust Embedded Value earnings in the year, resulting in a closing EEV of £455.2m.



IFRS PRE-TAX PROFIT

£42.8M

2014: £28.8M

What is it?

The presentation of the results in accordance with International Financial Reporting Standards (IFRS) aims to recognise the profit arising from the longer term insurance and investment contracts over the life of the policy.

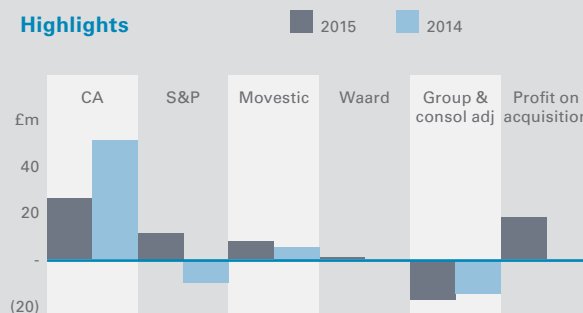
Why is it important?

IFRS pre-tax profit is an indicator of the value that has been generated within the long-term insurance funds of the divisions within the Group, and is a key measure used both internally and by our external stakeholders in assessing the performance of the business. IFRS pre-tax profit is an indicator of how we are performing against our stated strategic objective of 'maximising value from the in-force book' and can also be impacted by one-off gains arising from delivering against our stated objective of 'acquiring life and pensions businesses'.

Risks

The IFRS pre-tax profit can be affected by a number of our principal risks and uncertainties as set out on pages 37 to 39. In particular, volatility in equity markets and bond yields can result in volatility in the IFRS pre-tax profit.

Highlights



- A day one gain of £16.6m has been recognised on the acquisition of the Waard Group in the Netherlands, representing the excess of the IFRS net assets acquired over the purchase price.
- Linked to the Waard Group acquisition, the Group segment includes a £3.5m foreign exchange translation loss arising from holding euros to fund the acquisition.
- The Waard Group post acquisition profit is small, but in line with expectations at the time of the acquisition. The Waard Group is not expected to generate significant IFRS profits.
- The CA result is less than the same period in 2014 largely due to 2014 including some one-off items not repeated in 2015.
- The S&P segment has reported a profit in 2015 compared with a loss in 2014. The 2014 loss was largely driven by reducing government gilt yields in that year, something that has not been witnessed in 2015.
- Movestic has continued to deliver growth in its IFRS results.



NET CASH GENERATION

£82.4M

2014: £71.1M

What is it?

Net cash generation is a measure of how much distributable cash has been generated in the period. The dominating aspect of cash generation is the change in amounts freely transferable from the operating businesses, taking into account Board-approved solvency buffers that are based on those imposed by our Regulators. It follows that cash generation is not only influenced by the level of surplus arising but also by the level of required solvency capital.

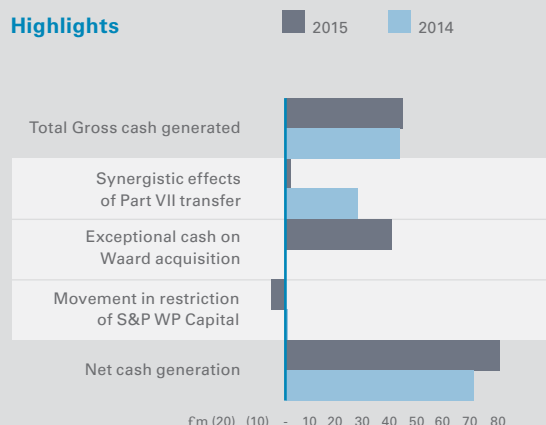
Why is it important?

Cash generation is a key measure, because it is the net cash flows to Chesnara from its Life and Pensions businesses which support 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 37 to 39. Whilst cash generation is a function of the regulatory surplus under Solvency I, as opposed to the IFRS surplus, they are generally 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 future periods our cash generation metric will be calculated with reference to Solvency II. This cash metric is expected to display sensitivities to the same economic factors referred to above.

Highlights



- Gross cash generation across the Group continues to support our current attractive dividend strategy.
- Net cash generation in 2015 is dominated by the cash surpluses arising from the acquisition of the Waard Group, which can be used to both support our future dividends and potential acquisitions.

EEV EARNINGS NET OF TAX 2014: £44.2M
£57.5M* *excluding the positive impact of modelling adjustments of £5.9m

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.
- The impact of acquisitions.

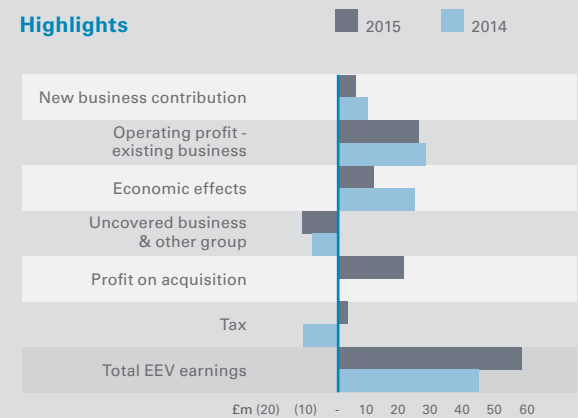
Why is it important?

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 against all three of our core strategic objectives. This includes new business profits generated from writing profitable new business, EEV profit emergence from our existing businesses, and the EEV impact of acquisitions.

Risks

The EEV earnings of the Group can be affected by a number of factors, including those highlighted within our principal risks and uncertainties as set out on pages 37 to 39. 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



- Strong EEV earnings in the year supported by:
 - £21.3m gain on acquisition of the Waard Group, offset by the euro holding foreign exchange loss of £3.5m.
 - Continued emergence of economic profits, although these are lower than in 2014.
 - Operating profits that are in line with 2014.
- New business profits from Movestic continue to be delivered, albeit at lower levels than 2014 due to a challenging market which has witnessed aggressive pricing strategies from competitors.

EEV
£455.2M 31 December 2014: £417.2M

What is it?

The European Embedded Value (EEV) of a life insurance company represents the present value of future profits of the existing insurance business, plus adjusted net asset value of the non-insurance business within the Group. It is often used to compare values of different life insurance companies.

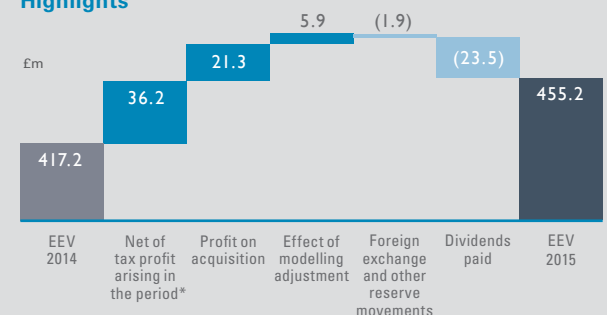
Why is it important?

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 writing profitable new business. 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, the EEV position of the Group can be materially affected by exchange rate fluctuations. For example a 10.0% weakening of the Swedish krona and euro against sterling would reduce the EEV of the Group by 3.2% and 1.5% respectively, based on the composition of the Group’s EEV at 31 December 2015.

Highlights



*stated before gain on acquisition of the Waard Group

- Closing EEV is £38m higher than at the start of the year.
- Post-tax EEV earnings have contributed £36.2m, excluding the acquisition profit of the Waard Group.
- Profit of £21.3m arising on acquisition of the Waard Group, representing the excess of the EEV acquired over the purchase price, enhances EEV in the year.
- Small foreign exchange losses arising on retranslation of the Swedish and Dutch businesses.
- Dividends paid of £23.5m in the year, being the payment of the year end 2014 final dividend and the 2015 interim dividend.

FINANCIAL REVIEW

IFRS PRE-TAX PROFIT
£42.8M 2014: £28.8M

Executive summary

The Group IFRS results reflect the natural dynamics of the segments of the Group, which can be characterised in three major components:

(1) Stable core: At the heart of surplus, and hence cash generation, are the CA and Waard Group 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 below show that the stable core continues to deliver against these requirements.

(2) Variable element: The S&P component can bring an element of short-term earnings volatility to the Group, with the results being particularly sensitive to investment market movements.

(3) Growth operation: The long-term financial model of Movestic is based on growth, with levels of new business and premiums from existing 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.

IFRS results

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

Year ended 31 December	2015 £m	2014 £m	Note
CA	23.9	46.7	1
S&P	10.6	(9.2)	2
Movestic	6.7	4.9	3
The Waard Group	0.9	–	4
Chesnara	(9.5)	(7.6)	5
Consolidation adjustments	(6.4)	(6.0)	6
Profit before tax and profit on acquisition	26.2	28.8	
Profit on acquisition of the Waard Group	16.6	–	4
Profit before tax	42.8	28.8	
Tax	(3.0)	(3.2)	
Profit after tax	39.8	25.6	

Note 1 – The CA segment has reported good results for the year, albeit reduced compared with 2014. The reduction is primarily due to 2014 including some one-off items, coupled with more suppressed market conditions in 2015. Further insight is provided in the CA segmental analysis to the right.

Note 2 – The S&P segment has reported a profit for the year compared with a loss in 2014. The principal driver of this swing is that the 2014 results included a large loss arising from an increase in the reserves held for products with guarantees driven by a significant reduction in government gilt yields during that year. Further detail can be found on page 29.

Note 3 – The Movestic result has improved when compared with 2014, principally arising from the Pensions & Savings division which continues to grow, resulting in growing fee income. Further analysis can be found on page 29.

Note 4 – The Waard Group acquisition completed on 19 May 2015 and therefore the IFRS results only include just over seven months of profit. The acquisition resulted in the recognition of a one-off gain of £16.6m, representing the excess of the net assets acquired over the purchase price.

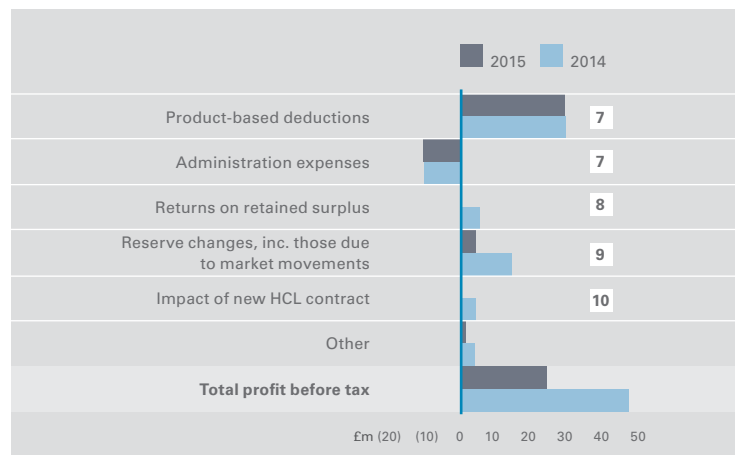
Note 5 – The Chesnara result represents holding company expenses. 2015 costs are higher than 2014 primarily due to a one-off foreign currency re-translation loss of £3.5m arising from holding euros prior to the completion of the Waard Group purchase.

Note 6 – Consolidation adjustments relate to items such as the amortisation of intangible assets and remain broadly in line year on year.

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

CA

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



Note 7 – Product-based deductions and administrative expenses have remained broadly in line year on year, as would be expected. Charges have remained resilient to policy attrition and continue to significantly exceed administration expenses.

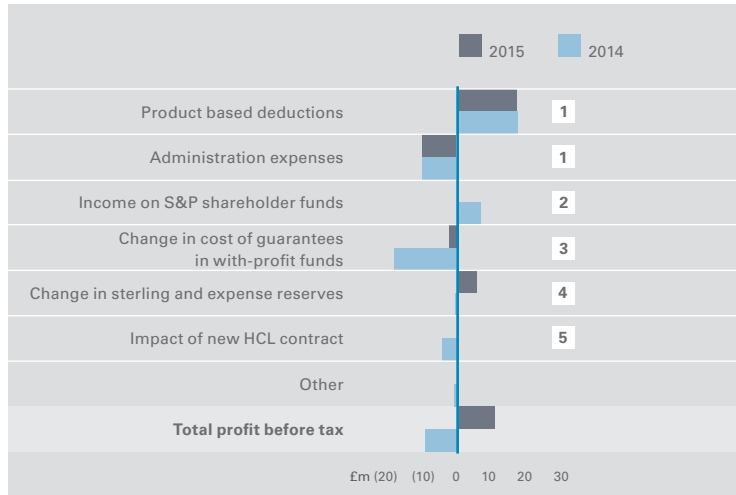
Note 8 – Retained surpluses are held in low-risk Government gilts. During 2015 the gilt index has remained broadly flat, resulting in small returns, whereas higher returns were seen in 2014 due to gilt value appreciation during that year.

Note 9 – Policyholder reserves have reduced by £4.8m during the year. The movement in these reserves is the result of an actuarial basis assessment, where all key judgments affecting the reserves are set. There is no dominating feature of the 2015 basis assessment, with the net impact in reserves being positive during 2015. 2014 witnessed a higher reserve reduction in the year, primarily due to economic impacts.

Note 10 – During 2014 a key outsourcing contract was re-negotiated, resulting in a positive benefit to the CA segment. No such dynamics existed this year.

S&P

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



Note 1 – Product-based deductions and administrative expenses have remained broadly in line year on year, as would be expected. Product deductions have remained resilient to policy attrition.

Note 2 – Shareholder funds are invested in low-risk Government gilts. During 2015 the gilt index has remained broadly flat, resulting in small returns, whereas higher returns were seen in 2014 due to gilt value appreciation during that year.

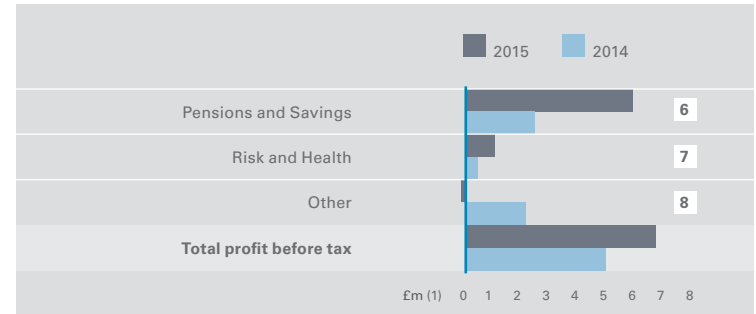
Note 3 – One of the main drivers of the S&P surplus in any one year is the movement in the reserves held for products with guarantees, which are sensitive to both equity and gilt markets. During 2014 reductions in gilt yields gave rise to a large increase in such reserves, resulting in a large loss. For 2015 the gilt yields and equity markets closed broadly in line with the start of the year.

Note 4 – During 2015 modelling refinements have been made to align the way in which expenses are modelled across the UK business. This has contributed to the positive reserve movements during the year.

Note 5 – During 2014 a key outsourcing contract was re-negotiated, resulting in a strain arising in the S&P segment. No such dynamics existed this year.

Movestic

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



Note 6 – The Pensions & Savings business continues to be the core source of IFRS profit in Movestic. The segment has reported strong results growth, with 2015 IFRS profits amounting to £5.9m. Good performance in the year is driven by two key factors. Firstly, policyholder fee income has increased year on year, arising from growth in funds under management. Secondly, improvements in the fund operation have resulted in increased performance fee rebates in the year, largely due to ‘white-labelling’ initiatives and renegotiations with certain fund managers.

Note 7 – The Risk and Health business has generated a profit in the year amounting to £1.0m. The loss ratios in the year have remained stable, and premium income has remained broadly the same year on year. Policy numbers for this book have remained at just over 380,000 for both 2015 and 2014.

Note 8 – 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 for the small loss of £0.2m in 2015 compared with a profit of £2.1m in 2014 is as a result of a number of small factors. In particular, the fund business, Movestic Kapital delivered profits of £0.1m during 2015 compared with £0.8m in 2014, largely because 2014 included some one-off income. In addition there has been a swing of some £0.4m due to lower investment returns on shareholder assets, largely due to the negative interest rate environment in Sweden.

The Waard Group

The Waard Group has reported a small profit of £0.9m since acquisition reflecting the natural emergence of surplus in the business. Surpluses principally arise from mortality surpluses arising from the Waard Group’s term assurance policies.

FINANCIAL REVIEW

NET CASH GENERATION
 **£82.4M** 2014: £71.1M

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.

Highlights

- A significant amount of net cash, amounting to £39.9m, has emerged from the acquisition of the Waard Group, driven by the strong levels of regulatory surplus in this group.
- Gross cash generation in the UK run-off business of £42.5m is broadly in line with the same period in 2014.
- We are reporting modest levels of cash generation of £5.1m for Movestic for the first time since its acquisition in 2009.

Cash generation is a function of the Group's and each Division's capital management policies, in that we only report cash as being available for distribution if it exceeds the Board-approved capital requirement included within these policies. Capital management policies are set with reference to the regulatory capital requirements with the inclusion of a 'management buffer'. For 2015 the cash generation that we have reported is calculated with reference to our Solvency I capital management policies. For future periods cash generation will be reported with reference to our capital management policies based on Solvency II.

Year ended 31 December		2015	2014	Note
Cash generated from/(utilised by):		£m	£m	
CA	Cash generation in the year	21.4	46.5	
S&P	Cash generation in the year	21.1	4.4	
UK gross cash generation		42.5	50.9	1
Movestic	Underlying cash generation in year	5.6	–	2
	Foreign exchange movements	(0.5)	–	2
The Waard Group	Underlying cash generation in year	4.0	–	3
	Foreign exchange movements	1.0	–	3
Chesnara	Cash utilised by operations	(8.4)	(8.3)	
Total gross cash generation		44.2	42.6	
Items affecting ability to distribute cash				
	Synergistic effects of Part VII transfer	2.9	27.4	4
	Cash generated on acquisition of the Waard Group	39.9	–	3
	Movement in restricted surplus in S&P WP fund	(4.6)	1.1	
Net cash generation available for distribution		82.4	71.1	5

Items affecting the cash available for distribution:

Note 1 – Cash generation for the UK business has continued to be strong following a good year in 2014. Statutory surplus has continued to emerge well from both UK segments (£32.0m) and this, coupled with the decrease in our capital management requirements as the books run-off (£10.5m) have driven our cash generation in the year.

Note 2 – We are reporting cash generation for Movestic for the first time since it was acquired during 2009. Cash generation of £5.6m represents surplus generation of £5.7m, offset by an increase in our capital requirements of £0.1m. A small foreign exchange loss in the year has reduced the value of the surplus cash available for distribution.

Note 3 – The acquisition of the Waard Group has delivered a significant one-off cash generation item, amounting to £39.9m, driven by the strong levels of regulatory surplus in this group.

Post acquisition the Waard Group has reported a small amount of cash generation, as expected. A small foreign exchange gain has also been reported, due to a slight strengthening of the euro against sterling post acquisition.

Note 4 – During 2015 Protection Life Company Limited has been deauthorised as a regulated entity as it no longer carries on insurance activities, following the Part VII transfer of the business into CA plc on 31 December 2014. As a result this has released a further £2.9m of available capital across the Group.

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.

FINANCIAL REVIEW

EEV EARNINGS
£57.5M* 2014: £44.2M

*excluding the positive impact of modelling adjustments of £5.9m

EEV profits have emerged across all three insurance divisions of the Group, with Movestic having delivered a significant proportion of this. The EEV results include a one-off profit of £21.3m arising from the acquisition of the Waard Group.

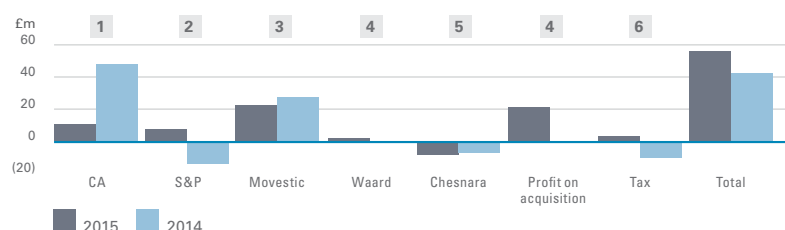
The following tables analyse the Group EEV earnings after-tax by source and by business segment:

Analysis of the EEV result in the year by earnings source

	2015 £m	2014 £m
New business contribution	6.1	9.7
Return from in-force business		
Expected return	6.3	7.1
Experience variances	10.8	0.6
Operating assumption changes	8.3	11.0
Return on shareholder net worth	–	9.1
Operating profit of covered business	31.5	37.5
Variation from longer term investment return	12.2	32.0
Effect of economic assumption changes	(0.7)	(7.5)
Profit on covered business before tax and gain on acquisition	43.0	62.0
Tax	2.7	(12.2)
Profit on covered business after tax and before gain on acquisition	45.7	49.8
Gain on acquisition of the Waard Group	21.3	–
Uncovered business and other group activities	(10.4)	(7.3)
Tax on uncovered business	0.9	1.7
Profit after tax	57.5	44.2

Analysis of the EEV result in the year by business segment

	2015 £m	2014 £m
CA	10.8	49.1
S&P	7.7	(14.2)
Movestic	22.7	27.5
The Waard Group	0.9	–
Chesnara	(9.5)	(7.7)
Profit before tax and gain on acquisition	32.6	54.7
Gain on acquisition of the Waard Group	21.3	–
Profit before tax	53.9	54.7
Tax	3.6	(10.5)
Profit after tax	57.5	44.2



Economic conditions: The EEV result is sensitive to investment market conditions. The 2015 EEV results include a positive contribution as a result of investment markets, especially with regards to Movestic, although this is much less marked across the Group than the positive experience in 2014. Key investment market conditions are as follows:

- The FTSE All share index has decreased by 2.5% during 2015, compared with falling by 2.1% in 2014.
- The Swedish OMX all share index has increased by 6.6% during the year compared with a 11.9% increase in the prior year.
- 10 year UK gilt yields have increased by 21 points in 2015 compared with a reduction of 120 points in 2014.

Note 1 – CA: The CA segment result of £10.8m is driven by positive experience variances of £6.9m offset by adverse operating assumption changes of £2.5m. Economic-related results have contributed an additional £2.4m to the result. The £6.9m of positive experience variances is primarily made up of £4.8m of positive lapse experience coupled with £2.1m of reserve releases. Adverse operating assumption changes includes the impact of adverse expense assumption changes offset by positive mortality assumption changes.

Note 2 – S&P: The S&P segment result of £7.7m is driven by £2.5m of positive experience variances and £5.1m of positive operating assumption changes. The positive experience variances are largely as a result of positive lapse experiences in the year. Operating assumption changes are the net of a number of items, but primarily relate to the net impact of updating our expense modelling for new assumptions and aligning the expense modelling with the rest of the UK business.

Note 3 – Movestic: Movestic has contributed significantly to the Group EEV earnings in the year with a £22.7m segmental result (2014: £27.5m). The following factors are the key drivers of the result:

- *New business profits of £5.7m:* New business profits have reduced compared with last year's result of £8.9m. The key reason for the reduction compared with 2014 is due to very strong competition in the first half of the year from more traditional life insurance companies who were offering very attractive policyholder returns. Such market offerings have now become much less commonplace. This resulted in volume and margin pressure to the business, although market share has improved during the latter half of 2015.
- *Economic profits of £9.4m:* Equity markets have continued to perform well in Sweden during 2015, building on strong returns in 2014, and this has resulted in the strong economic profits in the year.
- *Positive operating assumption changes of £5.7m:* Two key factors have contributed to net positive operating assumption changes:
 - Expenses – assumptions have been strengthened during 2015 to recognise the cost of the current business process improvements project, coupled with a strengthening of maintenance cost assumptions. The net impact of this a cost strain of £8.4m.
 - Performance fee rebate income – as a result of improvements in fee rebates during the year the assumptions have been aligned to recent performance, resulting in a positive impact of £18.4m.

Note 4 – The Waard Group: The Waard Group has reported a small profit in the post acquisition period. Overall the Waard Group is not expected to be a significant generator of future EEV surplus.

As a result of the acquisition of the Waard Group a gain of £21.3m has been recognised in the Report and Accounts, representing the excess of the Embedded Value acquired over the consideration paid.

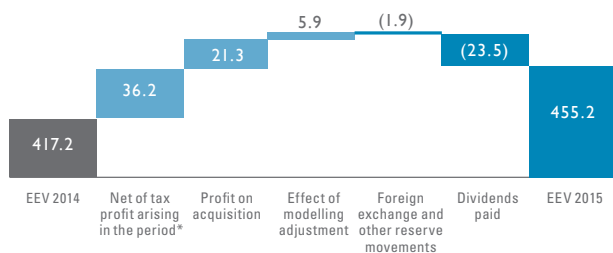
Note 5 – Chesnara: The Chesnara result represents holding company expenses. 2015 costs are higher than 2014 primarily due to a one-off foreign currency re-translation loss of £3.5m arising from holding euros prior to the completion of the Waard Group purchase.

Note 6 – Tax: The combined EEV tax credit of £3.6m can be broken down into a current tax charge of £4.7m offset by a deferred tax credit of £8.3m. The deferred tax component represents the movement in deferred tax on the value of in-force policies during the year, with a credit arising as a result of the VIF reduction in the year coupled with the impact of some modelling refinements.

FINANCIAL REVIEW

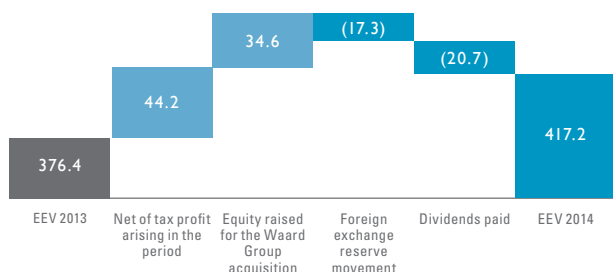

EUROPEAN EMBEDDED VALUE
£455.2M 31 DECEMBER 2014: £417.2M

EEV movement 31 December 2014 to 31 December 2015 (£m):



*Stated before exceptional items

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



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;
- One-off 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 and the Waard Group into sterling; and
- Dividends that are paid during 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.

Profit on acquisition

The purchase of the Waard Group has resulted in the recognition of a 'day 1' profit of £21.3m. The profit arose because the EEV of the Waard Group at the acquisition date amounted to £71.4m, which is £21.3m higher than the purchase price of £50.1m.

Effect of modelling adjustments

During the year an adjustment of £5.9m has been reported relating to a tax error in the EEV model which resulted in the tax charge in the EEV model being overstated at 31 December 2014. This has been corrected in the year.

Foreign exchange reserve movements

The £1.9m loss reported as a foreign exchange reserve movement during 2015 has arisen as a result of a small depreciation of the Swedish krona against sterling during 2015. This compares with a 14% depreciation during 2014. Included within the exchange reserve movement loss is a small profit arising from the slight appreciation of the euro against GBP since the acquisition of the Waard Group.

Dividends paid

Dividends of £23.5m were paid during 2015, being the final dividend from 2014 of £15.1m and the interim dividend from 2015 of 8.4m.

Equity raised for acquisition

During 2014 we announced the acquisition of the Waard Group in the Netherlands. To finance the deal we raised £34.5m of equity through a well supported share placing exercise.

Analysis of EEV

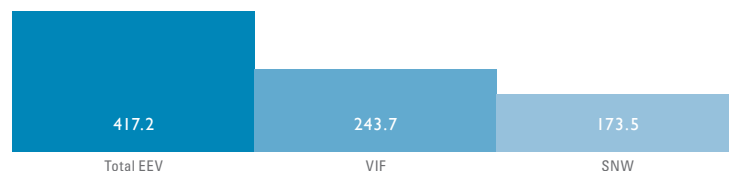
The information on this page provides some further analysis of the EEV of the Group, both in terms of the split between different operating segments and also the split between the adjusted shareholder net worth and the value of the in-force (VIF) business. The adjusted shareholder net worth represents 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.

Analysis of EEV between VIF and shareholder net worth (SNW):

2015



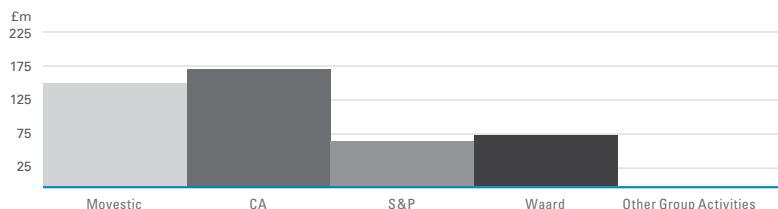
2014



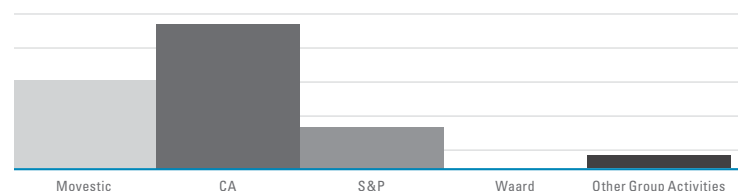
The VIF component of £264.8m consists of 61% in relation to the Swedish business, 35% UK and 4% the Netherlands.

Analysis of EEV by segment:

2015



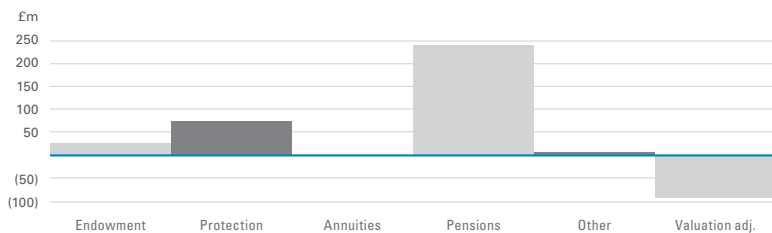
2014



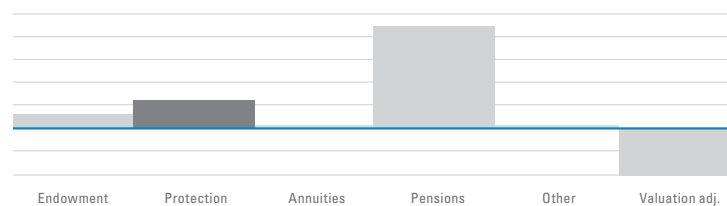
There is a good balance in EEV across the Group with the UK business representing the majority (51%) of the total EEV (2014: 65%). In the above segmental analysis any outstanding debt in relation to the S&P and PL acquisitions is included in ‘Other Group Activities’.

Analysis of VIF by policy type:

2015



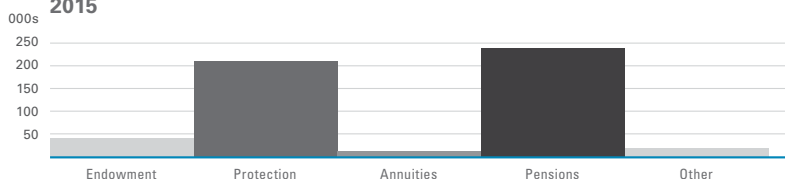
2014



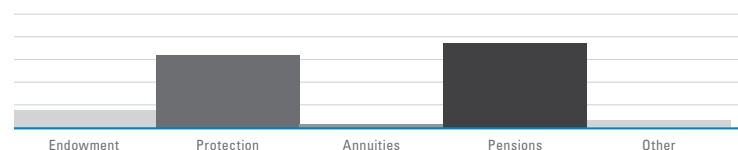
89% of the Group VIF is attributable to pensions products. These are typically products that are in their savings phase, with the VIF representing the best estimate of the future cash flows expected to be earned by the Group from these products. ‘Valuation adjustments’ in the above graph comprise items that are not attributed at product level, such as certain expenses and the cost of guarantees to with-profits policyholders in the S&P business.

Analysis of policy numbers by policy type:

2015



2014



The increase in protection products is as a result of the Waard Group acquisition during the year. Policy numbers above only reflect those that are included in our EEV calculations (‘covered business’). As a result, these graphs do not include 379,000 (2014: 382,000) Life & Health policies in the Swedish division and 24,000 unemployment and disability policies in the Dutch division.

FINANCIAL MANAGEMENT

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

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 aim to:

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
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HOW WE DELIVER TO 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
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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: Solvency I: 305% Solvency II: 146%	2015 TSR 4.1% 2015 dividend yield 5.7% Based on share price as at 31 December 2015 of 335.00p and full year 2015 dividend of 18.94p.	Gearing ratio of 17.8% This does not include the financial reinsurance within the Swedish business.	Policyholders’ reasonable expectations maintained Asset liability matching framework operated effectively in the year. Sufficient liquidity in the Chesnara holding company.	Group remains a going concern (see page 35)

Outcomes from implementing our financial management objectives.

1. Capital structure

The Group is funded by a combination of share capital, retained earnings and debt finance, with the debt gearing (excluding financial reinsurance in Sweden) being 17.8% at 31 December 2015 (23.1% at 31 December 2014).

The level of debt that the Board is prepared to take on is driven by the Group's 'Debt and leverage policy' which incorporates the Board's risk appetite in this area.

Over time, the level of gearing within the Group will change, and is a function of:

- funding requirements for future acquisitions (i.e. debt, equity and internal financial resources); and
- repayment of existing debt that was used to fund previous acquisitions.

As referred to above, acquisitions are funded through a combination of debt, equity and internal cash resources. The ratios of these three funding methods vary on a deal-by-deal basis and are driven by a number of factors including, but not limited to:

- size of the acquisition;
- current cash resources of the Group;
- current gearing ratio and the Board's risk tolerance limits for additional debt;
- expected cash generation profile and funding requirements of the existing subsidiaries and potential acquisition;
- future financial commitments; and
- regulatory rules.

In addition to the above, Movestic uses a financial reinsurance arrangement to fund its new business operation.

2. Maintain the Group as a going concern

The Directors have considered the ability of the Group to continue on a going concern basis. As such the Board has performed an assessment as to whether the Group can meet its liabilities as they fall due for a period of at least 12 months from which these 2015 Report & Accounts have been signed.

In performing this work, the Board has considered the current cash position of the Group and Company, coupled with the Group's and Company's expected cash generation as highlighted in its recent business plan, which covers a three year period. The business plan considers the financial projections of the Group and its subsidiaries on both a base case and a range of stressed scenarios, covering projected IFRS, EEV and solvency positions. These projections also focus on the cash generation of the life insurance divisions and how these flow up into the Chesnara parent company balance sheet, with these cash flows being used to fund debt repayments, shareholder dividends and the head office function of the parent company.

The information set out on page 23 indicates a strong Solvency II position as at 31 December 2015 as measured at both the individual regulated life company levels and at the Group level. As well as being well-capitalised the Group also has a healthy level of cash reserves to be able to meet its debt obligations as they fall due, and does not rely on the renewal or extension of bank facilities to continue trading. The Group's subsidiaries do, however, rely on cash flows 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 reinsurers. We monitor their financial position and are satisfied that any associated credit default risk is low.

In light of this information, the Board has concluded that the Group and Company has a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future, and, as stated in the Directors Report on pages 71 to 72, the Financial Statements have continued to be prepared on a going concern basis.

3. Longer term viability statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the prospect of the Company over a longer period than the 12 months required by the going concern provision. The Board conducted this review for a period of three years because the Group's business plan covers a three year period and includes an assessment of Group cash generation and Group solvency margins over that time period.

The Group business plan considers the Group's cash flows, the Group's ability to remain above target solvency levels and other key financial measures over the period, assuming continuation of the Group's established dividend payment strategy. These metrics are subject to scenario analysis representing the principal risks to which the Group is most sensitive, both individually and in unison. Where appropriate this analysis is carried out to evaluate the potential impact of adverse economic and other experience effects, including, but not limited to:

- i. Equity market declines
- ii. Reduction in yield curves
- iii. Adverse mortality and lapse experience
- iv. Adverse expense experiences
- v. Reduced new business volumes
- vi. Adverse exchange rate experience

Based on the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of their assessment.

RISK MANAGEMENT

Risk management processes

Risk taking is a key part of our business model – taking the ‘correct risks’ and managing them well is essential to our success. We achieve this by understanding the key risk drivers of the business plan and strategy, and making sure we monitor these closely and take appropriate risk-based decisions in a timely fashion.

Chesnara applies the ‘Three Lines of Defence’ model, adjusted for our size, across the group with a single set of Risk and Governance Principles applying consistently across the business, underpinned by Board-approved Group and Divisional Governance Maps and Risk Policies.

In all Divisions we maintain processes for identifying, evaluating and managing all material risks faced by the Group, which are regularly reviewed by the Divisional and Group Audit & Risk Committees. Our risk assessment 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 to ensure that the risk profile remains within the Board’s approved Risk Appetite.

At the subsidiary level, in the UK we maintain, in accordance with the regulatory requirements of the PRA and FCA, a risk and responsibility regime – now enhanced by the introduction of the Senior Insurance Managers Regime which became effective on 7 March 2016. 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 CA plc Audit and Risk Committee, which comprises solely of Non-executive Directors. The Committee reports directly to the CA plc Board which also reviews reports from the compliance and internal audit functions.

In the Swedish business, at the Movestic subsidiary level, there is full compliance with the regulatory requirement in that the Board and Managing Director take 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 a responsibility for ensuring that the Company has a Risk Management 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 and Audit & Risk Committee. Also, quarterly returns to the Swedish regulator, Finansinspektionen, which sets out capital requirements in respect of insurance, market, credit, liquidity, currency and operational risks.

The Dutch business has a risk management framework in place in accordance with guidance issued by the local regulators (DNB for prudential supervision and AFM for financial conduct supervision). The Dutch business comprises a two-tier governance structure consisting of a Management Board and a Supervisory Board. The Risk & Compliance function performs Quarterly Risk Reviews with the risk owners, which include the identification and response to newly emerging risks, and reports to the

Management and Supervisory Boards. To stay abreast with market developments, the company’s Risk and Compliance function also engages external professional support when conducting these Risk reviews. The risks identified and corresponding mitigating internal control measures are centrally registered and appropriate monitoring is overseen by the Risk & Compliance function.

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 internal control weaknesses together with suggested improvements.

Following the recruitment of a Group Chief Risk Officer in Q4 2015, these risk management processes are continuing to be refined and embedded, building on the developments progressed in 2015. In particular our Group-wide risk management processes are being enhanced in a uniform and consistent manner, embracing:

- further enhancements to and embedding and monitoring of the Boards’ risk appetite and tolerance limits;
- the development of Key Risk Indicators (KRIs) and management action triggers;
- a more forward-looking approach to risk identification and assessment; and
- the strengthening of links between the setting and execution of the business strategy and risk and solvency management.

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 profile.

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 and the Netherlands;**
- ii) notwithstanding this, the Group has a material segment, which comprises an open life and pensions business; 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 below table identifies the principal risks and uncertainties of the Group and what controls are in place to mitigate or manage their impact. It has been drawn together following a robust assessment performed by the Directors of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity. These have been updated to reflect the risks of the Waard Group, and it is worth noting that they have remained materially unchanged as a result of this update since those reported in the 2014 Annual Report & Accounts.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Impact	Control
Adverse mortality / morbidity / longevity experience	In the event that actual mortality or morbidity rates vary from the assumptions underlying product pricing and subsequent reserving, more or less profit will accrue to the Group.	<ul style="list-style-type: none"> – 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	If persistency rates are significantly lower than those assumed in product pricing and subsequent reserving, this will lead to reduced Group profitability in the medium to long-term.	<ul style="list-style-type: none"> – Active investment management to ensure competitive policyholder investment funds. – Stringent customer service management information ensures Management is aware of any customer servicing issues, with any issues being tracked and followed up. – Product distributor relationship management processes. – Close monitoring of persistency levels across all groups of business.
Expense overruns and unsustainable unit cost growth	For the closed UK and Dutch 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.	<ul style="list-style-type: none"> – For the UK business the Group pursues a strategy of outsourcing functions with charging structures such that the policy administration cost is aligned 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. – The Dutch business pursues a low cost-base strategy using a designated service company. The cost base is supported by service income from third party customers. – For all three divisions, 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 proportional to the value of funds under management and, as the managed investment funds overall comprise a significant equity content, the Group is exposed to the impact of significant and prolonged equity market falls, which may lead to policyholders switching to lower-margin, fixed-interest funds.	<ul style="list-style-type: none"> – Individual fund mandates are intended to give rise to a degree of diversification of risk. – Certain investment management costs are also proportional to fund values thereby reduce in the event of market falls and hence some cost savings arise partially hedging the impact on income. – There is a wide range of investment funds and managers so that there is no significant concentration of risk. – In the Movestic business, management options include the ability to increase charges in the circumstances of a material fall in assets under management.
Adverse exchange rate movements against sterling	Exposure to adverse sterling: Swedish krona and sterling: euro exchange rate movements arises from actual planned cash flows between Chesnara and its overseas subsidiaries and from the impact on reported IFRS and EEV results which are expressed in sterling.	<ul style="list-style-type: none"> – The Group monitors exchange rate movements and the cost of hedging the currency risk on cash flows when appropriate. – The impact of any adverse currency movements can be reduced by timing the cash flows from subsidiaries to Group, if appropriate given various other applicable criteria for transfers.

RISK MANAGEMENT (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Risk	Impact	Control
Counterparty failure	<p>The Group carries significant inherent risk of counterparty failure in respect of:</p> <ul style="list-style-type: none"> – its fixed interest security portfolio; – cash deposits; and – payments due from reinsurers. 	<ul style="list-style-type: none"> – Operation of guidelines which limit the level of exposure to any single counterparty and which impose limits on exposure to credit ratings. – In respect of a significant 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.
Adverse movements in yields on fixed interest securities	<p>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.</p>	<ul style="list-style-type: none"> – 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	<p>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 losses, poor customer outcomes, or reputational damage as its functions degrade.</p>	<ul style="list-style-type: none"> – 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	<p>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.</p>	<ul style="list-style-type: none"> – The Group promotes the sharing of knowledge 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.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Risk	Impact	Control
Adverse regulatory and legal changes	<p>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:</p> <ul style="list-style-type: none"> i) the implementation and embedding of Solvency II requirements; ii) the FCA's review of legacy business; iii) the changes in pensions legislation in April 2015; iv) HM Treasury's review of exit charges on pensions business; and v) Commission and rebate income changes in Sweden. 	<p>Strong project management disciplines are applied when delivering regulatory change programmes.</p> <p>Chesnara seeks to limit any potential impacts of Regulatory change on the business by:</p> <ul style="list-style-type: none"> – Having processes in place for monitoring changes, to enable timely actions to be taken, as appropriate – Being a member of the ABI and other means of joint industry representation – Performing internal reviews of compliance with regulations – Utilising external specialist advice, when appropriate, including Assurance – Chesnara maintains strong relationships with all key regulators including regular and open dialogue about areas of potential change that could affect any of the Chesnara businesses. <p>Through the Risk Management Framework, regulatory risk is monitored and scenario tests are performed to understand the potential impacts of adverse regulatory or legal changes, along with consideration of actions that may be taken to minimise the impact, should they arise.</p>
Inconsistent regulation across territories	<p>Chesnara currently operates in three regulatory domains and is therefore exposed to inconsistent application of regulatory standards across divisions, such as the imposition of higher Capital Buffers over and above regulatory minimums.</p> <p>Potential consequences of this risk for Chesnara constraining the efficient and fluid use of capital within the Group, or creating a non-level playing field with respect to future deal assessments.</p>	<ul style="list-style-type: none"> – Strong and open relationships are maintained with all regulators. Evidence is provided to Regulators that demonstrates consistent stability and control across Divisions, achieved through strong risk management and governance standards. – In extremis, Chesnara could consider the re-domiciling of subsidiaries or legal restructure of the business.
Availability of future acquisitions	<p>Chesnara's inorganic growth strategy is dependent on the availability of attractive future acquisition opportunities. Hence, the business is exposed to the risk of a reduction in the availability of available acquisition opportunities in Chesnara's current target markets, for example arising as a result of a change in competition in the consolidation market or from regulatory change influencing the extent of life company strategic restructuring.</p>	<p>Chesnara's financial strength and market reputation for successful execution of transactions enables the company to adopt a patient and risk-based approach to assessing acquisition opportunities.</p> <ul style="list-style-type: none"> – Operating in multi-territories provides some diversification against the risk of changing market circumstances in one of the territories. – Maintaining strong relationships and reputation as 'safe hands acquirer' via regular contact with regulators, banks and target companies.
Defective acquisition due diligence	<p>Through the execution of acquisitions, Chesnara is exposed to the risk of erosion of value or financial losses arising from risks inherent within businesses or funds acquired which are not adequately priced for or mitigated within the transaction.</p>	<ul style="list-style-type: none"> – Structured Board approved risk-based acquisition process including Group Chief Risk Officer involvement in due diligence process. – Management team with significant and proven mergers and acquisitions experience. – Cautious risk appetite and pricing approach.
Cyber fraud	<p>Cyber fraud is a growing risk affecting all companies, particularly in the financial sector.</p> <p>This risk exposes Chesnara to potential financial losses and disruption to Policyholder services (and corresponding reputational damage).</p>	<ul style="list-style-type: none"> – Ongoing specialist external advice, modifications to IT infrastructure and updates as appropriate. – Penetration and vulnerability testing.

CORPORATE AND SOCIAL RESPONSIBILITY

Making a positive contribution to our policyholders and shareholders, whilst taking seriously social and environmental issues.

Our main objective is to ensure we continue to manage the business responsibly and for the long-term benefit of all stakeholders, including our customers, shareholders, employees, regulators, outsourcers and local communities.

Equal opportunities

Our people are our greatest assets. We recognise that to be able to meet the expectations that we have set ourselves, we need to ensure, in a competitive market, we continue to attract, promote and retain the best candidates. Our approach is to be open, entrepreneurial and inclusive in how we operate. 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:

	2015		2014	
	Male	Female	Male	Female
Directors of Chesnara plc	7	1	7	1
Senior management of the Group	2	–	1	–
Heads of business units and Group functions	14	6	6	5
Employees of the Group	79	77	70	60
Total	102	84	84	66

The Davies report recommends a Board diversity target of 25% for FTSE 350 companies. Gender diversity forms an important part of the Board appointment process.

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. The Board has not identified a material number of senior management as defined by the Companies Act outside of the Board of Directors and subsidiary Directors. However, we continue to provide 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 given 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.

Modern Slavery Act 2015

The Modern Slavery Act 2015 (Slavery Act) requires a commercial organisation over a certain size to publish a slavery and human trafficking statement for each financial year. Chesnara plc and its subsidiaries are committed to responsible employee practices in both our direct and indirect operations and our supply chain as a whole. In 2016 we plan to issue the statement on the website.

Case Study of Movestic Livförsäkring AB

In March 2015, subsidiary, Movestic Livförsäkring AB began a three-year partnership with adventurer and lecturer Aaron Anderson. When Aaron was seven years old he suffered from cancer in the lower back, after a year of treatment, he ended up in a wheelchair. Aaron was not defeated, he now has countless medals in athletics, participated in the Paralympics and he has hand-cycled from Sweden to Paris to raise money for the Child Cancer Foundation. He was also the first ever wheelchair person to climb Kebnekaise mountain. When a child gets cancer, it affects the whole family. To help these families and to fight childhood cancer, Movestic teamed up with Aaron. The partnership is a move towards further sustainability work and is in line with the focus on the good health of our employees.

Greenhouse gas reporting
Disclosure of emissions

Global GHG emissions data for the period from 1 January 2015 to 31 December 2015:

	Tonnes of CO _{2e}	
	2015	2014
Emissions from:		
Combustion of fuel and operation of facilities (scope 1)	–	–
Electricity, heat, steam and cooling purchased for own use (scope 2)	104.9	76.4
Travel (scope 3)	130.3	122.2
Company’s chosen intensity measurement = tonnes of CO_{2e} per square metre of office space occupied	0.077	0.112
<small>Emissions reported above normalised to per tonne of product output</small>		

The above analysis shows that our total emissions have increased when compared with the prior year. This increase is predominantly as a result of the additional travel incurred as a result of the acquisition of the Waard Group, coupled with the general enlargement of the Group resulting in additional energy consumption through an enlarged occupancy of office space.

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 above.

There are 24 company-leased vehicles in total across the Group 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.

Energy Saving Opportunity Scheme Regulations 2014

The Company has also committed to fully engaging with the Energy Saving Opportunity Scheme Regulations 2014 (ESOS). As part of the ESOS, the Company submitted and was externally assessed for the energy usage, in the UK, for the period 31 December 2014 to 31 December 2015. Energy usage examined was in relation to any energy consumed by the Company, lighting, heating, fuel to name a few. Due to the nature and size of the business of Chesnara the total energy consumption was £13,661 (energy: 33,378kWh) for the year. Energy savings identified were £3,325; these reductions were through improving lighting and heating in the head office along with reviewing the Company travel policy. We will work with the findings of the energy assessment to pursue a reduction in consumption in 2016.

Approved by the Board on 30 March 2016 and signed on its behalf by:



Peter Mason
Chairman



John Deane
Chief Executive Officer

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SECTION C
CORPORATE GOVERNANCE



BOARD PROFILE AND BOARD OF DIRECTORS

“ A strong Board with the appropriate skills, knowledge and experience is an essential requirement of our Corporate Governance Framework. ”

The Board also needs to operate to a common Governance Map, have well considered Terms of Reference and have values and a risk management approach which are consistent with that of the Chesnara Group.

In light of this, we now open the Corporate Governance section of our 2015 Report & Accounts with details of the Chesnara Board members.

We have given further thought to the assessment of how well the skills, knowledge and experience of our Board members ensure we continue to deliver against our strategic objectives. We continue to disclose a Board competency profile, as summarised in the graph to the right. This summary is based on the core competencies that have been identified as being key to the Board discharging its responsibilities and shows the collective score based on the current Board make-up.

To provide further insight into the skills, knowledge and experience of each Board member, the biographies below now show the specific areas of specialism each member provides, with each letter correlating to the competency matrix graph to the right. Where a Board member has a competency in dark blue this indicates a primary specialism. The light grey colour indicates that this competency is a secondary specialism for that Board member.

THE BOARD

PETER MASON CHAIRMAN

Non-executive Chairman of the Board, Peter is responsible for the leadership of the Board, setting the agenda and ensuring the Board's effectiveness on all aspects of its role.

Appointment to the Board: Appointed to the Board in March 2004 and as Chairman in January 2009.

Committee membership: Nomination & Governance (Chairman) and a member of the Remuneration Committee. Peter attends the Audit & Risk Committee by invitation.

Current directorships/business interests:

- Chairman of Movestic Livförsäkring AB
- Chairman of Chesnara Holdings BV
- Chairman of Countrywide Assured plc
- Non-executive Director of Countrywide Assured Life Holdings Limited

Skills and experience: A B C D E F G H I

PETER WRIGHT NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE AUDIT & RISK COMMITTEE

Appointment to the Board: Appointed to the Chesnara plc Board and as Chairman of the Audit & Risk Committee in January 2009.

Committee membership: Audit & Risk and Nomination & Governance.

Current directorships/business interests:

- Chairman of the With-Profits Committee Countrywide Assured plc
- Countrywide Assured plc

Skills and experience: A B D E F G H

MIKE EVANS SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR

Appointment to the Board: Appointed to the Chesnara plc Board in March 2013. Mike became Senior Independent Director in May 2013.

Committee membership: Nomination and Governance, Audit & Risk and Remuneration.

Current directorships/business interests:

- Hargreaves Lansdown plc, Chairman
- Zoopla Property Group plc, Chairman
- Chesnara Holdings BV
- Countrywide Assured plc

Skills and experience: A B C D E F G H I K

JOHN DEANE CHIEF EXECUTIVE

Appointment to the Board: Appointed as Chief Executive in January 2015.

Career, skills and experience: 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 its open businesses in the UK, Ireland and Isle of Man.

Skills and experience: A B C D E F G H I J K

BOARD KNOWLEDGE, SKILLS AND EXPERIENCE SUMMARY

KEY	KNOWLEDGE / SKILL / EXPERIENCE	SUMMARY
A	Chesnara company knowledge	● ● ● ● ● ● ● ●
B	Industry knowledge – UK	● ● ● ● ● ● ● ●
C	Industry knowledge – Sweden/Netherlands	● ● ● ● ● ● ● ●
D	Governance – actuarial	● ● ● ● ● ● ● ●
E	Governance – financial	● ● ● ● ● ● ● ●
F	Audit and risk management	● ● ● ● ● ● ● ●
G	Investment management	● ● ● ● ● ● ● ●
H	M & A and business development	● ● ● ● ● ● ● ●
I	Commercial management	● ● ● ● ● ● ● ●
J	Operational change management	● ● ● ● ● ● ● ●
K	Operational management	● ● ● ● ● ● ● ●

“ This recent assessment confirms that our Board not only has significant experience in the Insurance Sector but also have a range of specialisms which ensure all aspects of our competency profile are well covered. ”

In the above diagram a dark blue circle represents the number of individuals with a primary specialism in that area, with a light grey circle reflecting a secondary area of expertise. Where Board members are not deemed to have a level of specialism regarding a specific competency they clearly contribute constructively to those matters through their general level of Board and business experience.

VERONICA OAK
NON-EXECUTIVE DIRECTOR, CHAIRMAN OF THE REMUNERATION COMMITTEE

Appointment to the Board: Appointed to the Chesnara plc Board in January 2013.

Committee membership: Nomination & Governance, Audit & Risk, and Remuneration.

Current directorships/business interests:

- Hanley Economic Building Society, NED
- With-Profits Committee, Countrywide Assured plc
- Countrywide Assured plc

Skills and experience: A B H I J K

DAVID BRAND
NON-EXECUTIVE DIRECTOR

Appointment to the Board: Appointed to the Chesnara plc Board and the Board of Movestic Livförsäkring AB in January 2013.

Committee membership: Nomination & Governance, Audit & Risk, and Remuneration.

Current directorships/business interests:

- Exeter Friendly Society, Chairman of the Investment Committee
- Movestic Livförsäkring AB, Chair of the Audit & Risk Committee
- Countrywide Assured plc

Skills and experience: A B C D E F G H

DAVID RIMMINGTON
EXECUTIVE – GROUP FINANCE DIRECTOR

Appointment to the Board: Appointed as Group Finance Director with effect from May 2013.

Career, skills and experience: David 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 six years as Head of Group Management Reporting.

Skills and experience: A B C D E F H J

FRANK HUGHES
EXECUTIVE – BUSINESS SERVICES DIRECTOR

Appointment to the Board: Appointed as an executive director in March 2004.

Career, skills and experience: Frank joined Countrywide Assured plc in November 1992 as an IT Project Manager and was appointed to the CA board as IT Director in May 2002 and to the Chesnara board as Business Services Director in May 2004. He has 27 years’ experience in the life assurance industry gained in CA and Chesnara and also with Royal Life, Norwich Union and CMG.

Skills and experience: A B F G I J K

GOVERNANCE OVERVIEW FROM THE CHAIRMAN



Effective and robust governance remains central to the ongoing success of the Group.

Dear Shareholder

The Board has continued to evolve and build on our governance framework and have also sought to create an environment in which honesty, integrity and openness are encouraged and fostered. I believe this approach has made the team and governance framework stronger.

Introduction

This section of the Annual Report & Accounts sets out our governance policies and practices, and includes detail of how the Company has, during 2015, applied the UK Corporate Governance Code 2014 (the 'Code').

As a Board, we are committed to maintaining high standards of governance which we believe remains central to the ongoing and future success of the Group. We understand that good governance is fundamental to the effective management of the business and its sustainability both in the short and the long-term.

As a result of increased requirements under the Code, the Company has sought to strengthen its going concern statement with the introduction of a 'Longer-Term Viability Statement'. In the year the Board reviewed the Company's viability as part of its business planning process. It concluded that the Board is confident that the viability of the Company would continue, with this assessment being made over a three year period in line with the business plan.

The composition of the Board

I was delighted to welcome John Deane who was appointed, as Group Chief Executive Officer, to the Board on 1 January 2015. John has made a considerable contribution to the Board in 2015 and has brought a wealth of experience in particular of the insurance and life sector.

Biographical detail and membership for each director who served during 2015 can be found on pages 44 and 45.

Governance of the Group

In 2015 we successfully developed and implemented the new Corporate Governance Maps (the 'Governance Maps') at Group level and where possible within the divisions. The new Governance Maps introduce a detailed framework and supporting policies which, amongst other things, has brought a more consistent divisionalised structure across the Group. The Group Board has delegated appropriate levels of authority to each divisional Board.

Key areas of governance that the Board had oversight of during the year:

- implementation of the Corporate Governance Maps, including the standardisation where possible of all Divisional and Group policies;
- review and revision of the role and responsibilities of the senior management team in the UK, details of this can be found in the Directors' Remuneration Report on page 52;

- oversight of the integration of the Dutch business, the Waard Group; and
- oversight of the implementation and development of Solvency II and the Senior Insurance Managers Regime ('SIMR').

Audit & Risk Committee Report

In 2015 the Audit & Risk Committee continued to provide excellent oversight, challenge and guidance to support the Board and its activities. The Audit & Risk Committee report provides insight into the key activities of the Committee during 2015. Of note has been the Committee's involvement in the creation of the Group ORSA, a requirement of Solvency II, and provision of guidance on key financial reporting items during the year, such as the acquisition accounting for the Waard Group and the new longer-term viability statement required by the 2014 Corporate Governance Code.

Remuneration Committee

The Remuneration Committee continues to promote the long-term success of the Company. This has been achieved through monitoring and reviewing performance related rewards to ensure they remain appropriate, transparent and do not reward excessive risk taking.

The key highlights of the work of Committee during the year have been:

- to review the role and responsibilities of the senior management team in the UK, including the Group FD and the Group CEO;
- the adoption of SII guidance on remuneration; and
- the review of the Committee's adherence to and application of the UK Corporate Governance Code 2014, the Corporate Governance Map and the Committee's own Terms of Reference.

Nomination & Governance Committee

In October 2015 the FRC published a paper on 'UK Board Succession Planning'. The aim of the paper was to review the key issues, identify good practice and to examine how the Nomination & Governance Committee can play an effective role in succession planning within the company. The Committee amongst other matters considered this paper and what this would mean to the Company. This work included reviewing management's succession plans for senior executive and management positions for the Group. Senior appointments have been made in the year and the Committee has sought to ensure that the most appropriate candidates have been appointed.

I trust that the various reports in the rest of this section of the Annual Report & Accounts demonstrate that effective and robust governance is central to the ongoing success of Chesnara.

Peter Mason
Chairman
30 March 2016

CORPORATE GOVERNANCE REPORT



It is essential to have a well designed and effective governance framework to ensure that stakeholders' investments are safeguarded.

The following statement, together with the Directors' Remuneration Report on pages 52 to 67 and the Audit & Risk Committee Report on pages 68 to 70 describe 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 2015.

Compliance with the Code

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

The Board

At 31 December 2015, the Board comprised a Non-executive Chairman, four other Non-executive Directors and three Executive Directors.

Biographical details of Directors who served during 2015 are given on pages 44 and 45 and a Board profile, which assesses the core competencies required to meet the strategic objectives, is provided on page 45. The Board, which plans to meet at least 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 subsidiary within the Group;
- ii) three Directors of the Company, being Messrs Mason, Deane and Evans, were also Directors of Chesnara Holdings BV throughout the year; and
- iii) four Directors of the Company, being Messrs Mason, Deane, Brand and Rimmington, were also Directors of Movestic Livförsäkring AB throughout the year.

Under local legislation or regulation for all three divisions of the business, the Directors 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. The Prudential Regulation Authority has been appointed as Group Supervisor to maintain oversight of all three divisions of the business.

The responsibilities that the Board has delegated to the respective Executive Management teams of the UK, Dutch 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.

The roles of the Chairman and Group Chief Executive Officer

The division of responsibilities between the Chairman of the Board, and the Group Chief Executive Officer 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 Group Chief Executive Officer 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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Directors and Directors' independence

The Board considers that all Non-executive Directors are independent and that the Chairman was independent at the date of his appointment.

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 44. The Board is satisfied that these are not such as to interfere with his performance, which is based around a commitment of between 50 and 60 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 their responsibilities and duties which is contained within the Corporate Governance Map, which covers 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. During the year specific specialist areas of training has also been provided to the Board, in particular on Solvency II. Through their membership of the CA plc 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, Deane, Evans, Brand and Rimmington, through their membership of the divisional boards, between them have considerable knowledge and experience of both the Swedish and Dutch-based businesses 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, the Waard Group 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 those subsidiary entities, including but not limited to:

- Earnings report;
- Where applicable, a report from the Actuarial Function Holder and With-profits Actuary;
- Compliance report;
- Investment report;
- Outsourcing reports;
- Internal audit report;
- Risk report;
- Capital requirement report;
- Own Risk and Solvency Assessment
- Financial risk report, including emerging risk, risk based capital, and principal risks; and
- Risk management report.

All divisional entities monitor risk management procedures, including the identification, measurement and control of risk through the auspices of a Risk Committee where available. 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.

In addition, the divisions are required to submit to the Chesnara Audit & Risk Committee a quarterly risk report, an Annual Report on risk management and internal control systems and a summary of 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 Officer, 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 & Governance 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 formal performance evaluation of the Chairman.

During the year, the Board conducted an evaluation of its performance and that of the Audit & Risk, Nomination & Governance, and Remuneration Committees to ensure that they continue to remain effective and that each of the directors demonstrates commitment to his or her role, along with sufficient time to meet the required time commitment to the Company. Having conducted its evaluation, it was concluded that the structure and composition of the Board and its Committees was considered appropriate. The timeliness and quality of papers was considered to be adequate. However, a project is underway to deliver even better quality papers and to reduce the quantity to ensure focus remains on key issues, strategy, and delivery of Group management information. The new style papers will be rolled out over the coming year.

Company Secretary

Zoe Kubiak is the Company Secretary and is responsible for advising the Board, through the Chairman, on all governance matters. 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 & Governance Committee	Remuneration Committee	Audit & Risk Committee
Peter Mason – Non-executive Chairman	8 (8)	3 (3)	5 (5)	n/a
Peter Wright – Non-executive Director	8 (8)	3 (3)	n/a	7 (7)
John Deane – Executive Director	8 (8)	n/a	n/a	n/a
Frank Hughes – Executive Director	8 (8)	n/a	n/a	n/a
Veronica Oak – Non-executive Director	8 (8)	3 (3)	5 (5)	7 (7)
David Brand – Non-executive Director	8 (8)	3 (3)	n/a	7 (7)
David Rimmington – Executive Director	8 (8)	n/a	n/a	n/a
Mike Evans – Non-executive Director	8 (8)	3 (3)	5 (5)	7 (7)

The figures in brackets indicate the maximum number of scheduled meetings in the period during which the individual was a Board or Committee member.

CORPORATE GOVERNANCE REPORT (CONTINUED)

“ The Nomination & Governance 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 & Governance Committee

During the period under review, the Committee comprised Peter Mason, who also served as Chairman of the Committee, Peter Wright, David Brand, Veronica Oak 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 & Governance Committee is to:

- keep under review the balance, structure, size 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;
- keep under review the leadership needs of, and succession planning for, the Group in relation to both its Executive Directors and other senior management;
- identify and nominate, for the approval of the Board, candidates to fill board vacancies as and when they arise; and
- evaluate the balance of skills, knowledge, experience and diversity of the Board.

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

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

Board appointment process

The Committee adopts a formal and transparent procedure for the appointment of new directors to the Board.

The Board’s process is to use external recruitment consultants for appointing directors. The Company will provide a brief of the candidate desired, along with a role profile to the recruitment consultant. Any candidate deemed suitable, based on merit and against objective criteria, is submitted to the Committee as a potential candidate. The Committee will review a shortlist of suitable candidates against the criteria, and put forward for interview by the Board and the Executive Management Team. Any candidate deemed suitable for appointment will, if necessary, first have to go through the fit and proper process as outlined in the Senior Insurance Managers Regime (SIMR) which came into full force on 7 March 2016.

Diversity

The Board recognises the benefits of having diversity across all areas of the Group. When considering the make-up of the Board, the benefits of diversity are appropriately reviewed and balanced where possible and appropriate, including in terms of difference in skills, sector experience, gender, race, disability, age, nationality and other contributions that individuals may make. In identifying suitable candidates the Committee will seek candidates from a range of backgrounds, with the final decision being based on merit against the role criteria set.

Remuneration Committee

Full details of the composition and work of the Remuneration Committee are provided in the Directors’ Remuneration Report on pages 52 to 67.

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 68 to 70.

Relations with shareholders

The Group Chief Executive Officer and the Group 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 Group Chief Executive Officer and the Group Finance Director with shareholders 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. ”

All shareholders 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 18 May 2016 can be found in the notice of the meeting on pages 179 to 184.

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 the FRC's guidance on Risk Management, Internal Control and related financial and business reporting, the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group. This process has been in place for the year under review and up to the date of approval of the Annual Report & Accounts, and the process is regularly reviewed by the Board and accords with the guidance.

In accordance with the regulatory requirements of the PRA and SII, CA has maintained and enhanced its 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 Audit & Risk Committee regularly reviews and reports quarterly on risks to the Board.

The Group also maintains a Principal Risk Register which ensures identification, assessment and control of the significant risks subsisting within the Company, CA, the Waard Group and Movestic. The maintenance of the key risk registers is the responsibility of senior management, who report on them quarterly to both the respective divisional Audit & Risk Committees and to the Chesnara Audit & Risk Committee. The overseas divisions maintain a risk and responsibility regime which ensures that:

- the Boards and Group Chief Executive Officer 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 Boards have responsibility for the satisfactory management and control of risks through the specification of internal procedures; and
- there is a dedicated risk function, which is supported by compliance and internal control functions.

As an integral part of this regime a detailed risk register is maintained, which identifies, monitors and assesses appropriate risk classifications.

All 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 the Waard Group 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 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 2015, and that it has taken account of material developments between that date and the date of approval of the Annual Report & Accounts. The Board confirms that these reviews took account of reports by the Internal Audit and Compliance 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 their 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 Group Audit & Risk Committee. The Internal Audit functions in Sweden and Netherlands are provided by external consultants who report formally through either their Board or Audit & Risk Committee. The Group Audit & Risk Committee has access to this work and speaks with them 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 Annual Report & Accounts, 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 maintains and develops the Group's financial reporting control processes and procedures.

The reporting process is supported by transactional and consolidation finance systems. Reviews of the application 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 Group Audit & Risk Committee reviews the application of financial reporting standards and any significant accounting judgements made by management.

Going Concern and Viability statement

The Directors' Statement on Going Concern is included in the Directors' Report on page 72 and the Longer-Term Viability Statement is set out on page 35.

Directors

The present Directors of the Company and their biographical details are set out on pages 44 and 45.

DIRECTORS' REMUNERATION REPORT

REMUNERATION COMMITTEE CHAIRMAN'S ANNUAL STATEMENT

Dear Shareholder

On behalf of the Board, I am pleased to present the 2015 Directors' Remuneration Report, for which we seek your support at our forthcoming Annual General Meeting (AGM), in May 2016. The Remuneration Report is designed to demonstrate the link between the Group's strategy, its performance, and the remuneration outcomes for our Executive Directors.

The Directors' Remuneration Report for the year ended 31 December 2015 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 2016; and
- The Remuneration Policy ('the Policy'), which is set out on pages 54 to 59. The Remuneration Policy will next be subject to a binding shareholder vote at the AGM held in 2017.

Composition and activities of the Remuneration Committee

I should like to thank shareholders for their continued valued support for our remuneration arrangements. In this year's report, we have sought to improve both the look and feel of the report. Our Remuneration Policy, shown in summary, remains unchanged and the recruitment and exit policy arrangements are shown in full. The Committee has taken care to ensure changes or decisions made in connection with Executive Directors' remuneration remains consistent and in line with the policy approved by shareholders.

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).

Highlights

In 2015 the Committee met five times and dealt with the following matters:

Area of focus	Matter considered
Executive Director remuneration and reward	The Committee discussed and set the scheme awards and performance targets for the award made in 2015 under the 2014 Short-Term Incentive Scheme (STI) and the 2014 Long-Term Incentive Scheme (LTI) for Executive Directors. A half-year evaluation was also undertaken.
All employee and Executive remuneration	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 where relevant bonus awards to senior management within Movestic and the Waard Group. Following an organisational redesign the Committee undertook a separate evaluation of some of the Executive roles.
Terms of Reference	The Committee's Terms of Reference were reviewed and it was concluded that they continue to be appropriate for the activities of the Committee. A wider review of the Remuneration Committee Terms of Reference for the subsidiaries was also undertaken.
Review of the Remuneration Policy	The Company's Remuneration Policy was reviewed and it was concluded that no changes were necessary.
Committee Evaluation	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.

Area of focus	Matter considered
Annual Salary Review	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 did not receive an Annual Salary increase, with the exception of Frank Hughes who received an increase of 3% on his basic pay. John Deane and David Rimmington received an increase during 2015 following a review of their role and responsibilities.
Directors' Remuneration Reporting	The Committee reviewed the draft Directors' Remuneration Report for the 2014 Financial Statements and recommended their approval by the Chesnara Board.
Internal Audit Report for payments to directors and staff	An internal audit of pay arrangements for directors and staff was undertaken in the UK. There were no material matters of concern to note.
Final settlement arrangements for Graham Kettleborough	The Committee approved the final terms of settlement for the former Group Chief Executive Officer, Graham Kettleborough.
All employee SAYE	The Committee approved the renewal of the all employee SAYE Scheme. All UK employees were invited to take part in the new scheme.
Review of employee benefits	The Committee made changes to the employee benefits provided to UK employees. This had no effect on benefits to Executive Directors. The Committee also approved recommendations from management on the Staff Bonus Scheme so that it better supports a new performance management programme and to the introduction of performance related bonuses.
Review of the Committee's compliance with the Remuneration Policy, internal Governance Map and the UK Corporate Governance Code	There were no material gaps identified and where recommendations were made these were actioned.
Performance against strategic targets	The Committee reviewed the Executive Directors performance against targets set. It was the view of the Committee that Executives have performed well against targets set.
Regulatory changes	The Committee reviewed the Solvency II regulatory changes and agreed to take responsibility for overseeing the CA plc Remuneration Policy.

As I alluded to in my statement last year, under the leadership of the new Group CEO, a review of the company's corporate structure and organisational design has been undertaken. The outcome has created a structure better able to support the governance of the Group following its expansion into the Netherlands; its endeavours to complete on further acquisitions; the requirements of Solvency II and, in the UK, the start of the Senior Insurance Managers Regime. As a result, and with the engagement of external advisors, the Committee undertook an exercise to evaluate the senior management roles affected by the organisational redesign.

The Committee engaged New Bridge Street, an independent external remuneration advisor, to assist with evaluating and benchmarking the new group roles. Having assessed the responsibilities of these roles and being mindful of internal pay relativities, company performance and the economic climate in general, the Committee has, as permitted under the existing remuneration policy, attached to these roles higher salaries and increased the maximum participation levels under both the Short-Term and Long-Term incentive schemes. The salary awards also take into account the experience and competency of the jobholders. These changes are within the terms of the company's Remuneration Policy and the Committee is of the view that the total target remuneration is now fully aligned with the increased responsibilities of the roles and is still relatively modest as compared with companies of a similar size.

Management's performance in 2015

During 2015 the Executive Directors have continued to deliver on key financial metrics and on a number of important strategic initiatives and regulatory requirements, notably the ongoing progress towards Solvency II.

The main factors to influence the Committee's assessment of performance in 2015 were:

- Growth in the business – up 9.1% measured by European Embedded Value (EEV) after dividend distribution and profit before tax on an IFRS basis of £42.8m;
- The Group's readiness (in all territories) to meet the requirements of Solvency II which became effective on 1 January 2016;
- Completion and successful integration of the Waard acquisition; and
- Enhancement of the Group's governance model to support its expansion into a new territory and, in the UK, the start of the Senior Insurance Managers Regime.

In light of the performance of the Executive Team in 2015, the Remuneration Committee is satisfied that the reward outcomes are appropriate. Our performance assessment of the 2014 Short-Term Incentive Scheme has resulted in an award for the three Executive Directors equivalent to 61.47% of salary (full detail can be found on page 61).

Directors' Remuneration Policy

The full Remuneration Policy can be found on pages 55 to 59 of the Annual Report 2013 or in the Governance Reports section of the Company's website which is available at www.chesnara.co.uk. A summary of the Policy has been included in this year's report for your ease of use.

The Directors' Remuneration Policy was approved at the 2014 AGM and will be effective until the 2017 AGM. It has not been amended during the year. In respect of the year under review there have been no departures from this Policy.

Looking ahead

One of the initial tasks for our new CEO was to undertake a review of the company's corporate governance and organisational design to strengthen Chesnara's group function. This has been completed and all Solvency II requirements have been satisfied, and in the UK, the Company is prepared for the new Senior Insurance Managers Regime. This review also extended to the Group's overseas territories to standardise their remuneration framework in line with the Group's. The main focus for 2016 will be to evaluate the performance targets to ensure they remain effective and appropriate to the Company. This may mean moving away from using European Embedded Value (EEV), which, with the advent of Solvency II has an uncertain future in the life and pensions industry. If Chesnara ceases to produce EEV results then the targets in the STI and LTI schemes will need to be aligned to an alternative measure. The Committee will ensure that any substitute measure results in comparable targets. Any change in measurement will require formal Remuneration Committee approval.

Committee's Responsibilities

The Committee strives to ensure the Company's remuneration structure aligns to the interests of management and shareholders.

The Committee's key responsibilities include:

- considering and making recommendations to the Board on the strategy and policy for the remuneration of the Executive Directors, the Chairman and senior employees across the Group;
- ensuring pay levels are appropriate to enable the Company to attract, retain and motivate its Executives and other members of staff;
- determining the design, conditions and coverage of annual and long-term incentive plans for senior executives and approving total and individual payments/awards under the plans;
- determining the targets for any performance-related incentive schemes;
- determining the issue and terms of all share-based plans available to all employees; and
- determining the compensation (if any) in the event of termination of service contracts of Executive Directors and senior employees across the Group.

The Committee's terms of reference are reviewed by the Board on an annual basis. The terms of reference are available in the Governance section of the Company's website.

The Group Chief Executive Officer and the Company Secretary were invited to attend most meetings. None of them were present during any discussion of their own remuneration. When considering remuneration for Executive Directors, the Remuneration Committee used the Policy framework approved by shareholders at the AGM in May 2014.

Shareholder engagement

The voting outcome at the 2015 AGM in respect of the Directors' Remuneration Report for the year ended 31 December 2014 is set out on page 67 and reflects the support of both private and institutional shareholders. No changes are proposed to the Policy this year. Shareholders will be invited to approve the Annual Remuneration Report for the year ended 31 December 2015 (which will be a non-binding advisory vote) at the Company's AGM. The Committee will continue to be mindful to the interests of shareholders and other stakeholders and I welcome shareholder feedback.

I hope my report together with our Remuneration Report provides you with a clear account of the operation of the Remuneration Committee during 2015 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
Chairman of the Remuneration Committee
30 March 2016

DIRECTORS' REMUNERATION REPORT (CONTINUED)

REMUNERATION POLICY REPORT

The Remuneration Policy was approved by our shareholders at the Annual General Meeting held on 16 May 2014, and although not a requirement, the Committee has included a summary of the Policy in this year's Report for ease of reference. The Remuneration Policy will next be subject to a binding vote at the AGM in 2017. The Policy as approved by shareholders can be found on our website www.chesnara.co.uk/corporate-responsibility/governance-reports

Meeting the strategic objectives

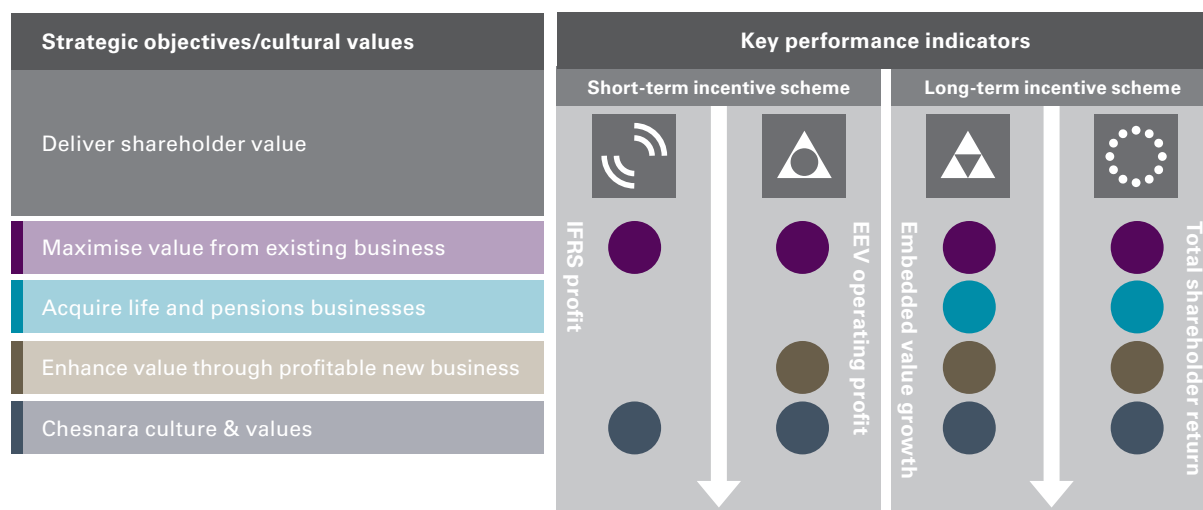
The Committee has continued to review the Group's remuneration philosophy and structure to ensure it remains supportive to the Company's strategic objectives whilst rewarding individuals for their contribution to the business. The remuneration review undertaken in the year sought to keep remuneration at or around median and in line with appropriate benchmarks for the market in which the Company operates. We consider our approach to be conservative and within the framework of the Remuneration Policy. The total remuneration package aims to link corporate and individual performance with an appropriate balance between short and long-term rewards, and fixed and variable elements. The Committee considers that the targets set for the Executives for their different components of performance remained appropriate and sufficiently challenging. The Committee has the discretion to amend certain elements of the Policy in exceptional circumstances when considered to be in the best interests of shareholders. Should this discretion be used this will be explained and reported in the Directors' Remuneration Report in the following year. In the year under review no such discretion was used.

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.

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 23 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 145 people. In 2015 the Waard Group, a Netherlands-based Group comprising three closed book insurance companies and a servicing company was acquired. This business employs 23 people.

The schematic below illustrates how the Company's KPIs 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 value from existing business', 'Enhance value through profitable 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 existing business' should positively influence all three KPIs. Our three objectives are the Group's core strategic objectives. Underpinning the delivery of these three core objectives is the Group's culture & 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 & values is expected to benefit all KPIs that are used to assess the performance remuneration of the Executive Directors.



The Remuneration Policy table*Executive Directors' remuneration*

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

Purpose and link to strategy	Operation	Performance measures and maximum												
Basic salary														
<p>To recruit and retain individuals with the skills and experience needed for the role and to contribute to the success of the Group.</p>	<p>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:</p> <ul style="list-style-type: none"> – assessment of the responsibilities of the role and the experience and skills of the jobholder; – the Group'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; and – balance between fixed and variable pay to help ensure good risk management. <p>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.</p> <p>Salaries are usually reviewed annually. There may be reviews and changes during the year in exceptional circumstances (such as new appointments to executive positions).</p> <p>The table below has been updated to reflect the salaries for each Executive Director effective from 1 January 2016.</p> <table border="1"> <thead> <tr> <th>Director</th> <th>Change from prior year</th> <th>Basic salary from 1 January 2016</th> </tr> </thead> <tbody> <tr> <td>John Deane</td> <td>16.7%</td> <td>£420,000</td> </tr> <tr> <td>David Rimmington</td> <td>23.2%</td> <td>£250,000</td> </tr> <tr> <td>Frank Hughes</td> <td>3.0%</td> <td>£212,032</td> </tr> </tbody> </table>	Director	Change from prior year	Basic salary from 1 January 2016	John Deane	16.7%	£420,000	David Rimmington	23.2%	£250,000	Frank Hughes	3.0%	£212,032	<p>Personal and Group performance is taken into consideration when deciding whether a salary increase should be awarded. Salary increases may not be awarded on the strength of performance alone.</p>
Director	Change from prior year	Basic salary from 1 January 2016												
John Deane	16.7%	£420,000												
David Rimmington	23.2%	£250,000												
Frank Hughes	3.0%	£212,032												
Taxable benefits														
<p>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.</p>	<p>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.</p> <p>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.</p>	<p>No performance measures attached.</p>												
Pensions														
<p>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.</p>	<p>The Executive Directors participate in a defined contribution pension scheme. During 2015, employer contributions varied between 7.5% and 9.5% of basic salary. With effect from 1 January 2016, employer contributions have been aligned at 9.5% of basic salary. If regulatory maxima have been reached, the Executive can elect to receive the balance of the contribution as cash.</p>	<p>No performance measures attached.</p>												

DIRECTORS' REMUNERATION REPORT (CONTINUED)

REMUNERATION POLICY REPORT (CONTINUED)

Remuneration Policy table (continued)

Executive Directors' remuneration (continued)

Purpose and link to strategy	Operation	Performance measures and maximum
Short-Term Incentive (STI) Scheme		
<p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Implementation Plan.</p> <p>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.</p> <p>As referred to on page 63 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.</p>	<p>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%.</p> <p>The targets may include costs, IFRS pre-tax profit, EEV operating profit, cash generation, Group strategic objectives and personal performance.</p> <p>STI Scheme targets are commercially sensitive and therefore, not disclosed. Actual targets and results will be disclosed in the Annual Report & Accounts immediately following each performance period.</p> <p>For the 2016 STI award the measures and their weighting are:</p> <ul style="list-style-type: none"> – IFRS pre-tax profit 50% – EEV operating profit 30% – Group strategic objectives 20% <p>The Committee may substitute, vary or waive the performance measures in accordance with the Scheme rules.</p> <p>The maximum award is up to 100% of basic salary.</p>
Long-Term Incentive (LTI) Scheme		
<p>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.</p>	<p>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.</p> <p>It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Implementation Plan.</p> <p>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.</p> <p>As referred to on page 63 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.</p>	<p>For 2016 vesting is dependent on two equally weighted performance measures:</p> <ol style="list-style-type: none"> 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 & Accounts for the year in which an award vests. The assumptions underpinning the calculations are subject to independent actuarial scrutiny. <p>The Committee may substitute, vary or waive the performance measures in accordance with the Scheme rules.</p> <p>The maximum award is up to 100% of basic salary.</p>

Non-executive Directors' remuneration

Purpose and link to strategy	Operation	Performance measures and maximum (where applicable)
Fees & Expenses		
<p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Fees for the Chairman and Non-executive Directors are not performance related.</p> <p>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.</p>

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 for 2016 are set out on page 65.

The future Remuneration 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. 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:** 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 employees. 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. There is no annual bonus scheme within the Waard Group.

- **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.

3. Other

The SAYE expired in 2014. The Committee, using its discretion, renewed the SAYE Scheme in 2015. The SAYE provides a tax efficient all employee scheme in which Executive Directors are eligible to participate.

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.

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; and
- 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 (CONTINUED)

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 six months of date employment ends.	No grants following service of notice. Unvested awards lapse on date employment ends. Outstanding options must be exercised within six 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 six months of date employment ends.	No further grants. Unvested awards lapse on date employment ends. Outstanding options must be exercised within six 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 six 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.

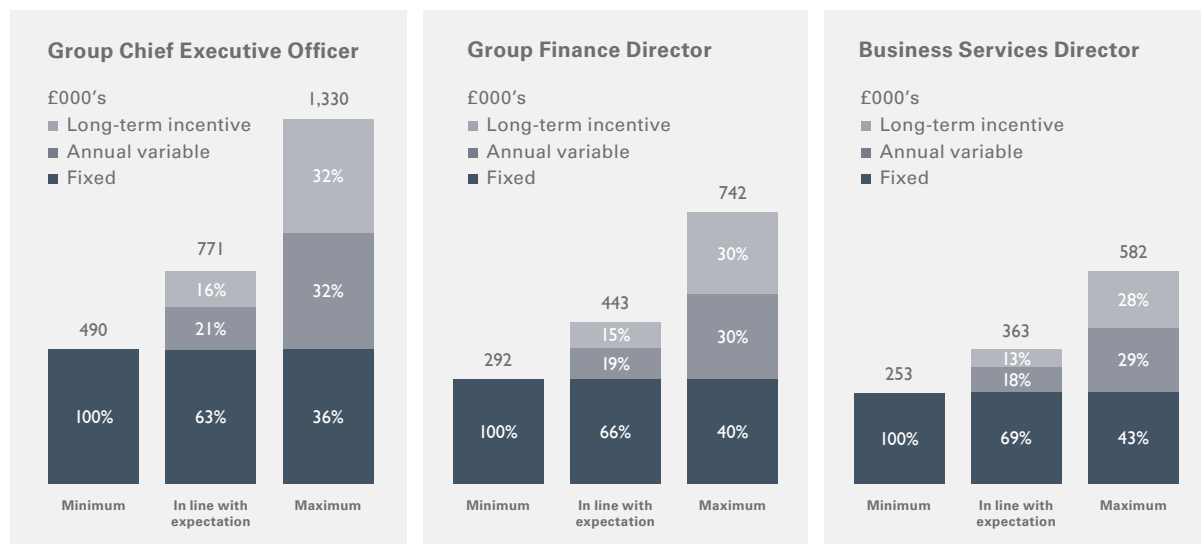
Other Directorships

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 2016 LTI and STI Schemes apply throughout the period.



Minimum

The table below analyses the constitution of the minimum remuneration projection for 2016:

Director	Salary and fees £000	Benefits £000	Pension £000	Total fixed pay £000
Group Chief Executive Officer	420	30	40	490
Group Finance Director	250	18	24	292
Business Services Director	212	21	20	253

The pension information above includes the employer contribution element of the pension value, which equates to 9.5% of gross basic salary.

Statement of shareholder views

There are no matters to report this year, there having been no occasion for us to contact shareholders or vice versa.

DIRECTORS' REMUNERATION REPORT (CONTINUED)

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 2015 and 31 December 2014 is made up as follows:

Executive Directors' remuneration as a single figure – year ended 31 December 2015

Name of Director	Salary and fees ^{1 & 2} £000	All taxable benefits £000	Non taxable benefits £000	Annual bonuses £000	LTIP £000	Pension £000	Total for 2015 £000
John Deane	290	26	3	240	–	37	596
David Rimmington	227	12	6	139	–	18	402
Frank Hughes	206	15	5	127	–	16	369
Total	723	53	14	506	–	71	1,367

Notes

1. John Deane received fees of £100,000 from his directorship appointment with Atom plc, and therefore the salary paid by the Company was reduced by this amount.

2. Resulting from the Remuneration Review in the year, both John Deane and David Rimmington received a salary increase effective from 1 July 2015.

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
John Deane	30	2	–	–	–	3	35
David Rimmington	188	13	5	128	–	16	350
Frank Hughes	203	14	5	139	61	15	437
Graham Kettleborough*	328	20	8	225	100	31	712
Total	749	49	18	492	161	65	1,534

*Graham Kettleborough retired from the Board on 31 December 2014.

The remuneration of the Non-executive Directors for the years ended 31 December 2015 and 31 December 2014 is made up as follows:

Non-executive Directors' remuneration as a single figure – year ended 31 December 2014 and 2015

Name of Director	2015 Salary and fees £000	2015 All taxable benefits £000	2015 Total £000	2014 Salary and fees* £000	2014 All taxable benefits £000	2014 Total* £000
Peter Mason	106	–	106	100	–	100
Peter Wright	64	–	64	60	–	60
Veronica Oak	54	–	54	50	–	50
David Brand	52	–	52	45	–	45
Mike Evans	52	–	52	45	–	45
Total	328	–	328	300	–	300

*The fees paid to for Veronica Oak in 2014 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.

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. As a result of the remuneration and organisational review both John Deane and David Rimmington's salary was increased, based on an increase in responsibility and expansion of their roles and their experience within those roles. An increase of £60,000 and £47,000 per annum respectively was awarded and this was effective from 1 July 2015. Following this adjustment, we believe that the salary levels for Executive Directors are now set at the correct position.

The remuneration policy for the Executive Directors is designed with regard to the policy for employees across the Group as a whole. Our ability to meet our growth expectations and compete effectively is dependent on the skills, experience and performance of all our employees. Our employment policies, remuneration and benefit packages for employees are regularly reviewed. There are some differences in the structure of the remuneration policy for the Executive Directors and senior management team compared to other employees reflecting their differing responsibilities, with the principal difference being the increased emphasis on performance related pay for the more senior employees within the organisation.

Employee share ownership is encouraged and facilitated through participation in the SAYE Scheme (subject to minimum service requirement).

Although the Committee does not consult directly with employees on Directors' pay, the Committee does take into consideration the pay and employment conditions of all employees when setting the policy for Directors' remuneration. In terms of comparison metrics, the Committee takes into account the average level of salary increase being budgeted for the UK workforce when reviewing the salary levels of the Executive Directors. The Committee is also mindful of any changes to the pay and benefit conditions for employees more generally when considering the policy for directors' pay.

Payments in respect of salary and pension benefits amounting to £89,712 were made to Graham Kettleborough who remained an employee until 31 March 2015, following the cessation of his role as CEO on 31 December 2014. In addition, he received taxable benefits during this period of £5,703.

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 2015 is entirely made up of awards made under the 2014 STI Scheme. The amounts awarded to the Executive Directors under this 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	£19.408m	0%	£24.533m*	15.0%	£49.066m	50%	£37.544m*	38%	25.2%
EEV operating result	£20.340m	0%	£22.600m	12.8%	£33.900m	30%	£39.881m	30%	22.5%
Group strategic objectives	60% of max	0%	80% of max	10.0%	100%	20%	92.0% of max	18%	13.8%

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 outcome of the Group strategic objectives reflects progress on a number of key projects for the Group, including the Solvency II project in line with plans, operational improvements in the UK, improvements in Group governance and reporting, integration of the Waard Group and reviewing and updating the company's acquisition policies.

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 £
John Deane	390,000	75%	61.47%	239,740
David Rimmington	226,500	75%	61.47%	139,234
Frank Hughes	205,856	75%	61.47%	126,544
Total				505,518

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

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 (CONTINUED)

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 Scheme for 2013 depends upon three year EEV projection targets being met or exceeded. However, given that there was a bonus cap which was shared between this scheme and the 2013 Annual Bonus Scheme there was no value on vesting as the maximum was fully utilised by the 2013 Annual Bonus Scheme.

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	Date award was granted	Amount of options awarded ¹	Face value on the date of grant ²	% of award vesting for minimum performance	Length of vesting period – 3 years Date of vesting
John Deane	2014 LTI	28 April 2015	84,639	£269,998 based on share price (319.00p)	0%	28 April 2018
Frank Hughes	2014 LTI	28 April 2015	48,399	£154,392 based on share price (319.00p)	0%	28 April 2018
	2014 LTI	20 May 2014	48,443	£150,294 based on share price (310.25p)	0%	20 May 2017
David Rimmington	2014 LTI	28 April 2015	47,727	£152,249 based on share price (319.00p)	0%	28 April 2018
	2014 LTI	20 May 2014	41,800	£129,685 based on share price (310.25p)	0%	20 May 2017

Summary of performance measures and targets

2014 LTI: Share options awarded equal to 75% of basic salary using the share price at close of business on date of award. Options have a nil exercise price

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.

Note 1 – No awards are made if performance is below the minimum criteria.

Note 2 – The face value is reported as the estimate of the maximum potential value on vesting.

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

The Remuneration Policy, which was effective from the 2014 AGM, requires Executive Directors to build up a shareholding through the retention of shares to the value of their basic salary over a period agreed by the Committee. 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 Chairman and Non-executive Directors are encouraged to hold shares in the Company but are not subject to a formal shareholding guideline.

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 2015 or the date of resignation.

No changes took place in the interests of the Directors between 31 December 2015 and 30 March 2016.

Name of Director	Shares held: 1 January 2015	Shares held: 31 December 2015	Options: With performance measures	Options: Without performance measures*	Options: Vested but unexercised	Options: Exercised during the year	Percentage of shareholding target held**
John Deane	9,677	9,677	84,639	6,298	–	–	8%
David Rimmington	8,048	8,048	89,527	20,384	–	–	30%
Frank Hughes	12,123	12,123	96,842	21,535	–	–	44%
Peter Mason	21,743	21,743	–	–	–	–	–
Peter Wright	70,000	70,000	–	–	–	–	–
Veronica Oak	2,000	2,000	–	–	–	–	–
David Brand	3,000	3,000	–	–	–	–	–
Mike Evans	6,452	6,452	–	–	–	–	–
Total	133,043	133,043	271,008	48,217	–	–	–

*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 under the 2014 STI Scheme in respect of awards made in relation to the 2015 financial year, 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 2016 Annual Report & Accounts. This category does include the options that will be available to the Executive Directors that have participated in the 2015 Save As You Earn Scheme.

** Calculated using the share price of 335p for shares held & options without performance measures at 31 December 2015, based on the sum of the shares held at 31 December 2015 and the nil price options awarded in 2015 relating to the STI Scheme for the 2014 financial year. This does not include the options under the 2015 SAYE as they have the potential to not be in the money on maturity.

Outstanding share options and share awards

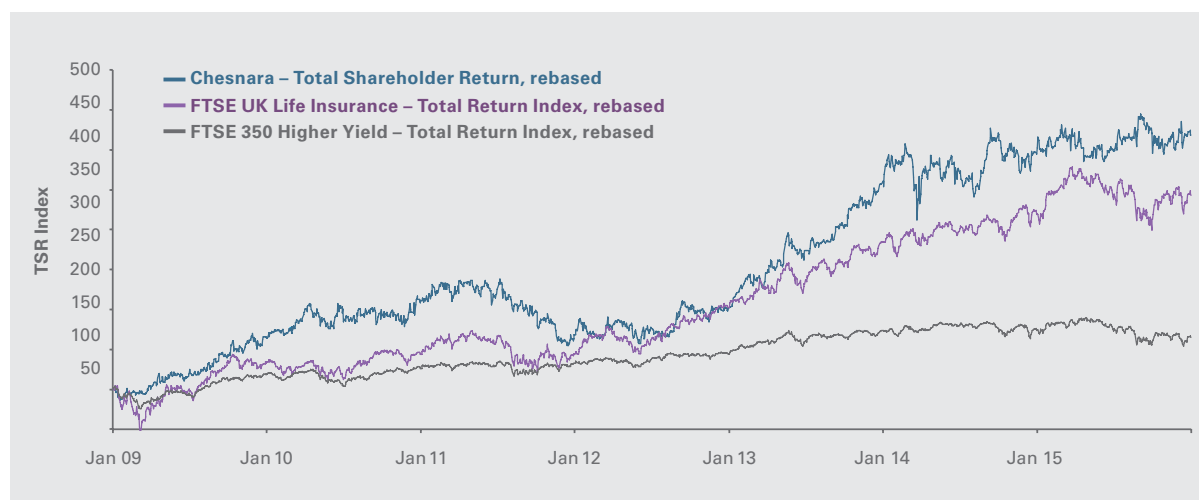
Below are details of outstanding share options and awards for Executive Directors.

Name of Executive Director	Scheme	Grant date	Exercise price (p)	Number of shares under option at 1 January 2015	Number granted during year	Number of shares under option and unexercised at 31 December 2015	End of performance period	Vesting date	Performance period	Date of expiry of option
John Deane	2014 LTI (2015 award)	28/04/15	Nil	–	84,639	84,639	31/12/17	28/04/18	3 years	28/04/25
	Share save	29/09/15	285.08	–	6,298	6,298	n/a	01/11/18	n/a	n/a
				–	90,937	90,937				
David Rimmington	2014 LTI (2015 award)	28/04/15	Nil	–	47,727	47,727	31/12/17	28/04/18	3 years	28/04/25
	2014 LTI (2014 award)	20/05/14	Nil	41,800	–	41,800	31/12/16	20/05/17	3 years	20/05/24
	2014 STI (2014 award)	27/03/15	Nil	–	14,086	14,086	n/a	27/03/18	n/a	20/05/24
	Share save	29/09/15	285.08	–	6,298	6,298	n/a	01/11/18	n/a	n/a
				41,800	68,111	109,911				
Frank Hughes	2014 LTI (2015 award)	28/04/15	Nil	–	48,399	48,399	31/12/17	28/04/18	3 years	28/04/25
	2014 LTI (2014 award)	20/05/14	Nil	48,443	–	48,443	31/12/16	20/05/17	3 years	20/05/24
	2014 STI (2014 award)	27/03/15	Nil	–	15,237	15,237	n/a	27/03/18	n/a	20/05/24
	Share save	29/09/15	285.08	–	6,298	6,298	n/a	01/11/18	n/a	n/a
				48,443	69,934	118,377				

DIRECTORS' REMUNERATION REPORT (CONTINUED)
ANNUAL REMUNERATION REPORT (CONTINUED)

Performance graph and CEO remuneration table

The graph on the right 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 since 2014 as a comparison because it is the index used by the Company for the performance criterion for its Long-term Incentive Scheme, and the FTSE UK Life Insurance Index has been selected due to Chesnara's inclusion within this index.



The table below sets out the details for the Director undertaking the role of Group Chief Executive Officer:

Year	Individual performing CEO role	CEO single figure of total remuneration £000	Annual bonus pay-out against maximum	Long-term incentive vesting rates against maximum opportunity	Note
2015	John Deane	596	81.96%	–	1
2014	Graham Kettleborough	712	91.30%	34.52%	2
2013	Graham Kettleborough	702	100.00%	n/a	3
2012	Graham Kettleborough	612	65.48%	100.00%	4
2011	Graham Kettleborough	384	17.39%	n/a	5
2010	Graham Kettleborough	631	100.00%	n/a	5
2009	Graham Kettleborough	502	94.27%	n/a	5

Note 1 – John Deane was appointed CEO on 1 January 2015.

Note 2 – 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% 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 68.5% of the CEO's salary. The maximum payable was up to 75% of the CEO's salary, resulting in a 91.3% pay-out with reference to the maximum potential award.

Note 3 – During 2013 no LTIP value was earned because the annual bonus in isolation has accounted for the full 100% combined bonus cap.

Note 4 – 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 generated the maximum potential value of £75,000 in 2012. The formal 2012 LTIP Scheme contributed no value to the total single remuneration figure as it did not vest until performance criteria had been achieved in 2014.

Note 5 – 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 the Director undertaking the role of Group Chief Executive Officer

The table below shows the percentage change in remuneration for the Director undertaking the role of Group Chief Executive Officer and the Company's employees as a whole between the years 2015 and 2014.

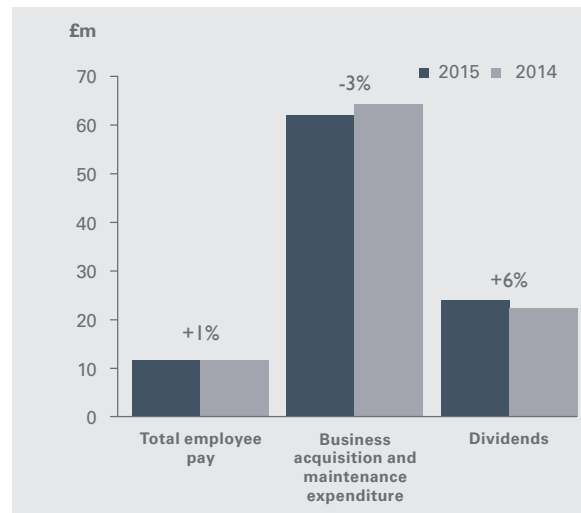
Percentage change in remuneration in 2015 compared with 2014	CEO	Group employees
Salary and fees	18.83%	6.20%
All taxable benefits	4.64%	4.44%
Annual bonuses	6.69%	3.00%

The notable increase in salary for the CEO follows a market review and an increase to the scope of the CEO's responsibilities. See pages 52 and 53 for a fuller account.

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 the 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. The following states how the Remuneration Policy will be implemented.

Salaries and fees

Will be set in accordance with the Company's Remuneration Policy (see pages 54 to 59).

2016 award under the Short-Term Incentive (STI) Scheme

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 2019 together with the actual performance against those targets.

Individual	Measures	Weightings	Ranges and targets			Potential outcomes in terms of % of basic salary		
			Minimum achievement (as % of target)	Target achievement (as % of target)	Max achievement (as % of target)	Minimum achievement	Target achievement	Max achievement
John Deane	IFRS pre-tax profit	50.0%	75.0%	100.0%	200.0%	-	15.0%	50.0%
	EEV operating profit	30.0%	90.0%	100.0%	150.0%	-	12.8%	30.0%
	Group strategic objectives	20.0%	75.0%	100.0%	125.0%	-	10.0%	20.0%
David Rimmington	IFRS pre-tax profit	50.0%	75.0%	100.0%	200.0%	-	13.5%	45.0%
	EEV operating profit	30.0%	90.0%	100.0%	150.0%	-	11.5%	27.0%
	Group strategic objectives	20.0%	75.0%	100.0%	125.0%	-	9.0%	18.0%
Frank Hughes	IFRS pre-tax profit	50.0%	75.0%	100.0%	200.0%	-	12.0%	40.0%
	EEV operating profit	30.0%	90.0%	100.0%	150.0%	-	10.2%	24.0%
	Group strategic objectives	20.0%	75.0%	100.0%	125.0%	-	8.0%	16.0%

The 2014 STI Scheme will be implemented and operated by the Remuneration Committee as set out within the Remuneration Policy (see the Policy table and accompanying notes) on pages 55 to 59.

Measures

The three measures selected by the Remuneration Committee continue to ensure there is 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 Annual Report & Accounts, 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 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 latest budget which is produced annually as part of the 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 (CONTINUED)

ANNUAL REMUNERATION REPORT (CONTINUED)**2016 award made under the Long-Term Incentive (LTI) Scheme**

In 2016 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 2019 together with the actual performance against those targets.

Individual	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
John Deane	TSR	50%	<Median	Median	Upper quartile	nil	12.5%	50.0%
	EEV	50%	≤89.0%	Target	≥114.0%	nil	16.7%	50.0%
David Rimmington	TSR	50%	<Median	Median	Upper quartile	nil	11.3%	45.0%
	EEV	50%	≤89.0%	Target	≥114.0%	nil	15.0%	45.0%
Frank Hughes	TSR	50%	<Median	Median	Upper quartile	nil	9.4%	37.5%
	EEV	50%	≤89.0%	Target	≥114.0%	nil	12.5%	37.5%

The 2016 award under the 2014 LTI Scheme will be implemented and operated by the Remuneration Committee as set out within the Remuneration Policy (see the Remuneration Policy table and accompanying notes on pages 55 to 59).

Measures

The two performance measures for the 2016 LTI award use performance against the constituents of an index and an internal target. The external measure compares the three 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 2018.

Weightings

For the 2016 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 between 37.5% and 50.0% 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 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 2015. Members of the Remuneration Committee during the course of the year were:

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

By invitation, the Group Chief Executive Officer attended a number of 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 external advice from New Bridge Street in respect to the review of remuneration and organisational structure, they were paid £12,324 (including VAT).

The Committee also sought advice from PwC in connection with the addition of clawback provision to the STI and LTI schemes for which the fees were £5,400 (including VAT).

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 the voting in respect of the 2014 Remuneration Report at the 2015 AGM:

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	65,816,824	95.49%	3,108,819	4.51%	68,925,643	368,719

The following table sets out the voting in respect of the approval of the Remuneration Policy presented at the 2014 AGM, as included in the 2013 Annual Report & Accounts:

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 Policy	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 2016 and signed on its behalf by:



Veronica Oak
Remuneration Committee Chairman

AUDIT & RISK COMMITTEE REPORT

“ The Audit & Risk Committee has continued to focus on financial reporting judgements and challenged management in developing controls over managing current and future risks.

Role and composition

During the year the Audit & Risk Committee has comprised Peter Wright (Chairman), Veronica Oak, David Brand and Mike Evans. The skills and experience of each member of the Committee are included on pages 44 to 45. On invitation, the Group Chairman, the Group Chief Executive Officer, the Group Finance Director, the Business Services Director, the Group Actuary, the Group Chief Risk Officer, the Head of UK Internal Audit, the consulting firms which provide internal audit services to Movestic and the Waard Group respectively, and the External Auditor attend meetings to assist the Committee in the fulfilment of its duties. The Committee met seven times during the year ended 31 December 2015.

Activity

In relation to the year under review the Audit & Risk Committee has formally reported to the Board on how it has discharged its responsibilities. This included:

External Audit

- reviewing Management’s assessment of the performance of the External Auditor for the previous financial year;
- reviewing the reports issued by the Financial Reporting Council in relation to the External Auditor;
- reviewing the re-appointment of the External Auditor for the current financial year;
- reviewing and approving audit and non-audit fees;
- reviewing and challenging the External Auditor’s plan for the audit of the Group’s Financial Statements which included an assessment of key risks and confirmation of Auditor independence;
- reviewing reports produced by the External Auditor regarding matters arising from the External Audit process;
- 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.
- reviewing the Group’s policies and procedures relating to fraud, whistle-blowing and employment of ex-employees of the External Auditor.

Risk

- reviewing Group and Divisional Risk registers and risk reporting.
- reviewing and challenging quarterly reports by Executive Management on the identification, evaluation and management of principal risks across the Group.
- 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 the activity calendar of the Risk Function.
- reviewing and challenging the Group ORSA.
- discussing the emerging risks of the Group.

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

Financial Reporting

- reviewing the Group’s draft Financial Statements prior to Board approval in respect of the half year ended 30 June 2015 and the year ended 31 December 2015.
- participating in a ‘Financial Statements Workshop’ concerning the development of the Group Report & Accounts.
- reviewing the appropriateness of the Group’s accounting policies.
- providing guidance with respect to the Annual Report & Accounts being fair, balanced and understandable.
- reviewing the supplementary European Embedded Value reporting, 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 the disclosures in the Annual Report & Accounts, and underlying supporting work, relating to the longer-term viability statement.
- reviewing and challenging the Solvency II, EEV and IFRS actuarial reserving assumptions underpinning the year end 2015 reporting.
- reviewing and challenging periodic reports produced by Executive Management that provide further analysis and context supporting the external financial reporting of the Group.

Internal Audit

- reviewing and approving Internal Audit plans for the internal audit of the Group’s internal controls, embracing operating, financial and business controls.
- reviewing regular reports from the Internal Audit functions across the Group.
- meeting the Head of UK Internal Audit without an Executive Director or a member of the Company’s senior management being present.

Other

- reviewing the Terms of Reference of the Committee and the Committee’s compliance therewith.
- performing an evaluation of the performance of the Committee during the year.

During the year the Committee has also been active in considering the impact of Solvency II on future IFRS, EEV and cash generation flow reporting.

Key issues

During the year 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 and IFRS 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.

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%.

Spreads above UK Government bonds generally ended 2015 at slightly higher levels than at the start of the year.

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 and challenged the basis report supporting this decision.

Allowance for non-market non-diversifiable risk

In the EEV reporting 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 was considered. This consideration included comparison with those used by other industry participants and the financial impact of the allowances set in the circumstances of each of the divisions affected. 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, with a new rate of 0.5% being introduced for the Waard Group.

Accounting for the acquisition of the Waard Group

The accounting for the acquisition of the Waard Group has resulted in one-off gains being reported in both the IFRS and EEV financial statements. The accounting requires the application of judgment, in particular the value that is attributed to the 'value-in-force' ('VIF') intangible asset, which for EEV represents management's best estimate of the future profits expected to emerge from the acquired business. For IFRS purposes where, as is the case for the Waard Group acquisition, a profit will result, the VIF is expected to contain an element of prudence. The Committee has given careful consideration to the papers prepared by management supporting the judgements supporting the acquisition accounting, including the assumptions underpinning the future cash flows used to calculate the VIF, and the rate at which these cash flows are discounted.

Longer term viability statement

The 2014 Corporate Governance Code, which applies for the first time in this Annual Report, has introduced a requirement for the Directors to prepare a 'longer-term viability statement' (see page 35). In performing its assessment over whether the Annual Report is 'fair, balanced and understandable' the Committee has paid close attention to this disclosure. In particular, the Committee has reviewed this in the context of its knowledge of the Group business plan and associated financial projections, and the principal risks and uncertainties that the Group faces.

AVIF asset impairment assessment and run-off profile

The IFRS balance sheet of the Group includes a material intangible asset known as the AVIF asset (acquired value of in-force asset). This asset represents the aggregate of management's estimate of the future profits expected to emerge from each historical acquisition. Each AVIF asset is amortised over a profile representing management's best estimate of the profile over which future profits are expected to emerge. Each year management performs an assessment over whether there are any indications that each AVIF asset is impaired and whether the remaining amortisation profile remains appropriate. Judgment is applied by management in performing this work as it involves a re-assessment of the present value of the future profits expected to emerge out of each previous acquisition, and requires the use of best estimate assumptions. In confirming that the judgements applied by management are not inappropriate the Committee has reviewed and challenged a paper prepared by management that articulates the work performed, judgments made, and conclusions drawn.

Accounting for project Leon

During the year Movestic commenced an IT development project (project Leon) that will replace the existing IT infrastructure, covering customer/broker interfaces, process management, product and policy information and general ledger and data warehousing. As a material one-off project to the Group the Committee has been required to satisfy itself that the accounting for this project spend is appropriate under IFRS, EEV and Solvency II reporting. The Committee has reviewed a paper prepared by management that covers the accounting, and any associated judgements for the project under the various reporting regimes which differ in their requirements.

AUDIT & RISK COMMITTEE REPORT (CONTINUED)

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, Andrew Holland, was appointed during 2015, having been introduced following partner rotation rules;
- 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 2015 entitled 'Deloitte LLP Audit Quality Inspection' in conjunction with the report 'Audit Quality Inspections Annual Report 2014/15', dated 29 May 2015. The Deloitte specific report was discussed with the auditor although 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 of the Company's business which has expanded over time.

It was concluded that the audit process was effective. In view of the tenure of the current auditor, which 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 10 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 External Auditor.

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 External 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 15 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 2015. The Corporate Governance Report on pages 47 to 51 forms part of the Directors' Report.

The following information, that has been included by way of a cross reference to other areas of the Annual 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 34 to 35 and the 'Risk management' section on pages 36 to 39.

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 25.

Greenhouse gas reporting

The 'Corporate and social responsibility' section on pages 40 to 41.

Environmental, employee and social community matters

The 'Corporate and social responsibility' section on pages 40 to 41.

Results and dividends

The Group consolidated statement of comprehensive income for the year ended 31 December 2015, prepared in accordance with International Financial Reporting Standards adopted by the EU and set out on page 80 shows:

	2015 £000	2014 £000
Profit for year attributable to shareholders	39,788	25,575

An interim dividend of 6.61p per ordinary share was paid by Chesnara on 15 October 2015. The Board recommends payment of a final dividend of 12.33p per ordinary share on 23 May 2016 to shareholders on the register at the close of business on 8 April 2016.

Directors

Full information of the Directors who served in 2015 is detailed in Corporate Governance Report on pages 44 to 45. Detail of the Non-executive Directors who served as Chairmen and members of the Board Committees of the Board are set out in the Corporate Governance Report on pages 47 to 51. Information in respect of the Chairman and members of the Remuneration Committee and in respect of Directors' service contracts is included in the Remuneration Policy Report on pages 54 to 67, which also includes details of Directors' interests in shares and share options.

The Chairman and 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 are retained at the Company's office, and 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 2014 and 31 December 2015 and the period to 30 March 2016.

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 43 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 2015, the Company had 126,552,427 ordinary shares in issue, of which 147,535 were held as treasury shares.

In order to retain maximum flexibility, the Company proposes to renew the authority granted by ordinary shareholders at the Annual General Meeting in 2016, 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 2015, shareholders approved resolutions to allot shares up to an aggregate nominal value of £4,213,280 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 2015 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 2015
Vidacos Nominees Limited	17,522,660	13.85%
State Street Nominees Limited	9,229,159	7.29%
Barclayshare Nominees Limited	4,262,864	3.37%

Subsequent to 31 December 2015 there have been changes to this position and the holdings as at 23 March 2016 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 23 March 2016
Vidacos Nominees Limited	17,264,893	13.65%
State Street Nominees Limited	9,155,890	7.23%
Barclayshare Nominees Limited	3,977,196	3.14%

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

Charitable donations made by Group companies during the year ended 31 December 2015 were £nil (2014: £nil). No political contributions were made during the year ended 31 December 2015 (2014: £nil).

Employees

The average number of employees during the year was 186 (2014: 150).

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 36 to 39, within the Financial Management Section on pages 34 to 35 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 himself or herself 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 2016 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
Chairman

30 March 2016



John Deane
Group Chief Executive Officer

30 March 2016

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SECTION D
IFRS FINANCIAL STATEMENTS



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 2015 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 54. 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 and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained on page 72 and the directors' statement on the longer-term viability of the Group contained within the strategic report on page 35.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 37 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 37 - 39 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement on page 72 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- the director's explanation on page 35 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. 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.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

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. The key risks we identified are:

Risk	How the scope of our audit responded to the risk
<p>Save and Prosper Cost of Guarantees</p> <p>The assessment of the cost of guarantee reserves for 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. The carrying value of the liability within the IFRS financial statements has fluctuated significantly over the last three years, and has a value of £37.2m at 31 December 2015 (31 December 2014: £34.6m). The value is determined by a third party actuarial consultant and the directors compare this valuation against an in-house derived estimate using an approximation model to validate its reasonableness.</p> <p>See note 3 (f) for management's consideration of critical accounting judgment and key sources of estimation and uncertainty and note 32 (c) for disclosure of the calculation methodology and the charge to income for the current and prior year.</p>	<p>We have assessed the competence of the actuarial consultant. Such an assessment includes a direct challenge of the actuarial consultant working papers and a challenge of the historical accuracy of modelling when compared with actual experience. We used actuarial specialists within our audit team to challenge the appropriateness of assumptions input into the model and benchmark against external actuarial data. Where appropriate, sensitivity analysis was also performed to assess potential management bias. We developed an independent expectation of how the assumptions impact the model and challenged management's explanation and analysis to support any variations. We have assessed the design and implementation of the internal controls in place to monitor and manage the risks associated with the cost of guarantee reserve.</p>

Risk**Credit adjustment to the valuation rate of interest**

Actuarial liabilities are calculated using an appropriate discount rate to take account of the time value of future expected payments. The discount rate used to determine the actuarial liabilities includes an adjustment to reflect the credit risk of those future cash flows. The determination of the credit risk adjustment which is applied to non-Government bond yields is a source of significant judgment and is material to the balance sheet.

The accounting policy adopted by the Group is documented within note 2 (h) iv with further detail of the calculation of actuarial liabilities disclosed within note 32.

Valuation of the Protection Life acquired in-force business intangible

At 31 December 2015 the Group carries an intangible asset for the Protection Life acquired in-force business of £15.0m (31 December 2014: £17.6m). Following a review of available headroom, the key risk has been focussed on the Protection Life acquired in-force business intangible from the Movestic acquired in-force business intangible in the previous year.

Assessing the recoverable value of the acquired in-force business intangible asset requires significant judgment in the estimation of the net present value of cash flows arising from the pre-acquisition policies acquired in past business combinations. The key assumptions are persistency rates, discount rates and economic assumptions.

See note 3 (b) for management's consideration of significant accounting judgment.

The accounting policy adopted by the Group is documented within note 2 (o) to the financial statements and the acquired in-force business intangible is disclosed in note 20.

The Waard Group acquisition

The acquisition of the Waard Group required the exercise of judgment on the identification and valuation of the assets and liabilities acquired. The key judgments included the calculation of future cash flows arising from the Waard Group and the discount rate applied in adjusting these cash flows to a present value measurement. These judgements have a material impact on the financial position and result for the year.

A profit of £16.6m was recognised along with an intangible asset of £5.5m representing the acquired in-force business, which will be amortised over the life of the business. A profit on acquisition was recognised due to the deal being a 'bargain purchase' given the owner of the Waard Group was subject to bankruptcy proceedings in the Netherlands during the deal negotiation and completion.

See note 3 (b) for management's consideration of critical accounting judgment and key sources of estimation and uncertainty, and note 7 for further disclosure around the acquired business.

How the scope of our audit responded to the risk

We evaluated the appropriateness of the principal assumptions relating to the credit risk element of the valuation rate of interest assumption for discounting the technical provisions. This involved benchmarking the credit risk assumptions used against those obtained from external data, including a comparison with those adopted by industry peers, where available.

We substantively agreed a sample of non-government bonds used within the calculation of the valuation rate of interest to the value of those bonds on the balance sheet to check consistency. We have evaluated the design and implementation of the internal controls around the determination and application of the credit element of the valuation rate of interest applied in discounting actuarial liabilities.

We tested the design and implementation of the controls over the impairment test performed by management to assess the suitability of the carrying value of the intangible asset.

We evaluated the recoverability of the Protection Life acquired in-force business intangible asset by reviewing and challenging:

- the mechanical accuracy of the net present value calculation;
- the cash flows within the model to ensure these were the latest available and were those used consistently throughout the business;
- the level of headroom this calculation generated by reference to the post amortisation carrying value of the asset; and
- the appropriateness of the key assumptions used within the model by reference to actual experience and performance of sensitivity analysis where appropriate.

We tested the design and implementation of the controls over the impairment test performed by management to assess the suitability of the carrying value of the intangible asset.

We supervised audit procedures on the acquired balance sheet, including an independent valuation of a sample of derivative contracts held within the balance sheet and other investment balances.

We challenged the methodology applied to the underlying cash flows used to calculate the acquired in-force business intangible asset, and the judgments made by management. Specifically we recalculated an independent discount rate based on observable inputs to assess whether the rate used by management was reasonable. We used actuarial specialists within our audit team to challenge the appropriateness of assumptions used with reference to the actual experience observed within the book.

We assessed and challenged the completeness and accuracy of adjustments made in the consolidation process by independent recalculation. This included adjustments made to bring the Waard Group reporting in line with the group accounting policies, and any consolidation adjustments made.

We obtained and challenged the acquisition hindsight review performed by management in the post-acquisition period against the performance of the acquired business.

We have evaluated the design and implementation of the internal controls in place around the Waard Group acquisition. Such controls included Board approval of the assumptions used and approval of the acquisition accounting workings.

Last year our report included three other risks which are not included in our report this year:

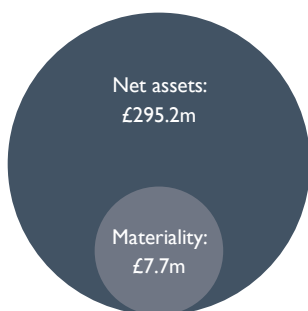
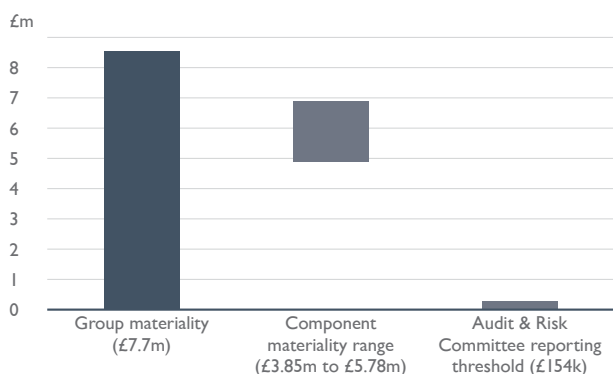
- Valuation of the Movestic acquired in-force business intangible – given the headroom in the calculation of the cash flows underpinning the valuation of the intangible asset, this was no longer considered a significant risk;
- Transfer of the provision of actuarial services – the transfer of services was completed in 2014; and
- Allocation of bonus units – this was a one-off change in the bonus unit allocation in the City of Westminster Assurance book of business and was completed in 2014.

The description of risks above should be read in conjunction with the key issues considered by the Audit & Risk Committee discussed on page 69.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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. The application of materiality involves both quantitative and qualitative considerations.

We determined quantitative materiality for the Group to be £7.7m (2014: £6.9m), which is below 3% (2014: 3%) of net assets. The net asset amount is considered an appropriate basis given the predominantly closed book nature of the business and management's focus on delivering value to shareholders through dividend streams arising from cash generation.

The net asset amount used within the determination of materiality has been adjusted downwards by 10% (2014: 10%) to capture any volatility in the benchmark arising from volatility in bond yields and equity prices on non-linked policies held by the group. The approach is consistent with that adopted in the prior year.

We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £154,000 (2014: £138,000), 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 Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at the 5 (2014: 5) principal locations where the Group's policies are administered and which are underwritten by Countrywide Assured plc, Waard Leven N.V., Hollands Welvaren Leven N.V., Waard Schade N.V and Movestic Livförsäkring AB being the underwriting entities within the Group.

All of these components were subject to a full audit, with component materiality levels set by the Group auditor ranging from £3,850,000 to £5,775,000 (2014: £3,450,000 to £4,050,000). Statutory audits for the legal entities are performed at levels of materiality applicable to each individual entity which were lower than Group and component materiality levels.

The Group audit team performed the audit work directly at three of the five locations. The remaining two of five locations involved the use of overseas Deloitte audit teams and followed a programme of planned visits that were designed so that the Senior Statutory Auditor or his designate visits the location at least once a year.

The increase in the number of component audit teams used has arisen through the completion of the Waard Group acquisition in the current 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.

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). 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 parent 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.



Andrew Holland FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
 Chartered Accountants and Statutory Auditor
 London,
 United Kingdom
 30 March 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December			
	Note	2015 £000	2014 £000
Insurance premium revenue		114,749	128,384
Insurance premium ceded to reinsurers		(46,811)	(51,646)
Net insurance premium revenue		67,938	76,738
Fee and commission income	9	66,249	66,592
Net investment return	10	148,514	430,673
Total revenue net of reinsurance payable		282,701	574,003
Other operating income	11	18,586	23,624
Total income net of investment return		301,287	597,627
Insurance contract claims and benefits incurred			
Claims and benefits paid to insurance contract holders	12	(318,721)	(303,521)
Net decrease in insurance contract provisions	12	191,850	39,676
Reinsurers' share of claims and benefits	12	32,004	44,627
Net insurance contract claims and benefits		(94,867)	(219,218)
Change in investment contract liabilities	13	(100,469)	(267,140)
Reinsurers' share of investment contract liabilities	13	733	2,272
Net change in investment contract liabilities		(99,736)	(264,868)
Fees, commission and other acquisition costs	14	(20,875)	(21,707)
Administrative expenses	15	(41,301)	(42,494)
Other operating expenses			
Charge for amortisation of acquired value of in-force business	16	(9,274)	(9,281)
Charge for amortisation of acquired value of customer relationships	16	(222)	(263)
Other	16	(5,866)	(8,840)
Total expenses net of change in insurance contract provisions and investment contract liabilities		(272,141)	(566,671)
Total income less expenses		29,146	30,956
Share of profit of associate	24	455	855
Profit recognised on business combination		16,644	–
Financing costs	17	(3,457)	(3,008)
Profit before income taxes	8	42,788	28,803
Income tax expense	18	(3,000)	(3,228)
Profit for the year	8	39,788	25,575
Foreign exchange translation differences arising on the revaluation of foreign operations		(173)	(7,844)
Total comprehensive income for the year		39,615	17,731
Basic earnings per share (based on profit for the year)	49	31.48p	22.10p
Diluted earnings per share (based on profit for the year)	49	31.41p	22.08p

The notes and information on pages 86 to 157 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

31 December	Note	2015 £000	2014 £000
Assets			
Intangible assets			
Deferred acquisition costs	19	36,061	31,298
Acquired value of in-force business	20	68,341	73,469
Acquired value of customer relationships	21	875	1,143
Software assets	22	4,720	3,715
Property and equipment	23	537	477
Investment in associates	24	4,707	4,388
Investment properties	25	245	5,520
Reinsurers' share of insurance contract provisions	32	282,628	335,936
Amounts deposited with reinsurers	33	33,941	35,498
Financial assets			
Equity securities at fair value through income	26	486,243	475,983
Holdings in collective investment schemes at fair value through income	26	3,499,355	3,516,424
Debt securities at fair value through income	26	423,754	377,193
Policyholders' funds held by the Group	26	189,919	164,858
Insurance and other receivables	26/27	43,674	45,360
Prepayments	26/27	6,565	4,821
Derivative financial instruments	26/28	2,721	3,580
Total financial assets		4,652,231	4,588,219
Reinsurers' share of accrued policyholder claims	39	19,042	14,722
Income taxes	29	3,611	1,962
Cash and cash equivalents	30	260,863	241,699
Total assets		5,367,802	5,338,046
Liabilities			
Insurance contract provisions	32	2,232,083	2,308,043
Other provisions	36	1,905	729
Financial liabilities			
Investment contracts at fair value through income	33	2,457,521	2,389,812
Liabilities relating to policyholders' funds held by the Group	34	189,919	164,858
Borrowings	35	79,025	87,296
Derivative financial instruments	28	444	49
Total financial liabilities		2,726,909	2,642,015
Deferred tax liabilities	37	7,906	8,340
Reinsurance payables	38	9,660	10,499
Payables related to direct insurance and investment contracts	39	62,284	58,789
Deferred income	40	6,212	6,974
Income taxes	41	6,328	4,168
Other payables	42	18,401	18,467
Bank overdrafts	30	952	1,189
Total liabilities		5,072,640	5,059,213
Net assets	8	295,162	278,833
Shareholders' equity			
Share capital	43	42,600	42,600
Share premium	43	76,516	76,523
Treasury shares	44	(161)	(168)
Other reserves	45	(814)	(641)
Retained earnings	46	177,021	160,519
Total shareholders' equity		295,162	278,833

The notes and information on pages 86 to 157 form part of these financial statements.

Approved by the Board of Directors and authorised for issue on 30 March 2016 and signed on its behalf by:



Peter Mason
Chairman

John Deane
Chief Executive Officer

COMPANY BALANCE SHEET

31 December	Note	2015 £000	2014 £000
Assets			
Non-current assets			
Financial assets			
Investments in subsidiaries	26	249,234	199,111
Current assets			
Financial assets			
Equity securities at fair value through income	26	–	1,008
Holdings in collective investment schemes at fair value through income	26	5,012	–
Receivables and prepayments	27	3,702	494
Deferred tax asset		73	30
Income taxes	29	1,815	1,667
Cash and cash equivalents	30	43,298	80,102
Total current assets		53,900	83,301
Total assets		303,134	282,412
Current liabilities			
Borrowings			
Other payables	42	1,566	2,221
Total current liabilities		13,532	14,047
Non-current liabilities			
Borrowings			
	35	40,556	52,501
Total non-current liabilities		40,556	52,501
Total liabilities		54,088	66,548
Net assets		249,046	215,864
Shareholders' equity			
Share capital			
Share premium	43	6,328	6,328
Treasury shares	44	76,516	76,523
Other reserves	45	(161)	(168)
Retained earnings	46	50	50
	46	166,313	133,131
Total shareholders' equity		249,046	215,864

The notes and information on pages 86 to 157 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 2016 and signed on its behalf by:



Peter Mason
Chairman

John Deane
Chief Executive Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December			
	Note	2015 £000	2014 £000
Profit for the year		39,788	25,575
Adjustments for:			
Depreciation of property and equipment	23	203	206
Amortisation of deferred acquisition costs		9,251	9,729
Amortisation of acquired value of in-force business		9,274	9,281
Amortisation of acquired value of customer relationships		222	263
Amortisation of software assets	22	1,346	1,802
Share based payment		212	114
Tax paid		2,999	3,228
Interest receivable		(24,693)	(26,975)
Dividends receivable		(31,501)	(30,032)
Interest expense		3,457	3,008
Change in fair value of investment properties		(4,277)	(2,526)
Fair value gains on financial assets		(87,934)	(370,641)
Profit arising on business combination		(16,644)	–
Share of profit of associate		(455)	(855)
Increase in intangible assets related to insurance and investment contracts		(14,759)	(16,219)
Interest received		24,458	27,346
Dividends received		31,532	29,835
Changes in operating assets and liabilities:			
Decrease in financial assets		62,365	44,847
Decrease in reinsurers' share of insurance contract provisions		54,253	34,654
Increase/(decrease) in amounts deposited with reinsurers		1,557	(1,205)
Increase/(decrease) in insurance and other receivables		1,754	(2,492)
Increase in prepayments		(1,710)	(317)
Decrease in insurance contract provisions		(201,453)	(44,940)
Increase in investment contract liabilities		149,011	369,838
Decrease in provisions		(1,893)	(4,600)
(Decrease)/increase in reinsurance payables		(578)	222
Increase in payables related to direct insurance and investment contracts		1,708	12,820
Decrease in other payables		(1,630)	(7,402)
Net cash generated from operations		5,863	64,564
Income tax paid		(4,248)	(8,839)
Net cash generated from operating activities		1,615	55,725
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		54,258	–
Development of software		(2,418)	(1,079)
Purchases of property and equipment		(265)	(224)
Proceeds from the disposal of property and equipment		–	152
Net cash generated from/(utilised by) investing activities		51,575	(1,151)
Cash flows from financing activities			
Proceeds from issue of share capital		–	34,573
Repayment of borrowings		(7,815)	(4,469)
Sale treasury shares		–	44
Dividends paid		(23,498)	(20,731)
Interest paid		(3,382)	(2,593)
Net cash (utilised by)/generated by financing activities		(34,695)	6,824
Net increase in net cash and cash equivalents		18,495	61,398
Net cash and cash equivalents at beginning of year		240,510	183,136
Effect of exchange rate changes on net cash and cash equivalents		906	(4,024)
Net cash and cash equivalents at end of the year (note 30)		259,911	240,510

Note: Net cash and cash equivalents includes overdrafts.

The notes and information on pages 86 to 157 form part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS

Year ended 31 December	2015 £000	2014 £000
Profit for the year	56,468	41,214
Adjustments for:		
Tax recovery	(980)	(888)
Interest receivable	2,116	2,341
Share based payment	212	114
Dividends receivable	(65,000)	(48,000)
Fair value gains on financial assets	(4,004)	(1,008)
Changes in operating assets and liabilities:		
(Decrease)/increase in loans and receivables	(3,253)	110
Increase in prepayments	2	2
Decrease in provisions	–	(3,306)
Decrease increase in other payables	(503)	(318)
Net cash utilised by operating activities	(14,942)	(9,739)
Income tax received	800	1,392
Net cash utilised by operating activities	(14,142)	(8,347)
Cash flows from investing activities		
Acquisition of subsidiary company	(50,123)	–
Dividends received from subsidiary company	65,000	48,000
Net cash generated from investing activities	14,877	48,000
Cash flows from financing activities		
Net proceeds from the issue of share capital	–	34,573
Net repayment of borrowings	(12,000)	(9,000)
Dividends paid	(23,498)	(20,731)
Interest paid	(2,041)	(1,926)
Sale of treasury shares	–	44
Net cash/(utilised by) generated from financing activities	(37,539)	2,960
Net (decreases)/ increase in net cash and cash equivalents	(36,804)	42,613
Net cash and cash equivalents at beginning of year	80,102	37,489
Net cash and cash equivalents at end of the year (note 30)	43,298	80,102

Note: Net cash and cash equivalents includes overdrafts.

The notes and information on pages 86 to 157 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015						
	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2015	42,600	76,523	(641)	(168)	160,519	278,833
Profit for the year	–	–	–	–	39,788	39,788
Dividends paid	–	–	–	–	(23,498)	(23,498)
Foreign exchange translation differences	–	–	(173)	–	–	(173)
Share based payment	–	–	–	–	212	212
Sale of treasury shares	–	(7)	–	7	–	–
Equity shareholders' funds at 31 December 2015	42,600	76,516	(814)	(161)	177,021	295,162

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

The notes and information on pages 86 to 157 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2015						
	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2015	6,328	76,523	50	(168)	133,131	216,864
Profit for the year	–	–	–	–	56,468	56,468
Dividends paid	–	–	–	–	(23,498)	(23,498)
Share based payment	–	–	–	–	212	212
Sale of treasury shares	–	(7)	–	7	–	–
Equity shareholders' funds at 31 December 2015	6,328	76,516	50	(161)	166,313	249,046

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

The notes and information on pages 86 to 157 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 in the United Kingdom and registered in England and Wales. The Company 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, Swedish and Dutch life and pensions businesses.

The UK businesses, which comprise of the CA and S&P segments described in note 8, 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. Following the Part VII transfer on 31 December 2014 of the long-term business of Protection Life Company Limited into Countrywide Assured plc, the business of Protection Life (PL) is now reported within the CA segment, effective from 1 January 2015. Previously PL was reported as a separate segment. Comparative information has been restated to reflect this change.

The Swedish business, which comprises the Movestic segment, described in note 8, 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.

The Group acquired the Waard Group on 19 May 2015. As a result, a further operating segment has been added in note 8. This represents the Group's Dutch life and general insurance business and comprises the three insurance companies Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V., and a servicing company, Tadas Verzekering. The Waard Group's policy base is predominantly made up of term life policies, although also includes unit-linked policies and some non-life policies, covering risks such as occupational disability and unemployment.

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 2016.

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, the Swedish business, which comprises the Movestic segment and the Dutch business which comprises the Waard Group; and
- (ii) as between the CA and S&P 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.

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
Amendments to IAS 12 (Jan 2016)	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 10, IFRS 12 and IAS 28 (Dec 2014)	Investment Entities: Applying the Consolidation Exception
Amendments to IAS 1 (Dec 2014)	Disclosure Initiative
Annual Improvements to IFRSs: 2012-2014 Cycle	Annual Improvements to IFRSs: 2012-2014 Cycle
Amendments to IFRS 10 and IAS 28 (Sept 2014)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 27 (Aug 2014)	Equity Method in Separate Financial Statements
Amendments to IAS 16 and IAS 38 (May 2014)	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRS 11 (May 2014)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 16	Leases
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 14	Regulatory Deferral Accounts

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 contracts. 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 46.

(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.

In accordance with IFRS 4, Insurance Contracts, on adoption of IFRS the Group applied existing accounting practices for insurance and participating investment contracts, modified as appropriate to comply with the IFRS framework and applicable standards, introducing changes only where they provide more reliable and relevant information.

(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.

(h) Insurance contracts

There are fundamental differences between the nature of the insurance contracts subsisting in the UK, Swedish and Dutch businesses, including inter alia contract longevity: the related product characteristics are set out for the separate UK, Swedish and Dutch 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.

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 due, 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 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.

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)

(h) Insurance contracts (continued)

Swedish business – non-life (continued)

(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 32.

Dutch 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. Reinsurance recoveries are accounted for in the same period as the related claim.

(iii) Acquisition costs

Acquisition costs comprise all direct costs arising from the conclusion of insurance contracts. Acquisition costs are expensed when 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 Dutch Central Bank. 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 businesses' unitised investment funds, determined on a bid value basis, at the balance sheet date.

For non-linked business, 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.

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 businesses recognise 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.

The estimation of outstanding claims provisions is described in note 32.

(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. This not applicable to the Dutch business.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)

(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.

(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 three and five 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 12 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2 Significant accounting policies (continued)

(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.

Dutch business

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.

(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 8, to which it is relevant.

(a) Classification of long-term contracts (CA, S&P, Movestic and the Waard Group)

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, Movestic and the Waard Group)

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 cash flows 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 4%, 8%, 10% and 12%.

As at 31 December 2015, the carrying value of acquired in-force business, net of amortisation, was £22.4m in respect of CA (as at 31 December 2014: £27.4m), £5.1m in respect of S&P (as at 31 December 2014: £5.8m), £35.4m in respect of Movestic (as at 31 December 2014: £40.2m) and £5.3m in respect of the Waard Group.

(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 2015, the carrying values of deferred acquisition costs, net of amortisation, and of deferred income, in respect of CA, were £3.4m and £6.2m respectively (as at 31 December 2014: £3.9m and £7.0m 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 2015, the carrying values of deferred acquisition costs, net of amortisation, in respect of Movestic, was £32.7m (as at 31 December 2014: £27.4m). An increase in the length of the amortisation period by one year would have increased profit before tax for the year ended 31 December 2015 by £1.4m and shareholders' equity as at 31 December 2015 by £1.1m.

(d) Estimates of future benefits payments arising from long-term insurance contracts (CA and S&P)

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.

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 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3 Critical accounting judgments and key sources of estimation and uncertainty (continued)

(e) 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 CA means that future expenses are relatively predictable and hence assumptions made for actuarial reserving purposes are not 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 were in line with revised expense assumptions recognised in 2013. In addition, the actuarial services were also transferred to Towers Watson.

(f) 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 2015, the carrying value of insurance contract liabilities which contain S&P discretionary participation features was £302.3m (31 December 2014: £310.4m).

(g) 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 2015, the carrying value of the insurance claim reserves, gross of reinsurance, was £66.9m (as at 31 December 2014: £65.2m). The key sensitivities in respect of insurance claim reserves are considered in note 32.

(h) 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 2015, such claims ceded to reinsurers and reflected on the balance sheet were £43.6m (31 December 2014: £43.2m). The application of a 10 per cent bad debt provision on the reinsurance balance would reduce 2015 profit before tax by £4.4m and shareholders' equity by £3.2m.

(i) 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 and the Netherlands.

The results and cash flows of these operations have been translated into sterling at an average rate for the year of £1 = SEK 12.89 (2014: £1 = SEK 11.30) for the Swedish business and £1 = Euro 1.39 for the Dutch business.

Assets and liabilities have been translated at the year end rate of £1 = SEK 12.49 (31 December 2014: £1 = SEK 12.07) for the Swedish business and £1 = euro 1.36 for the Dutch business.

Total foreign currency exchange rate movements for the year ended 31 December 2015 resulted in a loss recognised in the Consolidated Statement of Comprehensive Income of £0.2m (year ended 31 December 2014: £78m loss).

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, Swedish and Dutch 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 and S&P 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.

(a) 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	2015		2014	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured) – CA and S&P	2,904,720	2,518,420	3,414,865	2,715,013
Long-term non-linked without DPF (sums assured) – CA and S&P	11,976,763	1,652,703	12,921,837	1,718,633
Immediate annuities (benefits per annum) – CA	5,846	5,809	5,771	5,705
Deferred annuities with DPF (benefits per annum) – S&P	1,893	1,893	2,108	2,108
Long-term with DPF (sums assured) – CA	19,649	–	40,807	93
Long-term with DPF (sums assured) – S&P	362,076	349,809	389,083	373,790

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 Management of insurance risk (continued)

(a) UK businesses (continued)

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 98.6% 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 98.1% 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 the 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 32 Insurance Contract Provisions.

(b) 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		After reinsurance	
	2015	2014	2015	2014
	£000	£000	£000	£000
Group				
Sweden	18,425	20,980	5,208	8,121
Norway	15	149	3	31
Individual				
Death	2,834	3,067	1,321	1,429
Waiver of premium	2,894	3,196	846	934
Income protection	7,238	9,149	6,098	7,750
	31,406	36,541	13,476	18,265

Claims outstanding As at 31 December	Before reinsurance		After reinsurance	
	2015	2014	2015	2014
	£000	£000	£000	£000
Group				
Sweden	33,790	32,398	8,325	6,333
Norway	2,756	3,350	482	531
Individual				
Death	578	563	212	201
Waiver of premium	8,087	5,618	2,633	1,589
Income protection	21,672	19,831	11,606	9,903
	66,883	61,760	23,258	18,557

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5 Management of insurance risk (continued)

(b) Swedish business (continued)

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 Sweden and have been sold in Norway in the past. 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 typically provides a maximum coverage of insured benefits up to 40 times a base amount (as at 31 December 2015 SEK 44,500, being approximately £3,561) 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 2015 NOK 90,068, being approximately £6,895) although most policies are between 5 to 10 times the base amount.

All contracts are for an annual period.

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 and size 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 claim portfolio from the Aspis acquisition is 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 10m (approximately £0.8m) and SEK 270m (approximately £21.6m).

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 forecasts that its maximum loss would be approximately SEK 164m (approximately £13m) 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 32 Insurance Contract Provisions.

(c) Dutch business

Sums assured/benefits per annum – gross and net of reinsurance 31 December	2015		2014	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured)	34,725	34,725	–	–
Long-term non-linked without DPF (sums assured)	2,320,156	2,046,847	–	–

Protection*Product feature*

The division mainly wrote term life, sold as a single premium policy in combination with a loan or mortgage. Policy conditions allow for a surrender value at lapse. In addition, similar types of policies covering the risk of disability, unemployment and accident were written. The most significant factors that could increase risk are epidemics and changes in lifestyle and the social security environment.

Management of risks

The portfolio is in run-off and no significant underwriting occurs. For the existing portfolio, the division entered into an Excess of Loss & Catastrophe (Life) and Quota Share (Health) reinsurance agreement to mitigate the risk in excess of risk appetite for mortality, disability and unemployment.

Concentration of insurance risk

The Dutch division did not write Group Life & Health contracts and an excess of loss limit of €100,000 euro is applied for life risk, hence concentration risk is limited.

Persistency

Persistency risk concerns the risk that the policyholder cancels the contract or discontinues paying new premiums into the contract. On lapse, a surrender value is paid to the policyholder and anticipated future profits on risk premium will not be realised. Our exposure to risk on lapses is mitigated to some extent by allowing lapses for single premium policies only at each fifth policy anniversary.

Expense risk

The expense risk concerns the risk of incurring higher than expected expenses in the future. The expense risk is mitigated to some extent by using scalable administrative processes and tight expense management as well as management plan to acquire new portfolios.

Unit Linked*Product features*

The division wrote Unit Linked business, with policies paying out 90% of the unit-value at death of the policyholder and 100% at expiry. Early surrender triggers smaller penalties for policyholders.

Persistency and expense risk

The portfolio is small and very mature. To mitigate the expense risk, the portfolio is intended to be merged into a larger one, keeping cost levels appropriate. Persistency levels are moderate and largely depend on investment performance.

Assumptions and sensitivities

The assumptions and sensitivities relating to insurance contract provisions for the Dutch division are set out in note 32 Insurance Contract Provisions.

Assumptions and sensitivities for Group Contract and Individual Contract insurance Contract Provisions

Information relating to insurance contract provisions assumptions and sensitivities for the Dutch business is set out in note 32 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 euro against sterling, arising from its ownership of Movestic and the Waard Group respectively.

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 two types of investment contract: unit-linked savings and unit-linked pensions predominantly written in the UK and Sweden.

- (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.

No investment contracts exist within the Dutch business.

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' Asset Liability Matching (ALM) 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 2015	Unit-linked contracts £000	*Insurance contracts with DPF £000	Annuities in payment £000	Other non-linked contracts £000	Total £000
Assets					
Property and equipment	–	–	–	4,707	4,707
Investment in associates	–	–	–	537	537
Investment properties	245	–	–	–	245
Reinsurers' share of insurance contract provisions	88,514	60,807	–	133,307	282,628
Amounts deposited with reinsurers	33,941	–	–	–	33,941
Financial assets					
Equity securities at fair value through income	484,502	4	–	1,737	486,243
Holdings in collective investment schemes at fair value through income	3,152,606	269,444	–	77,305	3,499,355
Debt securities at fair value through income	138,536	92,593	107,307	85,318	423,754
Insurance and other receivables	12,022	1,714	–	29,938	43,674
Prepayments	642	444	–	5,479	6,565
Derivative financial instruments	280	16	–	2,425	2,721
Total financial assets	3,788,588	364,215	107,307	202,202	4,462,312
Reinsurers' share of accrued policyholder claims	11,521	–	–	7,521	19,042
Income taxes	–	–	–	3,611	3,611
Cash and cash equivalents	62,077	2,910	3,697	192,179	260,863
Total assets	3,984,886	427,932	111,004	544,064	5,067,886
Liabilities					
Insurance contract provisions	1,453,175	382,858	108,623	287,427	2,232,083
Other provisions	3	–	–	1,902	1,905
Financial liabilities					
Investment contracts at fair value through income	2,452,269	–	–	5,252	2,457,521
Borrowings	–	–	–	79,025	79,025
Derivative financial instruments	28	416	–	–	444
Total financial liabilities	2,452,297	416	–	84,277	2,536,990
Deferred tax liabilities	–	–	–	7,906	7,906
Reinsurance payables	722	9	–	8,929	9,660
Payables related to direct insurance and investment contracts	30,195	4,756	767	26,566	62,284
Income taxes	–	–	–	6,328	6,328
Other payables	3,890	681	–	13,830	18,401
Bank overdrafts	–	–	–	952	952
Total liabilities	3,940,282	388,720	109,390	438,117	4,876,509

* 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 2014	Unit-linked contracts £000	*Insurance contracts with DPF £000	Annuities in payment £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.

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

(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 serve 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 the Waard Group are mostly categorised as 'Other non-linked' in the table below.

31 December 2015							
Carrying values and cash flows arising from:	Carrying value £000	0-5 years £000	Contractual cash flows (undiscounted)				Total £000
			5-10 years £000	10-15 years £000	15-20 years £000	>20 years £000	
Insurance contract liabilities							
Unit-linked	1,453,175	1,453,175	–	–	–	–	1,453,175
With DPF							
CA	65,182	65,182	–	–	–	–	65,182
S&P	317,674	111,782	84,740	77,116	45,849	16,091	335,578
Annuities in payment	108,623	27,699	24,226	20,354	16,217	23,388	111,884
Other non-linked	287,427	165,020	62,535	44,371	19,520	9,550	300,996
Investment contract liabilities							
Unit-linked	2,505,419	2,505,419	–	–	–	–	2,505,419
Other	5,512	5,512	–	–	–	–	5,512
Other liabilities	133,497	133,497	–	–	–	–	133,497
Total	4,876,509	4,467,286	171,501	141,841	81,586	49,029	4,911,243

31 December 2014							
Carrying values and cash flows arising from:	Carrying value £000	0-5 years £000	Contractual cash flows (undiscounted)				Total £000
			5-10 years £000	10-15 years £000	15-20 years £000	>20 years £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
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

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' on page 108. 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) its investment in Movestic, the assets and liabilities of which are principally denominated in Swedish krona;

The Group's currency risk through its ownership of Movestic and the Waard Group is reflected in:

- (i) foreign exchange translation differences arising on the translation into sterling and consolidation of Movestic and the Waard Group's financial statements; and
- (ii) the impact of adverse exchange rate movements on cash flows between Chesnara plc and its foreign subsidiaries: 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.

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	2015	2014
	£000	£000
Swedish krona		
Assets	2,118,412	1,982,299
Liabilities	(2,070,475)	(1,939,819)
Net assets	47,937	42,480
Euro		
Assets	189,696	43,965
Liabilities	(120,266)	(55)
Net assets	69,430	43,910
Norwegian krone		
Assets	3,596	3,587
Liabilities	(2,780)	(3,566)
Net assets	816	21
US dollar		
Assets	312	570
Liabilities	(313)	(585)
Net liabilities	(1)	(15)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

(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	2015		2014	
	Profit before tax £m	Shareholders' equity £m	Profit before tax £m	Shareholders' equity £m
100 bp increase in market rates of interest	3.3	2.6	5.9	4.7
100 bp decrease in market rates of interest	(9.9)	(7.9)	(7.2)	(5.8)
10% increase in equity and property prices	14.0	11.1	14.1	11.2
10% decrease in equity and property prices	(14.0)	(11.1)	(14.1)	(11.2)
10% favourable movement in SEK: sterling exchange rate	0.7	5.3	0.5	4.7
10% adverse movement in SEK: sterling exchange rate	(0.6)	(4.4)	(0.4)	(3.9)
10% favourable movement in EUR: sterling exchange rate	0.1	7.6	4.8	4.8
10% adverse movement in EUR: sterling exchange rate	(0.1)	(6.3)	(3.9)	(3.9)

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	2015		Balance sheet carrying value £000	2014		Balance sheet carrying value £000
	Amount not subject to credit risk £000	Amount subject to credit risk £000		Amount not subject to credit risk £000	Amount subject to credit risk £000	
Holdings in collective investment schemes	3,484,007	15,348	3,499,355	3,515,878	546	3,516,424
Debt securities	124,906	298,848	423,754	114,983	262,210	377,193
Cash and cash equivalents	56,160	204,703	260,863	64,594	177,105	241,699
Derivative financial instruments	2,704	17	2,721	3,258	322	3,580
Reinsurers' share of insurance contract liabilities	–	282,628	282,628	–	335,936	335,936
Amounts deposited with reinsurers	–	33,941	33,941	–	35,498	35,498
Insurance and other receivables	28,175	15,499	43,674	32,863	12,497	45,360
Reinsurers' share of accrued policyholder claims	–	19,042	19,042	–	14,722	14,722
Income taxes	–	3,611	3,611	–	1,962	1,962
Total	3,695,952	873,637	4,569,589	3,731,576	840,798	4,572,374

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.

The Group's exposure to credit risk is summarised as:

Credit rating As at 31 December 2015	AAA £000	AA £000	A £000	Below A £000	Unrated £000	Total £000
Reinsurers share of insurance contract liabilities	–	109,278	18,388	–	154,962	282,628
Holdings in collective investment schemes	–	–	15,348	–	–	15,348
Amounts deposited with reinsurers	–	–	–	–	33,941	33,941
Debt securities at fair value through income	215,914	55,699	18,957	3,533	4,745	298,848
Insurance and other receivables	1,507	11,901	–	–	2,091	15,499
Reinsurers share of accrued policyholder claims	–	6,449	1,095	–	11,498	19,042
Derivative financial instruments	–	–	17	–	–	17
Income taxes	3,611	–	–	–	–	3,611
Cash and cash equivalents	–	40,730	157,167	6,767	39	204,703
Total	221,032	224,057	210,972	10,300	207,276	873,637
As at 31 December 2014						
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

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 £169.9m as at 31 December 2015 (31 December 2014: £224.1m) to Guardian, which does not have a published credit rating. Of this amount £137.0m (31 December 2014: £179.5m) 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 2015 and 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6 Management of financial risk (continued)

Credit risk management (continued)

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. No further distributions were received during 2015 (2014: £10,872).

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 2015.

7 Business combinations

On 19 May 2015, Chesnara plc acquired the entire issued share capital (100%) of the Waard Group, a closed life assurance company based in the Netherlands, from DSB Beheer B.V., a Dutch financial services group for a total consideration of £50,123,000. The acquired companies comprise of the three insurance companies Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V., and a service company, Tadas Verzekering. The Waard Group's policy base is predominantly made up of term life policies, although also includes unit-linked policies and some non-life policies, covering risks such as occupational disability and unemployment. The acquisition represents an attractive opportunity to purchase a closed book with the potential to generate significant cash flow over the near-to-medium term, while also providing a platform to participate in further consolidation within the Dutch and other European markets.

The acquisition of this shareholding has given rise to a profit on acquisition of £16.6m calculated as follows:

	Book value £000	Provisional fair value adjustments £000	Fair value £000
Assets			
Intangible assets			
Acquired value of in-force business	–	5,506	5,506
Software assets	25	–	25
Property and equipment	13	–	13
Reinsurers' share of insurance contract provisions	5,522	–	5,522
Financial assets:			
Equity securities at fair value through income	170	–	170
Holdings in collective investment schemes at fair value through income	45,131	–	45,131
Debt securities at fair value through income	37,793	–	37,793
Insurance and other receivables	679	–	679
Prepayments	64	–	64
Total financial assets	83,837	–	83,837
Reinsurers' share of accrued policyholder claims	1,084	–	1,084
Deferred tax asset	1,824	–	1,824
Income taxes	255	–	255
Cash and cash equivalents	104,381	–	104,381
Total assets	196,941	5,506	202,447
Liabilities			
Insurance contract provisions	125,045	–	125,045
Other provisions	3,025	–	3,025
Deferred tax liabilities	2,099	1,377	3,476
Reinsurance payables	72	–	72
Payables related to direct insurance contracts	2,241	–	2,241
Income taxes	70	–	70
Other payables	1,751	–	1,751
Total liabilities	134,303	1,377	135,680
Net assets	62,638	4,129	66,767
Net assets acquired			66,767
Total consideration, paid in cash			(50,123)
Profit arising on business combination			16,644

The assets and liabilities at the acquisition date in the table opposite are stated at their provisional fair values and may be amended for 12 months after the date of acquisition in accordance with IFRS 3, Business Combinations. In our interim financial statements, the profit arising upon business combination was reported at £16.2m. This has subsequently been revised to reflect more accurately the fair value of the net assets acquired. The adjustment includes an increase in the expense assumptions used to calculate the acquired value of in-force business and also the recognition of a deferred tax asset, which existed at the acquisition date but was not recognised due to uncertainty surrounding its ability to be utilised against future profit emergence. This has subsequently been established as being off-settable against future profit emergence within the Waard fiscal tax unity and is now recognised on the acquisition balance sheet.

Acquired receivables: Within the net assets acquired are reinsurance related and other receivable balances totalling £7.3m, which are held at fair value. For all receivables other than reinsurers' share of insurance contract provisions the gross contractual amounts receivable are equal to fair value. The reinsurers' share of insurance contract provisions receivable balance of £5.5m is discounted as a result of the long-term nature of this asset. Gross contractual amounts receivable are estimated as being £6.4m.

Acquired value of in-force business: The acquisition has resulted in the recognition of net of tax intangible asset amounting to £4.1m, which represents the present value of the future post-tax cash flows expected to arise from policies that were in force at the point of acquisition. The asset has been valued using a discounted cash flow model that projects the future surpluses that are expected to arise from the business. The model factors in a number of variables, of which the most influential are; the policyholders' ages, mortality rates, expected policy lapses, expenses that are expected to be incurred to manage the policies and future investment growth, as well as the discount rate that has been applied. This asset will be amortised over its expected useful life.

Gain on acquisition: As shown on the previous page, a gain of £16.6m has been recognised on acquisition. Under IFRS 3, a gain on acquisition is defined as being a 'bargain purchase'. At the point of price negotiation and subsequent deal completion, the Waard Group was owned by DSB Bank N.V. (a wholly-owned subsidiary DSB Beheer B.V.) which was subject to bankruptcy proceedings in the Netherlands. In the opinion of the Directors this resulted in a disposal pricing strategy for the Waard Group that would have differed to that which would have been used had the businesses been sold by a group that was a going concern.

Acquisition-related costs: The costs in respect of the transaction amounted to £3.5m. £2.5m of these costs have been included in Administration Expenses, of which £1.9m was recognised within the Consolidated Statement of Comprehensive Income in 2014, with the remainder recognised in the current period. Transaction costs of £1.0m were incurred in respect of the equity fund-raising and were deducted from equity in 2014.

Results of the Waard Group: The results of the Waard Group have been included in the consolidated financial statements of the Group with effect from 19 May 2015. Net insurance premium revenue for the period was £1.1m, with contribution to overall consolidated profit before tax of £0.9m, before the amortisation of the AVIF intangible asset. Had the Waard Group been consolidated from 1 January 2015, the Consolidated Statement of Comprehensive Income would have included net insurance premium revenue of £2.2m, and would have contributed £2.1m to the overall consolidated profit before tax.

8 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 2015 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. This segment also contains the business of Protection Life, which was purchased on 28 November 2013. Following the Part VII transfer on 31 December 2014 of the long-term business of Protection Life Company Limited into Countrywide Assured plc, the business of Protection Life (PL) is now reported within the CA segment, effective from 1 January 2015. Previously PL was reported as a separate segment. Comparative information has been restated to reflect this change. CA 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.

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 pensions and savings business and providing some life and health product offerings.

The Waard Group: This segment represents the Group's Dutch life and general insurance business, which was acquired on 19 May 2015 and comprises the three insurance companies Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V., and a servicing company, Tadas Verzekering. The Waard Group's policy base is predominantly made up of term life policies, although also includes unit-linked policies and some non-life policies, covering risks such as occupational disability and unemployment.

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.

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 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8 Operating segments (continued)

(i) Segmental income statement for the year ended 31 December 2015

	CA £000	S&P £000	UK Total £000	Movestic £000	Waard Group £000	Other Group Activities £000	Total £000
Net insurance premium revenue	47,880	5,413	53,293	13,515	1,130	–	67,938
Fee and commission income	30,216	2,513	32,729	33,502	18	–	66,249
Net investment return	24,539	37,605	62,144	87,163	(1,238)	445	148,514
Total revenue (net of reinsurance payable)	102,635	45,531	148,166	134,180	(90)	445	282,701
Other operating income	2,854	11,331	14,185	4,399	2	–	18,586
Segmental income/(expenses)	105,489	56,862	162,351	138,579	(88)	445	301,287
Net insurance contract claims and benefits incurred	(54,093)	(37,282)	(91,375)	(6,079)	2,587	–	(94,867)
Net change in investment contract liabilities	(13,240)	641	(12,599)	(87,137)	–	–	(99,736)
Fees, commission and other acquisition costs	(1,986)	(21)	(2,007)	(21,864)	83	–	(23,788)
Administrative expenses:							
Amortisation charge on software assets	–	–	–	(1,340)	–	–	(1,340)
Depreciation charge on property and equipment	(22)	–	(22)	(180)	–	–	(202)
Other	(10,691)	(9,628)	(20,319)	(9,884)	(1,715)	(7,841)	(39,759)
Operating expenses	(1,501)	–	(1,501)	(4,481)	–	–	(5,982)
Financing costs	–	–	–	(1,340)	–	(2,116)	(3,456)
Share of profit from associates	–	–	–	455	–	–	455
Profit before tax and consolidation adjustments	23,956	10,572	34,528	6,729	867	(9,512)	32,612
Other operating expenses:							
Charge for amortisation of acquired value of in-force business	(4,975)	(661)	(5,636)	(3,282)	(356)	–	(9,274)
Charge for amortisation of acquired value of customer relationships	–	–	–	(107)	–	–	(107)
Fees, commission and other acquisition costs	–	–	–	2,913	–	–	2,913
Segmental income less expenses	18,981	9,911	28,892	6,253	511	(9,512)	26,144
Profit arising on business combinations	–	–	–	–	–	16,644	16,644
Profit before tax	18,981	9,911	28,892	6,253	511	7,132	42,788
Income tax (expense)/credit	–	–	(4,139)	(14)	(124)	1,277	(3,000)
Profit after tax			24,753	6,239	387	8,409	39,788

Further analysis of the segmental profit before tax and consolidation adjustments can be found on page 28 of the Financial Review section.

(ii) Segmental balance sheet as at 31 December 2015

	CA £000	S&P £000	Movestic £000	Waard Group £000	Other Group Activities £000	Total £000
Total assets	1,809,494	1,181,272	2,134,143	188,993	53,900	5,367,802
Total liabilities	(1,702,363)	(1,125,113)	(2,070,860)	(120,216)	(54,088)	(5,072,640)
Net assets	107,131	56,159	63,283	68,777	(188)	295,162
Investment in associates	–	–	4,707	–	–	4,707
Additions to non-current assets	–	26	17,368	73	–	17,467

(iii) Segmental income statement for the year ended 31 December 2014 (re-stated)*

	CA* £000	S&P £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Net insurance premium revenue	54,946	6,330	61,276	15,462	–	76,738
Fee and commission income	30,773	2,333	33,106	33,486	–	66,592
Net investment return	115,757	90,292	206,049	224,278	346	430,673
Total revenue (net of reinsurance payable)	201,476	98,955	300,431	273,226	346	574,003
Other operating income	3,011	11,664	14,675	6,086	2,863	23,624
Segmental income	204,487	110,619	315,106	279,312	3,209	597,627
Net insurance contract claims and benefits incurred	(104,341)	(106,986)	(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	(1,991)	(26)	(2,017)	(23,014)	–	(25,031)
Administrative expenses:						
Amortisation charge on software assets	–	–	–	(2,188)	–	(2,188)
Depreciation charge on property and equipment	(22)	–	(22)	(187)	–	(209)
Other	(11,190)	(9,741)	(20,931)	(11,273)	(7,893)	(40,097)
Operating expenses	(1,809)	(411)	(2,220)	(6,104)	(647)	(8,971)
Financing costs	–	(4)	(4)	(663)	(2,341)	(3,008)
Share of profit from associates	–	–	–	855	–	855
Profit before tax and consolidation adjustments	46,815	(9,186)	37,629	4,935	(7,672)	34,892
Other operating expenses:						
Charge for amortisation of acquired value of in-force business	(4,778)	(701)	(5,479)	(3,802)	–	(9,281)
Charge for amortisation of acquired customer relationships	–	–	–	(132)	–	(132)
Charge for amortisation of deferred acquisition cost	–	–	–	3,324	–	3,324
Segmental income less expenses	42,037	(9,887)	32,150	4,325	(7,672)	28,803
Profit arising on business combinations	–	–	–	–	–	–
Profit/(loss) before tax	42,037	(9,887)	32,150	4,325	(7,672)	28,803
Income tax (expense)/credit	–	–	(5,045)	929	888	(3,228)
Profit/(loss) after tax			27,105	5,254	(6,784)	25,575

(iv) Segmental balance sheet as at 31 December 2014 (re-stated)*

	CA* £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Total assets	2,020,863	1,234,780	1,999,102	83,301	5,338,046
Total liabilities	(1,870,682)	(1,181,721)	(1,940,262)	(66,548)	(5,059,213)
Net assets	150,181	53,059	58,840	16,753	278,833
Investment in associates	–	–	4,388	–	4,388
Additions to non-current assets	–	–	17,297	–	17,297

* Includes Protection Life Company Limited (previously shown separately)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9 Fees and commission income

Year ended 31 December		
	2015	2014
Fee income	£000	£000
Policy-based fees	12,996	13,712
Fund management-based fees	30,981	29,219
Benefit-based fees	17,351	18,490
Change in deferred income – gross	762	891
Change in deferred income – reinsurers' share	76	(57)
Total fee income	62,166	62,255
Commission income	4,083	4,337
Total fee and commission income	66,249	66,592

10 Net investment return

Year ended 31 December		
	2015	2014
	£000	£000
Dividend income	31,501	30,032
Interest income	24,693	26,975
Rental income from investment properties	109	499
Net fair value gains and losses		
Equity securities designated as at fair value through income on initial recognition	112,246	287,851
Debt securities designated as at fair value through income on initial recognition	(23,501)	80,517
Derivative financial instruments	(811)	2,273
Investment properties	4,277	2,526
Net investment return	148,514	430,673

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 2014: £nil).

11 Other operating income

Year ended 31 December		
	2015	2014
	£000	£000
Release of unused provisions (Note 36)	210	2,933
Investment management fee rebate	13,835	14,408
HMRC interest on tax refund	–	44
Charges to policyholder funds for yield tax	4,345	5,973
Other	196	266
Total other operating income	18,586	23,624

All of the income streams set out in notes 9, 10 and 11 equate to revenue as defined by IAS 18.

12 Insurance contract claims and benefits

Year ended 31 December	2015 £000	2014 £000
Claims and benefits paid to insurance contract holders	318,721	303,521
Decrease in insurance contract provisions	(191,850)	(39,676)
Total insurance contract claims and benefits	126,871	263,845
Reinsurer's share of claims and benefits	(32,004)	(44,627)
Net insurance contract claims and benefits incurred	94,867	219,218

13 Change in investment contract liabilities

Year ended 31 December	2015 £000	2014 £000
Changes in the fair value of investment contracts designated on initial recognition as fair value through income	94,071	251,668
Changes in the fair value of policyholders' funds held by the Group designated on initial recognition as fair value through income	6,398	15,472
Reinsurers' share of investment contract liabilities	(733)	(2,272)
Net increase in investment contract liabilities	99,736	264,868

Investment contract benefits comprise benefits accruing to holders of investment contracts issued by the Group.

14 Fees, commission and other acquisition costs

Year ended 31 December	2015 £000	2014 £000
Directly expensed costs:		
Insurance contracts		
Commission	6,818	7,717
New business and renewal costs	2,186	2,468
Deferred amount	(5,377)	(6,239)
	3,627	3,946
Investment contracts		
Commission	12,860	13,142
New business and renewal costs	4,556	4,895
Deferred amount	(9,382)	(9,970)
	8,034	8,067
Amortisation of deferred acquisition costs:		
Insurance contracts	5,781	6,550
Investment contracts	3,470	3,179
Investment contracts-reinsurance	(37)	(35)
Total	20,875	21,707

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15 Administrative expenses

Year ended 31 December	2015 £000	2014 £000
Personnel-related costs (Note 47)	14,987	14,556
Investment management fees	6,395	8,990
Amortisation charge on software assets	1,346	1,802
Depreciation charge on property and equipment	203	206
Costs paid to third-party administrators	9,959	11,159
Other goods and services	8,411	5,781
Total	41,301	42,494

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	2015 £000	2014 £000
Fees payable to the Company's Auditor for the audit of the Company's financial statements	50	50
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	512	407
Audit-related assurance services*	407	284
Corporate finance Services**	–	161
Non-audit fee***	45	–
Total	1,014	902

*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.

***Relates to some non-financial consultancy work performed for Movestic Livförsäkring.

16 Other operating expenses

Year ended 31 December	2015 £000	2014 £000
Charge for amortisation of acquired value of in-force business	9,274	9,281
Charge for amortisation of acquired value of customer relationships (AVCR)	222	263
Other		
Direct operating expenses of investment properties		
Revenue-generating properties	(1)	411
Non revenue-generating properties	44	22
Recovery of cash deposit	–	(11)
Payment of yield tax relating to policyholder funds	4,345	5,973
Other	1,478	2,445
Total	5,866	8,840

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.

17 Financing costs

Year ended 31 December	2015	2014
	£000	£000
Interest expense on bank borrowings	2,118	2,345
Interest expense on financial reinsurance	1,222	545
Other interest	117	118
Total financing costs	3,457	3,008

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.

18 Income tax

Total income tax comprises:		
Year ended 31 December	2015	2014
	£000	£000
CA, S&P and Other Group Activities – net expense	(2,862)	(4,157)
Movestic – net (expense)/credit (See Movestic tax)	(14)	929
The Waard Group – net expense	(124)	–
Total net expense	(3,000)	(3,228)

UK Business

CA, S&P and Other Group Activities		
Year ended 31 December	2015	2014
	£000	£000
Current tax		
Current year	(4,148)	(4,912)
Overseas tax	(603)	(531)
Adjustment to prior years	130	(307)
Net expense	(4,621)	(5,750)
Deferred tax		
Origination and reversal of temporary differences	1,759	5,431
Adjustment to prior years	–	(3,838)
Total income tax expense	(2,862)	(4,157)

Reconciliation of effective tax rate on profit before tax		
Year ended 31 December	2015	2014
	£000	£000
Profit before tax	36,024	24,479
Income tax using the domestic corporation tax rate of 20.25% (2014: 21.50%)	(7,295)	(5,263)
Non-taxable profit on acquisition of subsidiary	3,370	–
Other permanent differences	(947)	(747)
Effect of UK tax bases on insurance profits		
Offset of franked investment income	1,767	2,295
Variation in rate of tax on amortisation of acquired in-force value	424	(92)
Foreign tax	(481)	(417)
Effect of change in tax rate	90	346
Other	80	28
Over/(under) provided in previous years	130	(4,145)
Recognition of Protection Life losses following Part VII transfer	–	3,838
Total income tax expense	(2,862)	(4,157)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18 Income tax (continued)
Swedish Business

Movestic Year ended 31 December	2015 £000	2014 £000
Current tax		
Current year expense	(33)	–
Net credits	(33)	–
Deferred tax		
Origination and reversal of temporary differences	19	929
Total income tax (expense)/credit	(14)	929

Reconciliation of effective tax rate on profit before tax Year ended 31 December	2015 £000	2014 £000
Profit before tax	6,253	4,324
Income tax using the domestic corporation tax rate of 22%	(1,376)	(951)
Non-taxable income in relation to unit-linked business	1,469	897
Non-taxable fair value adjustment	(85)	(99)
Permanent differences	4	68
Unrecognised tax recoverable	5	152
Non-deductible expenses	–	(32)
Under provided in prior years	(31)	894
Total income tax (expense)/credit	(14)	929

Dutch Business

The Waard Group Year ended 31 December	2015 £000	2014 £000
Current tax		
Current year expense	(311)	–
Adjustment to prior years	(21)	–
Net credits	(332)	–
Deferred tax		
Origination and reversal of temporary differences	208	–
Total income tax expense	(124)	–

Reconciliation of effective tax rate on profit before tax Year ended 31 December	2015 £000	2014 £000
Profit before tax	511	–
Income tax using the domestic corporation tax rate of 25%	(128)	–
Permanent differences	26	–
Under provided in prior years	(22)	–
Total income tax expense	(124)	–

19 Deferred acquisition costs

Year ended 31 December	2015 £000	2014 £000
Balance at 1 January	31,298	28,162
Additions arising from new business	14,759	16,209
Amortisation charged to income	(9,251)	(9,729)
Foreign exchange translation difference	(745)	(3,344)
Balance at 31 December	36,061	31,298
Current	3,882	3,190
Non-current	32,179	28,108
Total	36,061	31,298

The amortisation charged to income is recognised in Fees, commission and other acquisition costs (see note 14).

20 Acquired value of in-force business (AVIF)

31 December	2015 £000	2014 £000
Cost:		
Balance at 1 January	139,890	148,539
Additions – acquisition of subsidiary	5,506	–
Foreign exchange translation difference	(1,987)	(8,649)
Balance at 31 December	143,409	139,890
Amortisation and impairment losses:		
Balance at 1 January	66,421	59,924
Amortisation for the year	9,274	9,281
Foreign exchange translation difference	(627)	(2,784)
Balance at 31 December	75,068	66,421
Carrying amounts		
At 1 January	73,469	88,615
At 31 December	68,341	73,469
Current	8,989	8,628
Non-current	59,352	64,841
Total	68,341	73,469

The amortisation is charged to the Consolidated Statement of Comprehensive Income and is recognised in Other operating expenses (see note 16).

21 Acquired value of customer relationships (AVCR)

31 December	2015 £000	2014 £000
Cost:		
Balance at 1 January	3,636	4,143
Foreign exchange translation difference	(125)	(507)
Balance at 31 December	3,511	3,636
Amortisation and impairment losses:		
Balance at 1 January	2,493	2,560
Amortisation for the year	222	263
Foreign exchange translation difference	(79)	(330)
Balance at 31 December	2,636	2,493
Carrying amounts		
1 January	1,143	1,583
At 31 December	875	1,143
Current	269	274
Non-current	606	869
Total	875	1,143

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 16).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22 Software assets

	2015 £000	2014 £000
Cost:		
Balance at 1 January	13,486	14,214
Additions – acquisition of subsidiary	441	–
Additions	2,419	1,079
Foreign exchange translation difference	(384)	(1,807)
Balance at 31 December	15,962	13,486
Amortisation and impairment losses:		
Balance at 1 January	9,771	9,210
Additions – acquisition of subsidiary	416	–
Amortisation charge for the year	1,346	1,802
Foreign exchange translation difference	(291)	(1,241)
Balance at 31 December	11,242	9,771
Carrying amounts at 31 December	4,720	3,715
Current	1,390	1,394
Non-current	3,330	2,321
Total	4,720	3,715

23 Property and equipment

31 December	2015 £000	2014 £000
Cost:		
Balance at 1 January	1,589	2,000
Additions – acquisitions of subsidiary	246	–
Additions	265	224
Disposals	–	(433)
Foreign exchange translation difference	(39)	(202)
Balance at 31 December	2,061	1,589
Amortisation and impairment losses:		
Balance at 1 January	1,112	1,327
Additions – acquisitions of subsidiary	233	–
Depreciation charge for the year	203	206
Disposals	–	(281)
Foreign exchange translation difference	(24)	(140)
Balance at 31 December	1,524	1,112
Carrying amounts at 31 December	537	477
Current	164	172
Non-current	373	305
Total	537	477

24 Investment in associate

31 December				
			2015 £000	2014 £000
Balance at 1 January			4,388	4,088
Share of profit			455	855
Foreign exchange translation difference			(136)	(555)
Balance at 31 December			4,707	4,388
Associates at 100%	Assets £000	Liabilities £000	Revenues £000	Profit £000
Modernac S.A.	32,735	23,138	8,257	928
Total 31 December 2015	32,735	23,128	8,257	928
Associates at 49%		Equity at 100% £000	Equity at 49% £000	49% share of profit £000
Modernac S.A.		9,607	4,707	455
Total 31 December 2015		9,607	4,707	455

25 Investment properties

31 December				
			2015 £000	2014 £000
Balance at 1 January			5,520	20,387
Properties acquired			26	139
Disposals			(9,590)	(17,532)
Fair value adjustments			4,277	2,526
Impairment losses			12	–
Balance at 31 December			245	5,520
Current			245	4,845
Non-current			–	675
Total			245	5,520

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 2015.

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 10). Expenses incurred in the operation and maintenance of investment properties are disclosed in Other operating expenses (see note 16).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26 Financial instruments Group

Financial assets by measurement category			
31 December			
	2015	2014	
	£000	£000	
Fair value through income			
Designated at fair value through income on initial recognition	4,599,271	4,534,458	
Derivative financial instruments	2,721	3,580	
Insurance and other receivables	43,674	45,360	
Prepayments	6,565	4,821	
Total	4,652,231	4,588,219	

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 2015				
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Equities				
Listed	486,243	–	–	486,243
Holdings in collective investment schemes	3,498,814	541	–	3,499,355
Debt securities – fixed rate				
Government Bonds	311,805	–	–	311,805
Listed	86,356	–	–	86,356
Debt securities – floating rate listed				
Listed	6,642	–	–	6,642
Structured notes	–	18,951	–	18,951
Total debt securities	404,803	18,951	–	423,754
Policyholders' funds held by the Group	189,919	–	–	189,919
Derivative financial instruments	17	2,704	–	2,721
Total	4,579,796	22,196	–	4,601,992
Current				198,962
Non-current				4,403,030
Total				4,601,992
Financial liabilities				
Investment contracts at fair value through income	–	2,457,521	–	2,457,521
Liabilities related to policyholders' funds held by the Group	189,919	–	–	189,919
Derivative financial instruments	–	444	–	444
Total	189,919	2,457,965	–	2,647,884

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

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.

The debt securities classified as Level 2 are structured bond-type or non-standard debt products, held by our newly acquired Dutch subsidiaries, for which there is no active market. These products were structured such that the principal amount invested was protected by high security assets, with the returns being linked to underlying pools of riskier, higher-return assets. At acquisition and the balance sheet date, the underlying assets supporting the coupon had under performed such that no coupon is being paid, resulting in these assets all now behaving like zero coupon bonds. These assets have been classified as Level 2 because the third-party valuation models include observable inputs to the valuation of these assets, including counterparty default spreads, yield curve swaps and foreign exchange swaps.

These assets are valued using counterparty or broker quotes and are periodically validated against third-party models.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26 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	
	2015 £000	2014 £000	2015 £000	2014 £000
Financial liabilities:				
Borrowings	79,025	87,296	79,679	88,568

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. The Group holds no Level 3 liabilities as at the balance sheet date.

Company

Fair value measurement at 31 December 2015 using			
		2015 £000	2014 £000
Holdings in collective investment schemes		5,012	–
Equities Listed		–	1,008
Total		5,012	1,008
Current		5,012	1,008
Non-current		–	–
Total		5,012	1,008

There were no Level 2 and Level 3 assets.

Investment in subsidiaries

Company

Year ended 31 December			
		2015 £000	2014 £000
Balance at 1 January		199,111	199,111
Acquisition of the Waard Group		50,123	–
Balance at 31 December		249,234	199,111
Current		–	–
Non-current		249,234	199,111
Total		249,234	199,111

A list of investments in subsidiaries held by the Group is disclosed in note 54.

27 Insurance and other receivables and prepayments Group

Insurance and other receivables		
31 December	2015	2014
	£000	£000
Receivables arising from insurance contracts		
Brokers	686	654
Policyholders	2,123	3,415
Receivables arising from investment contracts		
Policyholders	5	5
Reinsurance receivables	10,432	8,832
Commission receivable	459	198
Debtor for professional indemnity insurance	9	56
Other receivables		
Loan to associated companies	573	618
Accrued interest income	9,852	14,562
Accrued rent	294	–
Receivables from fund management companies	12,811	11,430
Initial margin payments on derivatives	3,845	3,930
Other	2,585	1,660
Total	43,674	45,360
Current	42,107	43,800
Non-current	1,567	1,560
Total	43,674	45,360

The carrying amount is a reasonable approximation of fair value.

31 December		
	2015	2014
	£000	£000
Prepayments		
Current	5,915	4,072
Non-current	650	749
Total	6,565	4,821

The carrying amount is a reasonable approximation of fair value.

Company

Receivables and prepayments		
31 December	2015	2014
	£000	£000
Amounts due from subsidiary companies	3,685	455
Other receivables	–	20
Prepayments	17	19
Total	3,702	494
Current	3,702	494
Non-current	–	–
Total	3,702	494

The carrying amount is a reasonable approximation of fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28 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	2015		2014	
	Asset £000	Liability £000	Asset £000	Liability £000
Exchange-traded futures	296	(444)	1,034	(49)
Financial reinsurance embedded derivative	2,425	–	2,546	–
Total	2,721	(444)	3,580	(49)
Current	296	(444)	952	(49)
Non-current	2,425	–	2,628	–
Total	2,721	(444)	3,580	(49)

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 26.

Exchange-traded futures (by geographical investment market)				
31 December	2015		2014	
	Asset £000	Liability £000	Asset £000	Liability £000
Australia	–	–	14	–
Canada	–	–	19	–
Switzerland	–	(25)	77	–
Europe	17	(197)	303	(7)
UK	268	–	326	–
Hong Kong	–	–	–	(7)
Japan	3	(217)	50	(25)
USA	8	(5)	93	(10)
UAE	–	–	152	–
Total	296	(444)	1,034	(49)

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 26.

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 26.

29 Income tax assets**Income tax assets, which are all current, comprise:
31 December**

	2015	2014
	£000	£000
Group		
Corporation tax recoverable	3,611	1,962
Company		
Corporation tax recoverable	1,815	1,667

The carrying amount is a reasonable approximation of fair value.

30 Cash and cash equivalents**Group**

31 December	2015	2014
	£000	£000
Bank and cash balances	137,641	88,572
Call deposits due within 1 month	35,057	69,397
Call deposits due after 1 month	88,165	83,730
Total cash and cash equivalents	260,863	241,699
Bank overdrafts	(952)	(1,189)
Cash and cash equivalents in the statement of cash flows	259,911	240,510

The effective interest rate on short-term bank deposits was 0.26% (2014: 0.38%), with an average maturity of 19 days (2014: 21 days). All deposits included in cash and cash equivalents were due to mature within three months of their acquisition.

Included in cash and cash equivalents held by the Group are balances totalling £62,077,000 (2014: £66,048,000) held in unit-linked policyholders' funds.

Company

31 December	2015	2014
	£000	£000
Bank and cash balances	314	49,002
Cash deposits due within 1 month	7,887	5
Cash deposits maturing between greater than 1 month and less than 1 year	35,097	31,095
Total	43,298	80,102

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Capital management

This note has been prepared under the Solvency I regime.

(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:

- (i) 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;
- (ii) seeks to meet the dividend expectations of shareholders and to optimise the gearing ratio to ensure an efficient capital base;
- (iii) ensures there is sufficient liquidity to meet obligations to policyholders, debt financiers and creditors as they fall due; and
- (iv) 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 on the full distribution of retained earnings from CA plc to Chesnara and, in Sweden, on distributions from Movestic shareholder funds.

The overall capital dynamics of the Group are such that the UK business and the Waard Group, 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. The Swedish business, as a growing business, currently does not distribute dividends due to retained earnings being reinvested in the business. The Swedish business has historically required capital contributions from the Group, although no future contributions are currently planned. The last capital contribution to the Swedish business was made in 2011.

(b) Operation of the UK, Swedish, Dutch 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, 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 lower 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.

Dutch business

The operation of regulation with respect to the Dutch 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 the Solvency 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.

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, as determined for UK regulatory purposes (Pillar 1):

31 December	2015	2014	2014
	CA plc	CA plc	PL Ltd
	£m	£m	£m
Available capital resources (CR)	117.5	116.1	3.5
Long-term insurance capital requirement (LTICR)	53.6	58.0	–
Resilience capital requirement (RCR)	4.4	7.9	–
European minimum	–	–	2.9
Total capital resource requirements (CRR)	58.0	65.9	2.9
Excess of CR over CRR (solvency surplus)	59.5	50.2	0.6
Ratio of available CR to CRR	203%	176%	121%
Target capital requirement cover	91.5	102.1	2.9
Excess of CR over target requirement	26.0	14.0	0.6

Available capital resources for CA plc as at 31 December 2015 are stated after provision for a dividend of £30.5m which was proposed by the CA plc Board subsequent to 31 December 2015 (as at 31 December 2014: £65.0m subsequent to 31 December 2014).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Capital management (continued)

(c) Regulatory capital resources and requirements (continued)

UK business (continued)

CA plc's Board, as a matter of policy, targeted in 2015 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, targeted in 2015 CR cover for total CRR at a minimum level of 130.0% of CRR.

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:

	2015		2014	
	Movestic £m	Modernac £m	Movestic £m	Modernac £m
Available capital resources (CR)	39.6	5.3	34.9	5.0
Total capital resource requirements (CRR)	9.0	1.3	9.3	1.3
Excess of CR over CRR (solvency surplus)	30.6	4.0	25.6	3.7
Ratio of available CR to CRR	440%	408%	375%	385%
Target capital requirement cover	13.5	n/a	14.0	n/a
Excess of CR over target requirement	26.1	n/a	20.9	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 liquid assets. 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, 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.

Dutch business

The Dutch businesses manage capital on internal targets of 200%. Current capital levels are far exceeding this, in anticipation of either investing the excess into acquisition opportunities or distributing dividends to the parent company.

The following summarises the Capital Resources and the Capital Resources Requirements of the Waard Group, as determined for Dutch regulatory purposes:

	2015		2014			
	Waard Leven £m	Hollands Welvaren £m	Waard Schade £m	Waard Leven £m	Hollands Welvaren £m	Waard Schade £m
Available capital resources (CR)	40.9	11.6	6.2	41.0	11.9	6.3
Total capital resource requirements (CRR)	4.7	2.7	1.8	5.4	2.9	2.0
Excess of CR over CRR (solvency surplus)	36.2	8.9	4.4	35.6	9.0	4.3
Ratio of available CR to CRR	870%	430%	344%	759%	410%	315%
Target capital requirement cover	9.4	5.4	3.6	10.8	5.8	4.0
Excess of CR over target requirement	31.5	6.2	2.6	30.2	6.1	2.3

(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:

	Shareholder funds outside long-term insurance funds – retained earnings £000	Shareholder funds in long-term insurance funds £000	Total shareholder funds £000	Adjustment onto regulatory basis policyholder funds £000	Adjustment to net assets £000	Total available capital resources £000
As at 31 December 2015						
UK life business with-profits	–	37,812	37,812	12,743	2,683	53,238
UK life businesses non-participating	–	9,013	9,013	–	(620)	8,393
UK life businesses shareholder	62,825	–	62,825	–	(6,922)	55,903
UK life business total	62,825	46,825	109,650	12,743	(4,859)	117,534
Swedish life and non-life business	44,459	–	44,459	–	(4,817)	39,642
Dutch life and non-life businesses	50,134	–	50,134	–	(495)	49,639
Group life insurance business total	157,418	46,825	204,243	12,743	(10,171)	206,815
Other activities UK business	264,687	–	264,687	–	–	264,687
Other activities Swedish business	3,479	–	3,479	–	33	3,512
Other activities Dutch business	14,688	–	14,688	–	(3,686)	11,002
Consolidation adjustments	(207,521)	–	(207,521)	–	(42,195)	(249,716)
Group total	232,751	46,825	279,576	12,743	(56,019)	236,300
Adjustment for dividend	15,586	–	15,586			
Total shareholder's equity	248,337	46,825	295,162			

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31 Capital management (continued)

(d) Group capital position statement (continued)

	Shareholder funds outside long-term insurance funds – retained earnings £000	Shareholder funds in long-term funds £000	Total shareholder funds £000	Adjustment onto regulatory basis policyholder funds £000	Adjustment to net assets £000	Total available capital resources £000
As at 31 December 2014						
UK life business with-profits	–	37,750	37,750	16,319	(1,816)	52,253
UK life businesses non-participating	–	9,758	9,758	–	(675)	9,083
UK life businesses shareholder	63,814	–	63,814	–	(5,515)	58,299
UK life business total	63,814	47,508	111,322	16,319	(8,006)	119,635
Swedish life and non-life business	38,860	–	38,860	–	(3,960)	34,900
Group life insurance business total	102,674	47,508	150,182	16,319	(11,966)	154,535
Other activities UK business	266,241	–	266,241	–	(101,906)	164,335
Other activities Swedish business	3,619	–	3,619	–	–	3,619
Consolidation adjustments	(156,309)	–	(156,309)	–	59,118	(97,191)
Group total	216,225	47,508	263,733	16,319	(54,754)	225,298
Adjustment for dividend	15,100	–	15,100			
Total shareholder's equity	231,325	47,508	278,833			

The tables presented on the previous page and above illustrate Group total available capital resources as measured for the purposes of inclusion in the related regulatory returns. As at 31 December 2015 they are stated after provision of a final dividend of £15.6m and, as at 31 December 2014, after provision of a final dividend of £15.1m, 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 2015, 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, the Dutch 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 2015					
	CA £000	Movestic £000	Waard Leven £000	Waard Schade £000	Group £000
Share capital	40,000	1,040	667	2,668	42,600
Share premium	–	–	9,555	–	76,516
Treasury shares	–	–	–	–	(161)
Other equity contributions	–	40,460	–	–	–
Capital redemption reserve	–	–	–	–	50
Foreign exchange translation reserve	–	–	–	–	(864)
Surplus in long-term business fund	8,393	–	–	–	–
Surplus in with-profits fund	53,238	–	–	–	53,238
Retained earnings/(accumulated deficit)	15,903	(1,858)	33,261	3,488	64,921
Total	117,534	39,642	43,483	6,156	236,300

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:

UK business

Year ended 31 December 2015				
	Life business non-profits CA plc £000	With profits CA plc £000	Life business shareholder CA plc £000	Total life business £000
At beginning of year	9,084	52,253	58,299	119,636
Surplus arising in the year	26,191	1,957	–	28,148
Net profit arising in shareholder fund	–	–	250	250
Intrafund transfers	972	(972)	–	–
Transfer from long-term business fund to shareholder fund	(26,972)	–	26,972	–
Proposed dividend	–	–	(30,500)	(30,500)
At end of year	9,275	53,238	55,021	117,534

Year ended 31 December 2014				
	Life business non-profits CA plc £000	With profits CA plc £000	Life business shareholder CA plc £000	Total life business £000
At beginning of year	20,262	51,809	63,530	135,601
Surplus arising in the year	46,440	1,326	–	47,766
Net profit arising in shareholder fund	–	–	1,269	1,269
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	58,299	119,636

There were no changes in available capital resources for the year ended 31 December 2015 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)

31 Capital management (continued)

(d) Group capital position statement (continued)

Swedish business

	2015 £000	2014 £000
At beginning of year	34,900	34,832
Profit arising in the year	5,934	4,328
Change in foreign exchange reserve	(1,192)	(4,260)
At end of year	39,642	34,900

There were no changes in available capital resources for the period ended 31 December 2015 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 32.

Dutch business

As at 31 December 2015, the capital position of the Dutch businesses is significantly in excess of regulatory and business requirements. It is anticipated that the position will normalise in the near future, either as a consequence of using available capital for acquisitions or by distributing dividends to the parent company.

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	2015 £m	2014 £m
Total available capital resources (CR)	236.3	225.3
Capital resources requirement		
CA plc	58.0	68.8
Movestic Liv	9.0	9.3
Modernac SA	1.3	1.3
The Waard Group	9.2	–
Total (CRR)	77.5	79.4
Group solvency surplus (CR less CRR)	158.8	145.9
Group solvency ratio	305%	284%

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. Movestic has historically required capital contributions from the Group, although no future contributions are currently planned.

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 reinsurance – UK businesses

(i) The technical provisions established to determine the regulatory capital resources as set out on page 130 are:

31 December	CA		SPI/SPP	
	2015 £000	2014 £000	2015 £000	2014 £000
Unit-linked				
Insurance contracts	573,610	636,239	726,928	762,024
Investment contracts	630,105	657,316	33,555	38,896
Non-unit (sterling)				
Insurance contracts	43,333	50,671	18,511	22,949
Investment contracts	3,635	2,902	157	165
Non-participating				
Insurance contracts	133,441	139,066	9,082	9,162
Investment contracts	5,461	6,052	–	–
With DPF	–	–	302,250	325,418
Total	1,389,585	1,492,246	1,090,483	1,158,614

(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)

31 Capital management (continued)

(e) Technical provisions net of reinsurance – UK business (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	2015		2014	
	SPI	SPP	SPI	SPP
Assurances:				
Regular premium plans	3.375%	2.625%	3.375%	2.625%
Single premium contracts	3.375%	3.375%	3.375%	3.188%
Linked TIC*	–	4.000%	–	5.000%

*Trustee Investment Contract, a unit-linked contract ('TIC').

Discount rates

CA uses appropriate rates of interest, for different product types, in discounting projected liabilities. As at 31 December 2015 for the material product types, these lay between 0.90% and 2.55% (31 December 2014: between 1.25% and 2.35%).

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 32.

31 Capital management (continued)**(f) Valuation of options and guarantees – UK business*****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 £486,000 as at 31 December 2015 (31 December 2014: £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 4.4% 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 2015 was £4.8m (31 December 2014: £5.1m). 526 policies invested in the fund (31 December 2014: 564), of which 40 (31 December 2014: 45) were paying premiums (for a total of approximately £11,000 per annum (31 December 2014: £12,000)).

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:	3.07% pa
Rate of return on cash:	0.45% pa
Discount rate:	0.80% 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 2015 was £0.4m (31 December 2014: £0.6m).

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 2015 was £10.4m (31 December 2014: £12.6m).

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 2015 was £0.2m (31 December 2014: £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 2015 was £0.3m (31 December 2014: £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 2015 is £0.26m (31 December 2014: £0.35m).

(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)

32 Insurance contract provisions

(a) Analysis of insurance contract provisions by operating segment

31 December	2015			2014		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
CA	979,088	225,809	753,279	1,112,804	284,471	828,333
S&P	1,069,806	5,864	1,063,942	1,126,092	6,174	1,119,918
Movestic	70,555	45,601	24,954	69,147	45,291	23,856
The Waard Group	112,634	5,354	107,280	–	–	–
Total insurance contract provisions	2,232,083	282,628	1,949,455	2,308,043	335,936	1,972,107
Current	214,153	38,465	175,688	196,863	26,709	170,154
Non-current	2,017,930	244,163	1,773,767	2,111,180	309,227	1,801,953
Total	2,232,083	282,628	1,949,455	2,308,043	335,936	1,972,107

(b) Analysis of movement in insurance contract provisions

Year ended 31 December	2015			2014		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	2,308,043	335,936	1,972,107	2,362,063	379,894	1,982,169
Arising on business combination	125,044	5,736	119,308	–	–	–
Premiums received	83,375	27,896	55,479	92,148	31,090	61,058
Fees deducted	(24,962)	(1,880)	(23,082)	(27,898)	(2,476)	(25,422)
Reserves released in respect of benefits paid	(284,423)	(80,878)	(203,545)	(274,701)	(76,919)	(197,782)
Movements in provisions for contracts sold – Movestic						
– in current year	19,755	11,757	7,998	22,688	13,179	9,509
– in prior years	(13,026)	(7,104)	(5,922)	(6,717)	119	(6,836)
Investment return	40,079	2,028	38,051	135,347	13,443	121,904
Other movements	(21,802)	(10,863)	(10,939)	5,113	(22,394)	27,507
Balance at 31 December	2,232,083	282,628	1,949,455	2,308,043	335,936	1,972,107

(c) Process, basis and assumptions for establishing insurance contract provisions

UK Business

The process, basis and assumptions for establishing insurance contract provisions for the UK businesses are materially the same as those stated in note 31 (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 164 to 167 in the EEV Supplementary Information.

32 Insurance contract provisions (continued)

The following sets out the cumulative charge to shareholders for the cost of guarantees on these bases:

Year ended 31 December	2015 £000	2014 £000
At beginning of the year	34,593	23,320
Charge to income	2,563	11,273
At the end of year	37,156	34,593

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 following Finansinspektionen guidelines.

Dutch business (the Waard Group)

For protection policies insurance contract provisions comprise a technical reserve for future claims and a claim reserve for those not settled to completion at the reporting date.

For general insurance contracts an unearned premium reserve reflecting the non-expired term of contract is held plus an claims provision.

For insurance contracts where the policy value reflects the value of supporting assets (unit-linked contracts) the Insurance Contract Provision equals the value of assets held.

(d) Assumptions used in establishing insurance contract provisions**UK business**

The assumptions used in establishing insurance contract provisions for the UK businesses are materially the same as those set out in note 31 (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)

32 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

	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000
Estimate of ultimates						
End of accident year	38,812	23,903	24,329	25,928	25,536	25,650
One year later	31,882	15,463	16,590	20,832	19,482	–
Two years later	30,695	14,080	15,838	18,422	–	–
Three years later	29,266	13,380	15,072	–	–	–
Four years later	29,334	12,381	–	–	–	–
Five years later	28,436	–	–	–	–	–
Current estimate of ultimate claims	28,436	12,381	15,072	18,422	19,482	25,650
Cumulative payments	16,377	9,154	10,102	10,823	6,962	5,263
In balance sheet	44,813	21,535	25,174	29,245	26,444	30,913
Provision for prior years						970
Liability in balance sheet						66,883

Analysis of claims development – net

	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000
Estimate of ultimates						
End of accident year	12,265	10,031	9,193	10,325	12,321	9,823
One year later	8,719	5,139	4,779	6,816	6,579	–
Two years later	8,312	3,871	4,310	6,095	–	–
Three years later	7,591	3,545	4,361	–	–	–
Four years later	7,900	3,723	–	–	–	–
Five years later	8,038	–	–	–	–	–
Current estimate of ultimate claims	8,038	3,723	4,361	6,095	6,579	9,823
Cumulative payments	4,080	2,640	2,804	3,453	1,931	1,570
In balance sheet	12,118	6,363	7,165	9,548	8,510	11,393
Provision for prior years						169
Liability in balance sheet						23,257

Dutch business (the Waard Group)

The technical reserve uses assumptions for mortality, expenses and discounting that were used in the contract pricing, reflecting a book reserve approach. The continued appropriateness of these assumptions are assessed by undertaking a liability adequacy test.

Claims reserves for general insurance business in Waard Schade contain assessment of those incurred but not reported (IBNR) which are regularly updated reflecting analysis of recent reporting patterns.

(e) Sensitivity to changes in assumptions**UK businesses**

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 and S&P 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 2015 £m	Change in net of tax profits and equity 2014 £m
CA business			
Investment return	+1	(2.4)	(3.3)
Investment return	-1	(0.1)	2.8
Mortality/morbidity	+10	0.5	0.6
Mortality alone	+10	0.9	1.0
Morbidity alone	+10	(0.4)	(0.4)
Policy maintenance expenses	+10	(1.5)	(1.5)
S&P business			
Investment return	+1	5.3	7.9
Investment return	-1	(7.6)	(7.7)
Mortality	+10	0.3	0.5
Policy maintenance expenses	+10	(2.1)	(2.8)

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)

32 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		Shareholders' equity	
	2015 £m	2014 £m	2015 £m	2014 £m
5% increase in loss ratio				
Gross before reinsurance	(3.2)	(3.3)	(2.6)	(2.3)
Net after reinsurance	(1.1)	(1.2)	(0.9)	(0.8)
5% decrease in loss ratio				
Gross before reinsurance	3.2	3.3	2.6	2.3
Net after reinsurance	1.1	1.2	0.9	0.8
1% increase in discount rate				
Gross before reinsurance	0.6	0.7	0.5	0.5
Net after reinsurance	0.4	0.2	0.3	0.2
1% decrease in discount rate				
Gross before reinsurance	(0.3)	(0.9)	(0.2)	(0.6)
Net after reinsurance	(0.2)	(0.3)	(0.1)	(0.2)

Dutch business (the Waard Group)

Assumptions are adjusted for changes in discount rate, mortality, morbidity, longevity and expenses to reflect anticipated changes in market conditions and experience.

The Dutch division produces sensitivity analyses on a regular basis. The table below shows the sensitivity of discount rates and insured liability estimates to particular movements.

	Change in	Change in	Change in
	variable	net of tax	net of tax
	%	profits and	profits and
		equity	equity
		2015	2014
		£m	£m
Life business			
Discount rate	+1	(0.1)	0.1
Discount rate	-1	0.0	(0.2)
Mortality	+10	(2.4)	(2.6)
Expenses	+10	(0.4)	(0.3)
Health business			
Discount rate	+1	0.0	0.1
Discount rate	-1	0.0	0.0
Morbidity	+10	(0.2)	(0.2)
Expenses	+10	(0.1)	(0.2)
Unit-linked business			
Discount rate	+1	0.0	0.0
Discount rate	-1	0.0	0.0
Longevity	-10	0.0	0.0
Expenses	+10	(0.1)	(0.1)

The above displayed sensitivities are shown as an expected impact on cash flows and resulting IFRS profits, net of reinsurance. The table shows the impact of a change in the stated variable, with all other assumptions remaining equal.

The sensitivities to the changes in discount rate show the impact of changing the discount rate on both the value of assets and liabilities.

For the insurance risk, the risk profile is different per portfolio and therefore different types of insurance risk (mortality, morbidity and longevity) are measured.

33 Investment contracts at fair value through income and amounts deposited with reinsurer Analysis by operating segment

31 December						
	Investment contract liability £000	2015 Amount deposited with reinsurer £000	Net £000	Investment contract liability £000	2014 Amount deposited with reinsurer £000	Net £000
CA	667,375	33,941	633,434	697,210	35,498	661,712
S&P	33,555	–	33,555	38,896	–	38,896
Movestic	1,756,591	–	1,756,591	1,653,706	–	1,653,706
Total	2,457,521	33,941	2,423,580	2,389,812	35,498	2,354,314
Current	86,110	451	85,659	78,552	545	78,007
Non-current	2,371,411	33,490	2,337,921	2,311,260	34,953	2,276,307
Total	2,457,521	33,941	2,423,580	2,389,812	35,498	2,354,314

The fair values of the Groups' investment contract liabilities are disclosed according to a three-level valuation hierarchy in note 26.

34 Liabilities relating to policyholders' funds held by the Group

Unit-linked 31 December		
	2015 £000	2014 £000
Balance at 1 January	164,858	130,237
Deposits received	46,448	51,604
Fees deducted from account balances	(1,417)	(1,239)
Investment yield	6,398	15,472
Foreign exchange translation difference	(4,680)	(19,371)
Other movements	(21,688)	(11,845)
Balance at 31 December	189,919	164,858
Current	11,585	13,112
Non-current	178,334	151,746
Total	189,919	164,858

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 26.

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 26.

35 Borrowings

Group 31 December		
	2015 £000	2014 £000
Bank loan	52,522	64,327
Amount due in relation to financial reinsurance	26,503	22,969
Total	79,025	87,296
Current	18,448	17,198
Non-current	60,577	70,098
Total	79,025	87,296

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35 Borrowings (continued)

Company 31 December	2015 £000	2014 £000
Bank loan	52,522	64,327
Current	11,966	11,826
Non-current	40,556	52,501
Total	52,522	64,327

The bank loan subsisting at 31 December 2015, 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, £6.0m 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, £6.0m 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 2015 was £52,800,000 (31 December 2014: £64,800,000).

The fair value of amounts due in relation to financial reinsurance was £26,879,000 (31 December 2014: £23,767,650). 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.

36 Other provisions

Group	Other complaints redress £000	Onerous contracts £000	Other £000	Total £000
Balance at 1 January 2014	7	3,487	1,854	5,348
Provisions made during the year	–	–	66	66
Provisions used during the year	–	(448)	(1,304)	(1,752)
Provisions reversed during the year	–	(2,933)	–	(2,933)
Balance at 31 December 2014	7	106	616	729
Additions arising on acquisition of subsidiary company	3,025	–	–	3,025
Provisions made during the year	–	1	230	231
Provisions used during the year	(1,531)	(31)	(348)	(1,910)
Provisions reversed during the year	–	(6)	(204)	(210)
Foreign exchange movement	40	–	–	40
Balance at 31 December 2015	1,541	70	294	1,905
31 December 2014				
Current	7	60	612	679
Non-current	–	46	4	50
Total	7	106	616	729
31 December 2015				
Current	1,534	–	22	1,556
Non-current	7	70	272	349
Total	1,541	70	294	1,905

The reversal of provisions during the year was credited to Other operating income as disclosed in note 11.

(a) Other complaints redress

The provision for redressing complaints relates to the Dutch business, and was established in 2011 for dealing with complaints made about cost structures embedded in certain insurance/investment products. The scheme under which Hollands Welvaren compensated clients for such structures was declared legally binding to policyholders and ran until 5 November 2015. The balance of the provision as at 31 December 2015 comprises the remaining pipeline of policies for which policyholders have raised a complaint and a portion for a small group of policyholders that have opted-out of this scheme and for which individual settlements will be sought. In accordance with the Sale and Purchase Agreement under which Chesnara plc acquired the Dutch businesses, any remaining unused balance will be reimbursed to the seller. Should there be a shortfall in the provision this is indemnified by the seller.

(b) 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 50 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.

(c) 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 in 2013, representing management's best estimate of the costs that will be incurred to fulfill this obligation. Residual amounts of £0.2m of this provision were reversed during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37 Deferred tax assets and liabilities

Deferred tax liabilities comprise:

31 December	2015 £000	2014 £000
Net deferred tax liabilities:		
CA, S&P and other group activities	(6,121)	(7,899)
Movestic	(385)	(441)
The Waard Group	(1,400)	–
Total	(7,906)	(8,340)
Current	(1,517)	(1,713)
Non-current	(6,389)	(6,627)
Total	(7,906)	(8,340)

CA, S&P and other group activities

(a) Recognised deferred tax assets and liabilities

31 December	2014 Assets/ (liabilities) £000	(Charge)/ credit in year £000	2015 Assets/ (liabilities) £000
Profit arising on transition to new tax regime	(1,833)	326	(1,507)
Deferred acquisition costs	(703)	131	(572)
Deferred income	1,285	(233)	1,052
Acquired value in force	(6,717)	1,550	(5,167)
Unrealised and deferred investment gains	(19,882)	5,023	(14,859)
Excess expenses of management	19,882	(5,023)	14,859
Share-based payments	30	43	73
Other	39	(39)	–
Total	(7,899)	1,778	(6,121)
Comprising:-			
Net deferred tax assets	–	–	–
Net deferred tax liabilities	(7,899)	1,778	(6,121)
Total	(7,899)	1,778	(6,121)

37 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	2013 Assets/ (liabilities) £000	(Charge)/ credit in year £000	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)

The deferred tax (charge)/credit to the Consolidated Statement of Comprehensive Income for the year is classified as follows:

Year ended 31 December	2015 £000	2014 £000
Income tax credit	1,778	1,603

(b) Items for which no deferred tax asset is recognised

31 December	2015 £000	2014 £000
BLAGAB transitional amounts	3,334	3,810
Unrelieved expenses	198,413	174,895
Total	201,747	178,705

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37 Deferred tax assets and liabilities (continued)

Movestic

(a) Recognised deferred tax assets and liabilities

As at the balance sheet date, Movestic had a recognised deferred tax liability of £385,000 (31 December 2014: £441,000), in respect of fair value adjustments arising upon acquisition. Unrecognised deferred tax assets of £693,000 existed at the balance sheet date in respect of corporation tax recoverable (31 December 2014: £528,000).

The Ward Group

(a) Recognised deferred tax assets and liabilities

31 December	2014 Assets/ (liabilities) £000	Arising on business combination £000	(Charge)/ credit in year £000	Foreign exchange translations difference £000	2015 Assets/ (liabilities) £000
Intangible assets					
Fair value adjustment on acquisition	–	(1,377)	89	(31)	(1,319)
Valuation differences	–	(275)	119	75	(81)
Total		(1,652)	208	44	(1,400)
Comprising:					
Net deferred tax liabilities	–	(1,652)	208	44	(1,400)
Total	–	(1,652)	208	44	(1,400)

38 Reinsurance payables

Payable to reinsurers 31 December	2015 £000	2014 £000
Payables in respect of insurance contracts	9,067	9,863
Payables in respect of investment contracts	17	18
Reinsurers' share of deferred acquisition costs and claims deposits	576	618
Total	9,660	10,499
Current	8,505	8,053
Non-current	1,155	2,446
Total	9,660	10,499

The carrying value of payables to reinsurers is a reasonable approximation of fair value.

39 Payables related to direct insurance and investment contracts

31 December	2015			2014		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Accrued claims	52,275	19,042	33,233	45,207	14,722	30,485
Intermediaries' liabilities	1,702	–	1,702	2,144	–	2,144
Policyholder premium liabilities	1,620	–	1,620	2,821	–	2,821
Other	6,687	–	6,687	8,617	–	8,617
Total	62,284	19,042	43,242	58,789	14,722	44,067
Current	61,331	18,420	42,911	58,544	14,581	43,963
Non-current	953	622	331	245	141	104
Total	62,284	19,042	43,242	58,789	14,722	44,067

The carrying value of payables related to the direct insurance and investment contracts is a reasonable approximation of fair value.

40 Deferred income

31 December	2015	2014
	£000	£000
Balance at 1 January	6,974	7,865
Release to income	(762)	(891)
Balance at 31 December	6,212	6,974
Current	760	831
Non-current	5,452	6,143
Total	6,212	6,974

The release to income is included in Fees and Commission Income (see note 9).

41 Income tax liabilities

31 December	2015	2014
	£000	£000
Income tax liabilities, which are all current, comprise:		
Corporation tax – CA, S&P, and Other Group Activities	6,328	4,168
Total	6,328	4,168

The carrying value of income tax liabilities is a reasonable approximation of fair value.

42 Other payables

Group		
31 December	2015	2014
	£000	£000
Accrued expenses	7,816	7,861
VAT	109	114
Employee tax	614	517
Other	9,862	9,975
Total	18,401	18,467
Current	18,178	18,467
Non-current	223	–
Total	18,401	18,467

Company		
31 December	2015	2014
	£000	£000
Accrued expenses	1,194	1,589
Other	372	632
Total	1,566	2,221
Current	1,566	2,221
Non-current	–	–
Total	1,566	2,221

The carrying value of other payables is a reasonable approximation of fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43 Share capital and share premium

Group 31 December	2015		2014	
	Number of shares	Share capital £000	Number of shares	Share capital £000
Share capital	126,552,427	42,600	126,552,427	42,600
		Share premium £000		Share premium £000
		76,516		76,523

The number of shares in issue at the balance sheet date included 147,535 shares held in treasury (31 December 2014: 154,031).

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	2015		2014	
	Number of shares	Share capital £000	Number of shares	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	126,552,427	6,328
		Share premium £000		Share premium £000
		76,516		76,523

The number of shares in issue at the balance sheet date included 147,535 shares held in treasury (31 December 2014: 154,031).

44 Treasury shares

Group and Company 31 December	2015 £000	2014 £000
Balance 31 December	161	168

45 Other reserves

Group 31 December	2015 £000	2014 £000
Capital redemption reserve	50	50
Foreign exchange translation reserve	(864)	(691)
Balance at 31 December	(814)	(641)

Company 31 December	2015 £000	2014 £000
Capital redemption reserve	50	50

46 Retained earnings

Group		
Year ended 31 December	2015	2014
	£000	£000
Retained earnings attributable to equity holders of the parent company comprise:		
Balance at 1 January	160,519	155,561
Profit for the year	39,788	25,575
Share based payment	212	114
Dividends		
Final approved and paid for 2013	–	(13,357)
Interim approved and paid for 2014	–	(7,374)
Final approved and paid for 2014	(15,143)	–
Interim approved and paid for 2015	(8,355)	–
Balance at 31 December	177,021	160,519

The interim dividend in respect of 2014, approved and paid in 2014 was paid at the rate of 6.42p per share. The final dividend in respect of 2014, approved and paid in 2015, was paid at the rate of 11.98p per share so that the total dividend paid to the equity shareholders of the Parent Company in respect of the year ended 31 December 2014 was made at the rate of 18.40p per share.

The interim dividend in respect of 2015, approved and paid in 2015, was paid at the rate of 6.61p per share to equity shareholders of the Parent Company registered at the close of business on 11 September 2015, the dividend record date.

A final dividend of 12.33p per share in respect of the year ended 31 December 2015 payable on 23 May 2016 to equity shareholders of the Parent Company registered at the close of business on 8 April 2016, the dividend record date, was approved by the Directors after the balance sheet date. The resulting total final dividend of £15.6m 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 2015 and 31 December 2014:

Year ended 31 December	2015	2014
	p	p
Interim – approved and paid	6.61	6.42
Final – proposed/paid	12.33	11.98
Total	18.94	18.40

Company		
Year ended 31 December	2015	2014
	£000	£000
Balance at 1 January	133,131	112,534
Profit for the year	56,468	41,214
Share based payment	212	114
Dividends paid		
Final approved and paid for 2013	–	(13,357)
Interim approved and paid for 2014	–	(7,374)
Final approved and paid for 2014	(15,143)	–
Interim approved and paid for 2015	(8,355)	–
Balance at 31 December	166,313	133,131

Details of dividends, approved and paid, are set out in the 'Group' section above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47 Employee benefit expense, including Directors

Year ended 31 December							
	CA £000	S&P £000	Movestic £000	Waard Group £000	Other Group Activities £000	2015 £000	2014 £000
Wages and salaries	1,114	496	6,362	674	1,573	10,219	10,032
Social security costs	150	67	2,592	58	212	3,079	2,905
Pension costs-defined contribution plans	80	35	1,418	44	112	1,689	1,619
Total	1,344	598	10,372	776	1,897	14,987	14,556
Average number of employees							
Company						24	22
Subsidiaries						162	128
Total						186	150

Directors

Note 53 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 was introduced under the 2014 Terms. Further details can be found in the Directors' Remuneration Report section and in note 48 – Share based payments on page 153.

Swedish based employees

The Swedish business participates in a combined defined benefit and defined contribution Scheme operated by Försäkringsbranschens Pensionskassa, 'FPK' (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 1971 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 1972 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 2014, totalled KSEK 21,185 (£1,789,250). During 2014 further contributions of KSEK 5,781 (£486,500) 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 2014.

The Annual Report states that the Scheme's surplus is SEK 985m (2013: SEK1,312m) as at 31 December 2014.

As at 31 December 2014, the fund had assets under management of SEK 1,290m (2013: SEK,1,130m). During 2014, there have been 127 (2013: 134) employer insurance companies participating in the Scheme and 26,000 (2013: 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.

48 Share-based payments

The Group issues equity-settled share based payments to the three Executive Directors based on the 2014 Terms. Equity settled share-based payments are measured at fair value at the date of the grant, and expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The Executive Bonus Scheme consists of two components:

- (a) Short-term Incentive Scheme (STI Scheme)
- (b) Long-term Incentive Scheme (LTI Scheme)

The STI Scheme is based upon a one year performance period measured against IFRS, EEV operating profit and strategic group objectives. In relation to 2015, upon meeting the necessary performance targets, the Company 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 was deferred into shares, which had a vesting period of three years. Therefore the award was 65% settled in cash and 35% settled by a share option award, which cannot be exercised for three years.

Under the LTI Scheme, options are granted with a vesting period of three years. These awards are subject to performance conditions tied to the Company's financial performance in respect of growth in embedded value and total shareholder return ('TSR').

For schemes with market performance criteria, the number of options expected to vest is adjusted only for expectations of leavers prior to vesting. Fair value of the options is measured by use of the Monte Carlo model at the issuing date.

The LTI scheme also contains a target of embedded value growth. As this is a non-market performance condition, the number of options expected to vest is recalculated at each balance sheet date based on expectations of performance against target. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in reserves.

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.

(a) 2015 award under the Short-Term Incentive (STI) Scheme

The bonus award for the year is £506,000. 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 £329,000 with respect to the 65% element that is to be paid as a cash bonus. The remaining £177,000 will be deferred over the vesting period and an expense of £42,000 has been recorded in the current year.

(b) 2015 award made under the Long-Term Incentive (LTI) Scheme

In April 2015, the Group granted 181,000 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').

The fair value of the non-market base condition was determined to be 319.00p, which was the share price as at 28 April 2015, the grant date of the options.

Details of the share options outstanding during the year are as follows:

2015 Long-Term Incentive Scheme	Options Number 000s	Weighted average exercise price £
Outstanding at the beginning of the year	–	–
Granted during the year	181	–
Outstanding at the end of the year	181	–
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)	319.00
Weighted average exercise price (pence)	Nil
Weighted average fair value of options granted (pence)	187.62
Expected volatility	30.21
Expected life	3 years
Risk free rate	1.07%
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 £62,000 related to equity settled share based payments transactions in 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48 Share-based payments (continued)

(a) 2014 award under the Short-Term Incentive (STI) Scheme

The Group has recorded an expense of £22,000 with regards to the 35% element that has been deferred over the vesting period.

(b) 2014 award made under the Long-Term Incentive (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').

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	2015		2014	
	Options Number £000	Weighted average exercise price £000	Options Number £000	Weighted average exercise price £000
Outstanding at the beginning of the year	117	–	–	–
Granted during the year	–	–	169	–
Forfeited during the year	–	–	(52)	–
Exercised during the year	(26)	–	–	–
Outstanding at the end of the year	91	–	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 £77,000 related to equity settled share based payments transactions in 2014.

49 Earnings per share

Earnings per share are based on the following:

Year ended 31 December	2015 £000	2014 £000
Profit for the year attributable to shareholders (£000)	39,788	25,575
Weighted average number of ordinary shares	126,401,635	115,711,981
Basic earnings per share	31.48p	22.10p
Diluted earnings per share	31.41p	22.08p

The weighted average number of ordinary shares in respect of the years ended 31 December 2015 is based upon 126,552,427 shares in issue less 147,535 own shares held in treasury. The weighted average number of ordinary shares in respect of the years ended 31 December 2014 was based upon 126,552,427 shares in issue less 154,031 own shares held in treasury.

There were 271,000 share options outstanding at 31 December 2015 (2014: 117,000). Accordingly, there is dilution of the average number of ordinary shares in issue in respect of 2015.

50 Operating leases*Leases as lessee*

Non-cancellable operating lease rentals are payable as follows:

Operating lease rentals Year ended 31 December	2015			2014		
	Non- investment properties £000	Motor vehicles £000	Total £000	Non- investment properties £000	Motor vehicles £000	Total £000
Less than one year	852	236	1,088	828	99	927
Between one and two years	835	178	1,013	642	83	725
Between two and five years	1,231	158	1,389	1,709	39	1,748
More than five years	–	–	–	–	–	–
Expenses recognised in the year in respect of operating leases	908	237	1,145	536	72	608

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	2015			2014		
	Investment properties £000	Non- investment properties £000	Total £000	Investment properties £000	Non- investment properties £000	Total £000
Less than one year	–	8	8	39	42	81
Between one and two years	–	–	–	–	4	4
Between two and five years	–	–	–	–	–	–
More than five years	–	–	–	–	–	–
Rental income recognised in the year	109	42	151	499	52	551
Repairs and maintenance costs recognised in the year	(1)	–	(1)	411	24	435

51 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.

52 Capital commitments

There were no capital commitments as at 31 December 2015 or as at 31 December 2014.

53 Related parties**(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53 Related parties

(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:

	2015 £000	2014 £000
Short-term employee benefits	1,713	1,593
Post-employment benefits	71	65
Long-term employment benefits	–	161
Total	1,784	1,819

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:

	2015 £000	2014 £000
Annual bonus scheme (included in the short-term employee benefits above)	495	493
Long-term incentive plan	–	161
Compensation for loss of office	–	384
Total	495	1,038

These amounts have been included in Accrued Expenses as disclosed in note 42.

The amounts payable under the annual bonus scheme were payable within one year.

(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	2015 £000	2014 £000
Recovery of expenses	3,054	2,629

(iii) Transactions with associate

Movestic Livförsäkring AB and its associate Modernac SA

Year ended 31 December	2015 £000	2014 £000
Reinsurance premiums paid	(8,456)	(9,829)
Reinsurance recoveries received	4,200	4,600
Reinsurance commission received	1,570	1,853
	(2,686)	(3,376)
Amounts outstanding as at balance sheet date	(5,321)	(4,654)

53 Related parties (continued)**(b) Related party transactions (continued)**

Movestic Livförsäkring AB had the following amounts outstanding at the balance sheet date:

31 December 2013	2015		2014	
	Amounts owed by associate £000	Amounts owed to associate £000	Amounts owed by associate £000	Amounts owed to associate £000
Modernac S.A.	–	5,321	–	4,654

These amounts have been included in other payables as disclosed in note 42 and other receivables as disclosed in note 27.

54 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	Ownership interest 31 December 2015	Ownership interest 31 December 2014	Functional Currency
Countrywide Assured plc	United Kingdom	100% of all share capital (1)	100% of all share capital (1)	Sterling
Countrywide Assured Life Holdings Limited	United Kingdom	100% of all share capital	100% of all share capital	Sterling
Countrywide Assured Services Limited	United Kingdom	100% of all share capital	100% of all share capital	Sterling
Countrywide Assured Trustee Company Limited	United Kingdom	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 Kapitalförvaltning AB	Sweden	100% of all share capital (2)	100% of all share capital (2)	Swedish krona
Protection Life Company Limited	United Kingdom	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
Waard Leven N.V.	Netherlands	100% of all share capital (5)	100% of all share capital (5)	Euro
Waard Schade N.V.	Netherlands	100% of all share capital (5)	100% of all share capital (5)	Euro
Tadas Verzekering	Netherlands	100% of all share capital (5)	100% of all share capital (5)	Euro
Hollands Welvaren Leven N.V.	Netherlands	100% of all share capital (6)	100% of all share capital (6)	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.

(5) Held indirectly through Chesnara Holdings B.V.

(6) Held indirectly through Waard Leven N.V.

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SECTION E
EEV BASIS SUPPLEMENTARY
INFORMATION



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 2016



John Deane
Group Chief Executive Officer
30 March 2016

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 2015 which comprises the summarised EEV consolidated income statement, the condensed EEV consolidated balance sheet and the statement of changes in equity 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 2015. 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 auditor's 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' Responsibilities Statement in respect of the EEV Basis Supplementary Information, the Directors are responsible for the preparation of the EEV Basis Supplementary Information.

Our responsibility

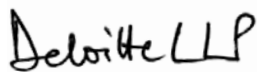
Our responsibility is to audit and express an opinion on the EEV Basis Supplementary Information in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 2015 has been properly prepared in accordance with the EEV principles using the methodology and assumptions set out on pages 164 to 175.



Deloitte LLP

Chartered Accountants and Statutory Auditor
London,
United Kingdom
30 March 2016

SUMMARISED EEV CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Note	2015 £000	2014 £000
Covered business			
New business contribution	6	6,061	9,698
Return from in-force business:			
Expected return	6	6,300	7,149
Experience variances	6	10,754	541
Operating assumption changes	6	8,394	11,000
Return on shareholder net worth	6	(28)	9,134
Operating profit of covered business		31,481	37,522
Variation from longer-term investment return	6	12,195	32,040
Effect of economic assumption changes	6	(698)	(7,451)
Profit of covered business before tax and profit on acquisition		42,978	62,111
Tax thereon	6	2,676	(12,237)
Profit of covered business after tax and before profit on acquisition		45,654	49,874
Profit recognised on business combination	6,9	21,313	–
Non-covered business and other group activities	6	(10,403)	(7,409)
Tax on uncovered business	6	947	1,782
Profit for the year attributable to the equity holders of the parent company	6	57,511	44,247
Earnings per share			
Based on profit for the year	10	50.17	38.24
Diluted profit per share			
Based on profit for the year	10	50.06	38.20

The notes and information on pages 164 to 175 form part of this supplementary information.

SUMMARISED EEV CONSOLIDATED BALANCE SHEET & STATEMENT OF CHANGES IN EQUITY

Consolidated Balance Sheet			
31 December			
	Note	2015 £000	2014 £000
Assets			
Value of in-force business	5, 8	264,765	243,671
Adjusted shareholder net worth		190,411	173,571
Net assets		455,176	417,242
Equity			
Share capital		42,600	42,600
Share premium		76,516	76,523
Treasury shares		(161)	(168)
Foreign exchange reserve		(5,531)	(3,335)
Other reserves		50	50
Retained earnings		341,702	301,572
Total shareholders' equity	5, 8	455,176	417,242

Statement of changes in equity			
Year ended 31 December			
		2015 £000	2014 £000
Shareholders' equity at beginning of the year		417,242	376,370
Profit for the year attributable to shareholders before modelling adjustments	57,511		44,247
Effect of modelling adjustments	5,903		–
Profit for the year		63,414	44,247
Issue of new shares			
Share capital		–	576
Share premium		(7)	33,971
Sale of treasury shares		7	70
Share based payment		212	–
Foreign exchange reserve movement		(2,194)	(17,261)
Dividends paid		(23,498)	(20,731)
Shareholders' equity at end of the year		455,176	417,242

Effect of modelling adjustments

Year ended 31 December 2015

During the year ended 31 December 2015 an adjustment of £5.9m has been reported relating to a tax error in the EEV model which resulted in the tax charge in the EEV model being overstated at 31 December 2014. This has been corrected in the year.

The notes and information on pages 164 to 175 form part of this supplementary information.

Approved by the Board of Directors on 30 March 2016 and signed on its behalf by:



David Rimmington
Finance Director



John Deane
Group Chief Executive Officer

Company number: 04947166

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 8 to the consolidated financial statements prepared on the IFRS basis.

Particular segment information

The Group acquired the Waard Group on 19 May 2015 which represents the Group's Dutch life and general insurance business. As a result, a further operating segment has been added in notes 4 to 8. Furthermore, following the Part VII transfer on 31 December 2014 of the long-term business of Protection Life Company Limited into Countrywide Assured plc, the business of Protection Life ('PL') is now reported within the CA segment, effective from 1 January 2015. Previously PL was reported as a separate segment. Comparative information has been restated to reflect this change.

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, Sweden and Netherlands, 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.
- (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) for the Dutch business the covered business comprises the long-term insurance business of Waard Leven and Hollands Welvaren. The general insurance business within Waard Schade is not included in the covered business, with the result relating to this business being established in accordance with IFRS principles and is included within 'other operating result' within the EEV consolidated income statement.
- (iv) 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 businesses, which are either regarded as required capital or which represent surplus assets within that business.

New business

CA, S&P and the Waard Group

Much of the covered business is in run-off and is therefore substantially closed to new business. Accordingly, for these segments, 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 profitable new business' on page 22 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	2015	2014
	£m	£m
New business premium income	40.7	47.4
Regular premium increments	14.2	15.8
Total new business premium income*	54.9	63.2

* Basis: annualised premium plus 1/10 single premium translated into sterling at the 2015 average rate of SEK 12.8946 = £1 (2014: SEK 11.2989) = £1). The new business contribution has been assessed as at the end of the year, using opening assumptions.

3 Methodology (continued)

(a) Embedded value (continued)

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. All previously announced changes in corporation tax affecting future periods has been allowed for, with the exception of the most recent reduction in corporation tax rates, announced by the Chancellor on 16 March 2016.

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, corporation tax rate for the Waard Group 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.

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 five 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.

The Waard Group

The unit-linked business within Hollands Welvaren contains a minimum return to policyholders, of 20% of the premium. As this guarantee is substantially out of the money, it is ignored on materiality grounds.

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 and S&P 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 the regulations of the Finansinspektionen in Sweden.
- (iii) for the Waard Group, 200% of the regulatory solvency requirements as determined by the regulations of De Nederlandsche Bank in the Netherlands.

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;
- (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; and
- (iii) for the Waard Group, by the retained surplus and by share capital and retained earnings within the shareholder funds of the regulated entities.

(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 nondiversifiable risks, there is no risk premium observable in the market and, therefore, a constant margin has been added to the risk margin.

3 Methodology (continued)

(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 2015.

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 2015 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 financial 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		Movestic		Waard Group	
	2015	2014	2015	2014	2015	2014	2015	2014
5 year	1.60%	1.46%	1.60%	1.46%	0.68%	0.65%	0.33%	–
10 year	2.04%	1.88%	2.04%	1.88%	1.59%	1.27%	1.02%	–
15 year	2.22%	2.12%	2.22%	2.12%	2.04%	1.63%	1.45%	–
20 year	2.25%	2.26%	2.25%	2.26%	2.28%	1.82%	1.63%	–
25 year	2.21%	2.29%	2.21%	2.29%	2.28%	1.82%	1.66%	–
30 year	2.17%	2.30%	2.17%	2.30%	2.28%	1.82%	1.67%	–
Inflation – RPI	2.50%	2.60%	2.50%	2.60%	1.89%	1.42%	1.50%	–

*The PL segment is now reported within the CA segment, and as such a single rate of 1.90% is applied for all durations (31 December 2014: 1.80%).

(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 8 July 2015, so reflect a reduction from the current rate of 20% to 19% from April 2017 and to 18% from April 2020.

(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 and S&P, 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.

For the Waard Group, these have been determined by reference to:

- (i) expenses of the covered business excluding those deemed to not relate to ongoing management of the covered business;
- (ii) consideration of a suitable allocation between fixed expenses and those that vary with business volumes; and
- (iii) the agreement in place with Tadas as the Group's internal administration company for the Dutch covered business.

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.

4 Assumptions (continued)**(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 and S&P (as at 31 December 2014: 50 basis points) and 100 basis points for Movestic (as at 31 December 2014: 100 basis points) and 50 basis points for the Waard Group, 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:
 - (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) reinsurance is used to significantly reduce insurance risks; and
 - (iii) a number of the risks provide diversification benefits within the Chesnara Group, in relation to reinsurance counterparties, market exposures and policyholder populations.
- d) For the Waard Group:
 - (i) the covered business is substantially closed to new business;
 - (ii) reinsurance is used to significantly reduce insurance risks; and
 - (iii) there are no material guarantees or other asymmetrical items within the cash flows.

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (CONTINUED)

5 Analysis of shareholders' equity

31 December 2015						
	CA £000	S&P £000	Movestic £000	Other Waard Group £000	group activities £000	Total £000
Regulated entities						
Capital required	53,394	38,108	13,481	9,211	–	114,194
Free surplus	27,693	28,839	26,162	40,428	–	123,122
Regulatory capital resource of regulated entities	81,087	66,947	39,643	49,639	–	237,316
Adjustments to shareholder net worth:						
Deferred acquisition costs	–	–	(52,696)	–	–	(52,696)
Financial reinsurance liability	–	–	(5,288)	–	–	(5,288)
Software asset adjustment	–	–	(4,699)	–	–	(4,699)
Adjustment to provisions on insurance contracts	–	3,055	–	–	–	3,055
Deferred tax	1,507	–	–	–	–	1,507
Policyholder funds	–	(12,743)	–	–	–	(12,743)
Other asset/liability adjustments	415	9	6,569	2,367	–	9,360
Adjusted shareholder net worth	83,009	57,268	(16,471)	52,006	–	175,812
In-force value of covered business	88,845	4,785	161,867	9,268	–	264,765
Embedded value of regulated entities	171,854	62,053	145,396	61,274	–	440,577
Less: amount financed by borrowings	(31,810)	(20,712)	–	–	–	(52,522)
Embedded value of regulated entities attributable to shareholders	140,044	41,341	145,396	61,274	–	388,055
Net equity of other Group companies	–	–	1,725	12,794	52,602	67,121
Total shareholders' equity	140,044	41,341	147,121	74,068	52,602	455,176

31 December 2014						
	CA £000	S&P £000	Movestic £000	Other group activities £000	Total £000	
Regulated entities						
Capital required	60,759	44,225	13,911	–	118,895	
Free surplus	61,441	18,211	20,989	–	100,641	
Regulatory capital resource of regulated entities	122,200	62,436	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	(46)	5	5,644	–	5,603	
Adjusted shareholder net worth	124,394	49,789	(19,561)	–	154,622	
In-force value of covered business	86,067	11,540	146,064	–	243,671	
Embedded value of regulated entities	210,461	61,329	126,503	–	398,293	
Less: amount financed by borrowings	(38,960)	(25,367)	–	–	(64,327)	
Embedded value of regulated entities attributable to shareholders	171,501	35,962	126,503	–	333,966	
Net equity of other Group companies	–	–	1,936	81,340	83,276	
Total shareholders' equity	171,501	35,962	128,439	81,340	417,242	

5 Analysis of shareholders' equity (continued)

EEV free surplus, as shown above, 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 2015					
	CA £000	S&P £000	Movestic £000	Waard Group £000	Total £000
Free surplus at beginning of the year	61,441	18,211	20,989	–	100,641
Dividend paid to parent	(58,000)	(7,000)	–	–	(65,000)
Synergies and adjustments arising from Part VII transfer, including adjustments to required capital	2,902	–	–	–	2,902
Amount arising on acquisition	–	–	–	39,516	39,516
Surplus arising in the year	16,887	15,087	4,742	912	37,628
Adjustments to required capital	4,463	6,117	431	–	11,011
Decrease in policyholder funds cover for capital requirement	–	(3,576)	–	–	(3,576)
Free surplus at end of the year	27,693	28,839	26,162	40,428	123,122

Year ended 31 December 2014					
	CA £000	S&P £000	Movestic £000	Total £000	
Free surplus at beginning of the year	33,783	44,750	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	43,796	3,727	68	47,591	
Adjustments to required capital	3,764	(778)	2,952	5,938	
Increase in policyholder funds cover for capital requirement	–	1,512	–	1,512	
Free surplus at end of the year	61,441	18,211	20,989	100,641	

The movement in the in-force value of covered business comprises:

Year ended 31 December 2015					
	CA £000	S&P £000	Movestic £000	Waard Group £000	Total £000
Value at beginning of year	86,067	11,540	146,064	–	243,671
Amount arising on acquisition	–	–	–	8,799	8,799
Amount (charged)/credited to foreign exchange reserve	–	–	(4,615)	218	(4,397)
Amount credited/(charged) to operating profit	2,778	(6,755)	20,418	251	16,692
Value at end of year	88,845	4,785	161,867	9,268	264,765

Year ended 31 December 2014					
	CA £000	S&P £000	Movestic £000	Total £000	
Value at beginning of year	92,678	30,482	139,001	262,161	
Amount charged to foreign exchange reserve	–	–	(19,817)	(19,817)	
Amount (charged)/credited to operating profit	(6,611)	(18,942)	26,880	1,327	
Value at end of year	86,067	11,540	146,064	243,671	

S&P

EEV shareholders equity for the S&P segment 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 also includes 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.

The Waard Group

The adjusted shareholder net worth of the Waard Group is that of the regulated entities, together with the net worth of the service company. Accordingly, for the Waard Group, the embedded value comprises the embedded value of the regulated entities and the value of the uncovered business, the latter component being valued on an IFRS basis.

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (CONTINUED)

6 Summarised analysis of profit/(loss)

Year ended 31 December 2015							
	CA £000	S&P £000	UK Total £000	Movestic £000	Other Waard Group £000	Group activities £000	Total £000
Covered business							
New business contribution	361	–	361	5,700	–	–	6,061
Return from in-force business							
Expected return	3,267	713	3,980	3,044	(724)	–	6,300
Experience variances	6,943	2,461	9,404	127	1,223	–	10,754
Operating assumption changes	(2,599)	5,077	2,478	5,661	255	–	8,394
Return on shareholder net worth	382	(410)	(28)	–	–	–	(28)
Operating profit of covered business	8,354	7,841	16,195	14,532	754	–	31,481
Variation from longer-term investment return	802	2,848	3,650	8,545	–	–	12,195
Effect of economic assumption changes	1,619	(2,950)	(1,331)	864	(231)	–	(698)
Profit of covered business before tax	10,775	7,739	18,514	23,941	523	–	42,978
Tax thereon			2,676	–	–	–	2,676
Profit of covered business after tax			21,190	23,941	523	–	45,654
Results of non-covered business and of other group companies:							
Profit recognised on business combination			–	–	–	21,313	21,313
Effect of modelling adjustments			–	–	–	5,903	5,903
(Loss)/profit before tax			–	(1,282)	389	(9,510)	(10,403)
Tax			–	(33)	–	980	947
Profit after tax			21,190	22,626	912	18,686	63,414

Year ended 31 December 2014							
	CA £000	S&P £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	2,552	(548)	2,004	5,145	–	7,149	
Experience variances	5,437	(4,803)	634	(93)	–	541	
Operating assumption changes	20,851	(4,632)	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	31,260	(2,475)	28,785	8,737	–	37,522	
Variation from longer-term investment return	22,458	(8,582)	13,876	18,164	–	32,040	
Effect of economic assumption changes	(4,651)	(3,121)	(7,772)	321	–	(7,451)	
Profit/(loss) of covered business before tax	49,067	(14,178)	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	

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 2015, 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 CA and the Waard Group for the year ended 31 December 2015 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	Dutch business	Swedish business
	CA Pre-tax £m	S&P Pre-tax £m	Tax £m	UK Post-tax £m	Post-tax £m	Post-tax £m	£m
Published value as at 31 December 2015	186.9	62.1	(15.0)	234.0	145.4	61.3	5.6
Changes in embedded value/new business contribution arising from:							
Economic sensitivities							
100 basis point increase in yield curve	(4.5)	7.1	–	2.6	1.0	(3.4)	(0.2)
100 basis point reduction in yield curve	4.9	(8.6)	(1.4)	(5.1)	(1.0)	1.8	0.2
10% decrease in equity and property values	(7.4)	(11.4)	2.6	(16.2)	(14.5)	–	(0.2)
Operating sensitivities							
10% decrease in maintenance expenses	3.3	4.1	(0.8)	6.6	7.4	0.9	0.8
10% decrease in lapse rates	2.0	(1.2)	–	0.8	9.8	–	1.4
5% decrease in mortality/morbidity rates:							
Assurances	2.6	0.4	(0.2)	2.8	0.1	1.3	–
Annuities	(2.2)	(0.5)	(0.1)	(2.8)	–	–	–
Reduction in the required capital to statutory minimum	1.5	0.4	(0.5)	1.4	–	0.2	–

	Embedded value						New business contribution
	UK business				Swedish business	Swedish business	
	CA Pre-tax £m	S&P Pre-tax £m	Tax £m	UK Post-tax £m	Post-tax £m	£m	
Published value as at 31 December 2014	233.3	61.3	(22.8)	271.8	126.5	7.6	
Changes in embedded value/new business contribution arising from:							
Economic sensitivities							
100 basis point increase in yield curve	(4.2)	9.7	(1.1)	4.4	1.0	(0.2)	
100 basis point reduction in yield curve	5.8	(9.8)	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	3.3	4.8	(1.0)	7.1	7.0	0.8	
10% decrease in lapse rates	2.7	(1.0)	–	1.7	9.0	1.5	
5% decrease in mortality/morbidity rates:							
Assurances	2.5	0.5	(0.2)	2.8	0.1	–	
Annuities	(2.1)	(0.3)	–	(2.4)	n/a	n/a	
Reduction in the required capital to statutory minimum	1.7	0.4	–	2.2	–	–	

The key assumption changes represented by each of these sensitivities are as follows:

Economic sensitivities

- 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;
- 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
- 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.

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (CONTINUED)

7 Sensitivities to alternative assumptions (continued)

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.

8 Reconciliation of shareholders' equity on the IFRS basis to shareholders' equity on the EEV basis

31 December 2015						
	CA £000	S&P £000	Movestic £000	Ward Group £000	Other Group activities £000	Total £000
Shareholders' equity on the IFRS basis	107,131	56,159	63,283	68,777	(188)	295,162
Reclassifications:						
Debt finance	(31,810)	(20,712)	–	–	52,522	–
Other	(268)	–	–	–	268	–
Adjustments:						
Deferred acquisition costs	(3,046)	–	(32,232)	–	–	(35,278)
Deferred income	5,589	–	–	–	–	5,589
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(9,011)	–	–	–	–	(9,011)
Adjustments to provisions on insurance contracts, net of reinsurers' share	10	5,191	–	–	–	5,201
Acquired in-force value	(18,379)	(4,082)	(35,438)	(3,956)	–	(61,855)
Acquired value of customer relationships	–	–	(757)	–	–	(757)
Software assets	–	–	(4,699)	(21)	–	(4,720)
Adjustment to borrowings	–	–	(7,175)	–	–	(7,175)
Deferred tax	983	–	2,272	–	–	3,255
Shareholder net worth	51,199	36,556	(14,746)	64,800	52,602	190,411
Value of in-force business	88,845	4,785	161,867	9,268	–	264,765
Shareholders' equity on the EEV basis	140,044	41,341	147,121	74,068	52,602	455,176
Shareholder net worth comprises:						
Adjusted shareholder net worth in regulated entities	83,009	57,268	(16,471)	52,006	–	175,812
Shareholders' net equity in other Group companies	–	–	1,725	12,794	52,602	67,121
Debt finance	(31,810)	(20,712)	–	–	–	(52,522)
Total	51,199	36,556	(14,746)	64,800	52,602	190,411

8 Reconciliation of shareholders' equity on the IFRS basis to shareholders' equity on the EEV basis (continued)

31 December 2014					
	CA £000	S&P £000	Movestic £000	Other Group activities £000	Total £000
Shareholders' equity on the IFRS basis	150,181	53,059	58,840	16,753	278,833
Reclassifications:					
Debt finance	(38,960)	(25,367)	–	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	(21,995)	(4,554)	(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	85,434	24,422	(17,625)	81,340	173,571
Value of in-force business	86,067	11,540	146,064	–	243,671
Shareholders' equity on the EEV basis	171,501	35,962	128,439	81,340	417,242
Shareholder net worth comprises:					
Adjusted shareholder net worth in regulated entities	124,394	49,789	(19,561)	–	154,622
Shareholders' net equity in other Group companies	–	–	1,936	81,340	83,276
Debt finance	(38,960)	(25,367)	–	–	(64,327)
Total	85,434	24,422	(17,625)	81,340	173,571

9 Profit recognised on business combination

An EEV profit of £21,313,000 has arisen as a result of the purchase of 100% of the share capital of the Waard Group on 19 May 2015. The profit was measured as the difference between the purchase consideration of £50,123,000 and the European embedded value of the Waard Group at the purchase date, being £71,436,000, which was established in accordance with the methodology set out in note 3 of the EEV supplementary financial information.

10 Earnings per share

Year ended 31 December	2015	2014
	p	p
Basic earnings per share		
Based on profit for the year	50.17	38.24
Based on profit for the year before exceptional items	28.64	38.24
Diluted earnings per share		
Based on profit for the year	50.06	38.20
Based on profit for the year before exceptional items	28.58	38.20

11 Foreign exchange translation reserve

A foreign exchange translation reserve arises on the translation of the financial statements of Movestic and the Waard Group, the functional currency of which is the Swedish krona and the euro respectively, into pounds sterling, which is the presentational currency of the Group financial statements. For Movestic, items in the consolidated income statement are translated at the average exchange rate of SEK 12.8946 = £1 ruling in the year ended 31 December 2015 (year ended 31 December 2014: SEK 11.2989 = £1), while all items in the balance sheet are stated at the closing rates ruling at the reported balance sheet date, being SEK 12.4949 = £1 at 31 December 2015 (SEK 12.0680 = £1 at 31 December 2014). For the Waard Group, items in the consolidated income statement are translated at the average exchange rate of euro 1.3782 = £1 in the post acquisition period between 19 May and 31 December 2015. All items in the balance sheet are stated at the closing rate at the reported balance sheet date, being euro 1.3605 = £1 at 31 December 2015. 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/euro: £ exchange rate. For Movestic, had the exchange rate as at 31 December 2015 been 10% weaker at SEK 13.7444 = £1, then the reported embedded value of £455.2m as at 31 December 2015 would have been reduced to £440.9m. Had the euro exchange rate as at 31 December 2015 been 10% weaker at euro 1.4966 = £1, then the reported embedded value of £455.2m as at 31 December 2015 would have been reduced to £448.4m.

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SECTION F
ADDITIONAL INFORMATION



FINANCIAL CALENDAR

31 March 2016

Results for the year ended 31 December 2015 announced.

7 April 2016

Ex dividend date.

8 April 2016

Dividend record date.

20 April 2016

Published Financial Statements issued to shareholders.

18 May 2016

Annual General Meeting.

23 May 2016

Dividend payment date.

31 August 2016

Half year results for the 6 months ending 30 June 2016 announced.

KEY CONTACTS

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Fax: 01772 482244
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Broadwalk House
5 Appold Street
London
EC2A 2HA

Addleshaw Goddard LLP
100 Barbirolli Square
Manchester
M2 3AB

Auditor

Deloitte LLP
Chartered Accountants & Statutory Auditor
Hill House
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London
EC4A 3TR
United Kingdom

Registrars

Capita Asset Services
The Registry
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Kent
BR3 4TU

Stockbrokers

Panmure Gordon
One New Change
London
EC4M 9AF

Canaccord Genuity Limited
88 Wood Street
London
EC2V 7QR

Bankers

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135 Bishopsgate
London
EC2M 3UR

The Royal Bank of Scotland
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Public Relations Consultants

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London
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Corporate Advisors

Canaccord Genuity Limited
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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 2016 Annual General Meeting of Chesnara plc will be held at the offices of Panmure Gordon (UK) Limited, One New Change, London EC4M 9AF on 18 May 2016 at 11a.m. for the business set out below. Resolutions 1 to 14 inclusive will be proposed as ordinary resolutions and resolutions 15 to 18 inclusive will be proposed as special resolutions.

1. To receive and adopt the audited accounts for the financial year ended 31 December 2015, together with the reports of the directors and auditor thereon.
2. To declare a final dividend of 12.33 pence per ordinary share for the financial year ended 31 December 2015.
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 2015.
4. To re-elect David Rimmington as a director.
5. To re-elect Frank Hughes as a director.
6. To re-elect Peter Mason as a director.
7. To re-elect Veronica Oak as a director.
8. To re-elect David Brand as a director.
9. To re-elect Mike Evans as a director.
10. To re-elect Peter Wright as a director.
11. 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.
12. To authorise the directors to fix the auditor's remuneration.
13. That, from the passing of this resolution until the earlier of 14 November 2017 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.
14. 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 £4,213,496, 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)

- 15.** That, subject to the passing of the resolution numbered 14 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 14 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 £316,012 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.
- 16.** 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 12,640,489;
- (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.
- 17.** That the Articles of Association be and hereby amended to adopt certain amendments (the 'New Articles') principally in order to reflect developments in market practice and to provide clarification and additional flexibility on certain matters. The existing Articles of Association were adopted by the Company on 13 May 2010. The principal changes being proposed are summarised in the Explanatory Notes accompanying this notice. A copy of the New Articles will be available for inspection at the Company's registered office from the date of this Notice until the 2016 Annual General Meeting. They will be available for inspection during normal business hours, Monday to Friday (public holidays excepted).
- 18.** 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

Zoe Kubiak
Company Secretary

2nd Floor, Building 4
West Strand Business Park
West Strand Road
Preston
Lancashire
PR1 8UY

30 March 2016

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 Monday 16 May 2016. 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 Monday 16 May 2016, 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.
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 Monday 16 May 2016. 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.

NOTES (CONTINUED)

- 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 24 March 2016 (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 24 March 2016 (being the last practicable date prior to the publication of this document) were 126,404,892.
- 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.

The notes on the following pages give an explanation of the proposed resolutions:

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

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 2014 (the 'Code'), the Company proposes, as an ordinary resolution, a resolution on its annual report and accounts for the year ended 31 December 2015.

Resolution 2:

Final dividend

The payment of the final dividend requires the approval of shareholders in general meeting. If the 2016 Annual General Meeting approves resolution 2, the final dividend of 12.33 pence per share will be paid on 23 May 2016 to ordinary shareholders who are on the register of members at the close of business on 8 April 2016 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 2015. The directors' remuneration report can be found on pages 60 to 67 of the 2015 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 54 to 59. The vote on this resolution is advisory only and the directors' entitlement to remuneration is not conditional on it being passed.

Resolutions 4 - 10 inclusive:

Election and Re-election of directors

The Company's Articles of Association require one-third of directors to retire by rotation at each AGM. Any director who has not retired by rotation must retire at their third AGM after his or her appointment or re-appointment. 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 2016 Annual General Meeting. Frank Hughes, David Rimmington, Peter Mason, Veronica Oak, David Brand, Mike Evans and Peter Wright are all put forward by the Board of Directors for re-election at the 2016 Annual General Meeting. Biographical details of each director can be found on page 44 & 45 of this document. The Chairman confirms that each of the directors proposed for re-election continues to make an effective and valuable contribution and demonstrates commitment to their responsibilities. This is supported by the annual performance evaluation that was undertaken recently. The Board unanimously recommend that each of these individuals be re-elected as a director of the Company.

Brief biographical details of each of them can be found on pages 44 to 45 of the 2015 Report And Accounts.

In accordance with the Code, the Board has reviewed the independence of its non-executive Directors and has determined that they remain fully independent of management. The Code states that whilst the Chairman should, on appointment, meet the Code's independence criteria, thereafter the tests of independence are not appropriate in relation to that post. Peter Mason did meet the Code's independence criteria upon his election as Chairman.

Resolutions 11 and 12:

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. The Audit & Risk Committee has reviewed Deloitte LLP's effectiveness and recommends their reappointment. The resolutions authorise the Company to reappoint and, following formal practice, to authorise the Audit & Risk Committee to determine their remuneration.

Resolution 13:

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 14

Power to allot shares

The Directors of the Company (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 £4,213,496 (representing 84,269,928 ordinary shares), which represents approximately two thirds in aggregate of the total ordinary share capital in issue (excluding treasury shares) as at 24 March 2016 (being the latest practicable date prior to the publication of this document). Of this amount, 42,134,964 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 24 March 2016 (being the latest practicable date prior to the publication of this document), the Company held 147,535 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.

Resolution 15

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 £316,012 (representing 6,320,245 ordinary shares), which represents approximately 5% of the Company's issued equity share capital (excluding treasury shares) as at 24 March 2016 (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 Annual General Meeting. This is a standard resolution for most UK listed companies each year.

In accordance with the Statement of Principles on dis-applying pre-emption rights issued in March 2015 by the Pre-Emption Group (which is supported by the Association of British Insurers, the National Association of Pension Funds Limited The Investment 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 16:

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 12,640,489 (representing 10% of the issued ordinary share capital of the Company (excluding treasury shares) as at 24 March 2016 (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.

The 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, 6,496 shares were transferred out of treasury to meet share options.

Resolution 17:

Amendment to the Articles of Association

At the 2016 Annual General Meeting, a special resolution will be proposed to amend the Articles of Association of the Company by the adoption of the amendment to Article 87. This proposed amendment will allow for an increase in the cap on remuneration of the Directors, who do not hold an executive office, from £350,000 to £1,500,000. This will provide the board of Directors (the 'Board') scope to be able to align, where necessary, the Director's remuneration commensurate with those in the market or as advised by independent remuneration advisors. The Board believes it to be in the best commercial interest of the Group.

Resolution 18:

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 18 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	ABI Association of British Insurers – Represents the collective interests of the UK's insurance industry.	HCL	HCL Insurance BPO Services Limited.
AGM	Annual General Meeting.	IFA	Independent Financial Adviser.
ALM	Asset Liability Management – management of risks that arise due to mismatches between assets and liabilities.	IFRS	International Financial Reporting Standards.
APE	Annual Premium Equivalent – an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.	IGD	Insurance Groups Directive – The European directive setting out the current capital adequacy regime for insurance groups.
CA	Countrywide Assured plc.	KPI	Key performance indicator.
CALH	Countrywide Assured Life Holdings Limited and its subsidiary companies.	London Stock Exchange	London Stock Exchange plc.
CR	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 Company in those capital resources.	LTICR	Long-Term Insurance Capital Requirement – Capital required to be held for regulatory purposes in respect of investment, expense and insurance risks.
CRO	Chief Risk Officer.	LTI	Long-Term Incentive Scheme – A reward system designed to incentivise employees' long-term performance.
CRR	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.	MCEV	Market Consistent Embedded Value.
Directors or Board	The Directors of the Company as at the date of this document whose names are set out on pages 44 and 45 of this document.	Modemac	Modernac SA, an associated company which is 49% owned by Movestic.
DNB	De Nederlandsche Bank being the Dutch national regulator.	Movestic	Movestic Livförsäkring AB.
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.	Net cash generation	This represents the cash that has become available for distribution to shareholders during the period. It builds on 'gross cash generation' and makes adjustments for items (either positive or negative) that affect the availability of cash for distribution. For example, capital releases arising from capital restructuring and one-off cash generation from acquisitions.
Dutch Business	The Waard Group, consisting of Waard Leven N.V., Hollands Welvaren Leven N.V., Waard Schade N.V. and Tadas Verzekeringen B.V.	Official List	The Official List of the Financial Conduct Authority.
EEV	European Embedded Value.	Ordinary Shares	Ordinary shares of five pence each in the capital of the Company.
FCA	Financial Conduct Authority.	ORSA	Own Risk and Solvency Assessment.
FI	Finansinspektionen, being the Swedish Financial Supervisory Authority.	PL	Protection Life Company Limited.
Form of Proxy	The form of proxy relating to the General Meeting being sent to shareholders with this document.	PRA	Prudential Regulation Authority.
FRC	Financial Reporting Council, UK independent regulator responsible for corporate governance and reporting.	QRT	Quantitative Reporting Template.
FSMA	The Financial Services and Markets Act 2000 of England and Wales, as amended.	RCR	Risk Capital Requirement – additional amounts of capital required to be held for regulatory purposes as a result of two stress tests.
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.	Resolution	The resolution set out in the notice of General Meeting set out in this document.
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.	RMF	Risk Management Framework.
Gross cash generation	This represents the operational cash that has been generated in the period. The cash generating capacity of the Group is largely a function of the movement in the solvency position of the insurance subsidiaries within the Group, and takes account of the buffers that management has set to hold over and above the solvency requirements imposed by our regulators.	SCR	Solvency Capital Requirement, being the terminology used for Solvency requirements under the Solvency II regime.
Group	The Company and its existing subsidiary undertakings.	Shareholder(s)	Holder(s) of Ordinary Shares.
Guardian	Guardian Assurance plc.	Solvency II	A fundamental review of the capital adequacy regime for the European insurance industry. Solvency II establishes 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.

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