Chesnara

Solvency and Financial Condition Report
2016

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Information subject to audit:
The information in the above contents page that has been shaded is subject to external audit.

SUMMARY

Background

This is the first Solvency and Financial Condition Report ('SFCR') that has been prepared for the Chesnara plc group ('Chesnara', 'the group'), and is for the year ended 31 December 2016. The report has been prepared to comply with the reporting requirements of the new EU-wide regulatory framework for insurance companies, known as Solvency II, which came into force on 1 January 2016. This report has been prepared for the benefit of policyholders and other parties who have an interest in the solvency and financial condition of the group. In accordance with the Solvency II framework this report follows a standardised structure and includes specific content to meet the detailed reporting requirements of the framework.

A summary of this report has been provided below. It focuses on key messages and highlights key changes during 2016 that have been reported in the main body of this report. To aid the reader of this report the summary has been prepared to follow the structure of the main body of this report.

A. Business and performance

This section of the report provides background information on the company and its performance. Chesnara plc is a listed life insurance holding company and has its shares admitted for trading on the London Stock Exchange. The Chesnara group has life insurance and pensions operations in the UK, Sweden and the Netherlands. Both the UK and Dutch businesses are substantially closed to new business, whereas the Swedish division continues to sell new policies to customers. The overall business of Chesnara has not changed substantially over the reporting period. Highlights from the business and performance section of this report include:

- The announcement on 24 November 2016 of the acquisition of Legal & General Nederland N.V. (subsequently renamed Scildon N.V.) which was completed on 5 April 2017. To part fund the acquisition, new equity capital of £66.9m (net of issue costs) was raised in December 2016. The impact of the acquisition will be reflected in the 2017 Chesnara group SFCR.
- The group has reported an underwriting performance, taken as being the profit before tax as included in the group's financial statements, of £40.7m (2015: £42.8m).
- Regarding the UK business, during March 2016 the Financial Conduct Authority ('FCA') announced an investigation into how the company disclosed exit fees to customers when they surrendered, transferred or made the policy paid up. Discussions are continuing with the FCA to progress the investigation following recent requests for further information.
- During November 2016, as part of the UK Government's "pensions freedoms" agenda it was announced that a 1% exit fee cap would be introduced on all pension products where the policyholder is over 55 years old, effective from 1 March 2017. The group's results provide for the impact of this change.
- A number of new board appointments across the group have been made during the year to strengthen the group's governance. This includes the appointment of a new UK CEO and two new non-executive directors in the UK (one of which has also been appointed to the Chesnara board). In addition, the board was advised of the intention of the Swedish CEO to step down during 2017 and a well qualified replacement has been appointed.

B. Systems of governance

This section of the report provides further information on the overall governance structure of the group and its risk management and internal control system. It details the Chesnara board's overall responsibilities and how it delivers these through the use of its sub-committees and interaction with the boards operating in each of its three divisions. The Chesnara board sets the culture and values of how the group operates, and it is the Chesnara board's responsibility to ensure that this is implemented across the group. It manages this through the utilisation of group and divisional corporate governance maps. This section of the report also provides some insight into the remuneration practices and policies of the group and how these promote management behaviours that are aligned with its strategic aims.

There have been no significant changes in the group's overall system of governance over the year although the group continues to invest time and resources into ensuring that the governance structures in place remain fit for purpose for the ever evolving landscape in which the group operates.

C. Risk profile

Further qualitative and quantitative information on the risk profile of the group can be found in this section of the report. Quantitative risk profile information in this section has been provided using the results of the group's solvency capital requirement calculations. The group is required to hold capital to help it deal with the financial impact should any of the risks materialise. Regulators have specified a "standard formula" to use when calculating the amount of capital that it is required to hold against each Solvency II risk category and the board has determined that the standard formula, without any adjustments, gives an appropriate outcome.

There have been no fundamental changes in the overall risk profile of the group over the reporting period and the impact of the acquisition of Scildon on the group's risk profile will be reported in the 2017 SFCR. Whilst there have been no fundamental changes, the following new factors have contributed to our assessment of the risk profile of the group during the year:

- ***EU referendum ('Brexit'):*** The announcement of the referendum result during the year is not deemed by management to fundamentally affect the risk profile of the group. That said, Brexit does appear to have had some impact on investment markets, notably equities and fixed income securities, and the group's financial performance is influenced by such markets. There also remains a level of uncertainty over the longer term impact that Brexit may have on both investment markets and the wider economy.
- ***UK regulatory activity:*** There was a significant amount of regulatory activity during 2016, with the issue of the FCA's findings into its review of the "Fair treatment of long-standing customers in the life insurance sector" and the imposition of the 1% exit fee cap on pension policies where the policyholder is over 55 years old. As such the group, via its UK division, is exposed to any one-off costs of addressing these regulatory changes, as well as any permanent increase in the cost base in order to meet enhanced standards going forward.

D. Valuation for solvency purposes

This section of the report provides further information on the group's assets and liabilities. It provides quantitative information regarding the value of assets and liabilities held at the reference date of this report, and also provides information on how the key asset and liability classes have been calculated.

The practices used for valuing assets and liabilities for solvency purposes have remained consistent throughout the reporting period.

A summary of the group's assets and liabilities at 31 December 2016 has been provided below:

	Solvency II value £m
Assets	5,750.5
Net technical provisions	(4,949.8)
Other liabilities	(265.5)
Assets less liabilities	**535.2**

E. Capital management

The final section of the SFCR provides information on the capital position of the group. It builds on the information included in section D of the report and introduces further information on the level of capital that is required to be held by the group (the Solvency Capital Requirement), and how the group meets these requirements. The section also provides information on the policies and practices that are employed by the group and its operating divisions in managing capital.

During 2016 there have been no significant changes in the way the group and its divisions and business units manage their capital. The board approved capital management policies that are implemented across the group underpin any capital related decisions and have remained materially unchanged over the reporting period.

The group and its subsidiaries have not utilised any aspects of the longer-term guarantee package when calculating their solvency positions, and the group's solvency position at 31 December 2016 remains above the board's minimum requirements.

As referred to in section A of this summary, the group raised additional equity capital to part fund the acquisition of Scildon that subsequently completed during April 2017. As a result, the solvency position of the group was artificially inflated at 31 December 2016 due to including the equity raise proceeds which have subsequently been paid out to the previous owner of Scildon NV as part of the purchase consideration. Therefore the group's solvency summary below, stated at 31 December 2016, has been provided with and without the equity raise impact and the costs of both the equity raise and the acquisition.

	31 December 2016		
	Inclusive of equity raise and associated acquisition costs	Remove equity raise and associated acquisition costs	Underlying position after removing equity raise and associated acquisition costs
	£m	£m	£m
Assets less liabilities	**535.2**	**(62.1)**	**473.0**
Own shares (held directly or indirectly)	(0.2)	-	(0.2)
Foreseeable dividends	(19.0)	-	(19.0)
Restricted own funds in ring fenced funds	(10.6)	-	(10.6)
Own funds	**505.4**	**(62.1)**	**443.3**
Solvency Capital Requirement (SCR)	**320.7**	**(13.2)**	**307.5**
Surplus own funds over SCR	**184.7**	**(48.9)**	**135.8**
Ratio of eligible own funds to SCR	**157.6%**		**144.2%**

- The group has own funds (representing the net assets and liabilities of the group as measured on a Solvency II basis) that exceed the capital requirements of the group by £184.7m.
- This gives rise to a solvency ratio of 157.6% at 31 December 2016 and is stated after a proposed dividend of £19.0m, which was paid on 24 May 2017.
- All of the group's own funds are classified as Tier 1 capital, consisting of shareholders' equity and retained earnings.

AUDITOR'S REPORT AND OPINION

Report of the external independent auditor to the Directors of Chesnara plc ('the Company') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Group Solvency and Financial Condition Report ('SFCR')

Opinion

Except as stated below, we have audited the following documents prepared by the Company as at 31 December 2016:
- the 'Valuation for solvency purposes' and 'Capital Management' sections of the Group SFCR of the Company as at 31 December 2016, ('the Narrative Disclosures subject to audit'); and
- Group templates S.02.01.02, S.23.01.22, S.25.01.22 and S.32.01.22 ('the Group Templates subject to audit').

The Narrative Disclosures subject to audit and the Group Templates subject to audit are collectively referred to as the 'relevant elements of the Group SFCR'.

We are not required to audit, nor have we audited, and as a consequence do not express an opinion on the Other Information which comprises:
- the 'Executive Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Group SFCR;
- Group templates S.05.01.02 and S.05.02.01;
- the written acknowledgement by management of their responsibilities, including for the preparation of the Group SFCR ('the Responsibility Statement'); and
- information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with an EU instrument other than the Solvency II regulations ('the sectoral information').

To the extent the information subject to audit in the relevant elements of the Group SFCR includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the relevant elements of the Group SFCR of the Company as at 31 December 2016 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)) and ISA (UK) 800 and ISA (UK) 805, and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Group SFCR in the UK, including the APB's ethical standards, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required to report in respect of the following matters where:
- the Directors' use of the going concern basis of accounting in the preparation of the Group SFCR is not appropriate; or
- the Directors have not disclosed in the Group SFCR any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Group SFCR is authorised for issue.

We have nothing to report in relation to these matters.

Emphasis of Matter – Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Group SFCR, which describe the basis of accounting. The Group SFCR is prepared in compliance with the financial reporting provisions of the PRA Rules and Solvency II regulations, and therefore in accordance with a special purpose financial reporting framework. The Group SFCR is required to be published, and intended users include but are not limited to the PRA. As a result, the Group SFCR may not be suitable for another purpose. Our opinion is not modified in respect of these matters.

Other Information

The Directors are responsible for the Other Information.

Our opinion on the relevant elements of the Group SFCR does not cover the Other Information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Group SFCR, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the relevant elements of the Group SFCR, or our knowledge obtained

AUDITOR'S REPORT AND OPINION (CONTINUED)

Other Information (continued)

in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the relevant elements of the Group SFCR or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors for the Group Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Group SFCR in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications, and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of a Group SFCR that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the relevant elements of the Group Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the relevant elements of the Group SFCR are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Group SFCR are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK and Ireland) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Group SFCR.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. The same responsibilities apply to the audit of the Group SFCR.

This report is made solely to the Directors of Chesnara plc in accordance with Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook for Solvency II firms. We acknowledge that our report will be provided to the PRA for the use of the PRA solely for the purposes set down by statute and the PRA's rules. Our audit work has been undertaken so that we might state to the insurer's Directors those matters we are required to state to them in an auditor's report on the relevant elements of the Group SFCR 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 PRA, for our audit work, for this report or for the opinions we have formed.

Report on Other Legal and Regulatory Requirements

Sectoral Information

In our opinion, in accordance with Rule 4.2 of the External Audit Chapter of the PRA Rulebook, the sectoral information has been properly compiled in accordance with the PRA rules and EU instruments relating to that undertaking from information provided by members of the group and the relevant insurance group undertaking.

Other Information

In accordance with Rule 4.1 (3) of the External Audit Chapter of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of Chesnara plc's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Stephen Williams FCA (senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom

28 June 2017

Appendix – relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit

The relevant elements of the Group SFCR that are not subject to audit comprise:

– Elements of the Narrative Disclosures subject to audit identified as 'unaudited'

DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF THE SOLVENCY AND FINANCIAL CONDITION REPORT ("SFCR")

The Directors are responsible for preparing the Solvency and Financial Condition Reports in accordance with applicable law and regulations.

The PRA Rulebook for Solvency II firms in Rule 6.1(2) and Rule 6.2(1) of the reporting Part requires that the Company must have in place a policy of ensuring the ongoing appropriateness of any information disclosed and that the company must ensure that its SFCR is approved by the directors.

Each director certifies that:

(a) the Solvency and Financial Condition Report has been properly prepared in all material respects in accordance with the PRA rules and Solvency II Regulations;
(b) throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rules and Solvency II Regulations as applicable to the Company; and
(c) it is reasonable to believe that, at the date of the publication of the SFCR, the Company has continued so to comply, and will continue so to comply in future.

By order of the board:

John Deane
Chief Executive Officer
28 June 2017

David Rimmington
Finance Director
28 June 2017

A. BUSINESS AND PERFORMANCE

A.1 Business

A.1.1 Name and legal form

Chesnara plc ('Chesnara'), is the ultimate parent company of the Chesnara plc group ('the group') and is a UK based life and pensions consolidator that was established in 2004. It has operations in the UK, Sweden and the Netherlands. Chesnara plc is a public limited company, limited by shares, and its shares are admitted to trading on the London Stock Exchange.

A.1.2 Name and contact details of the responsible supervisory authority

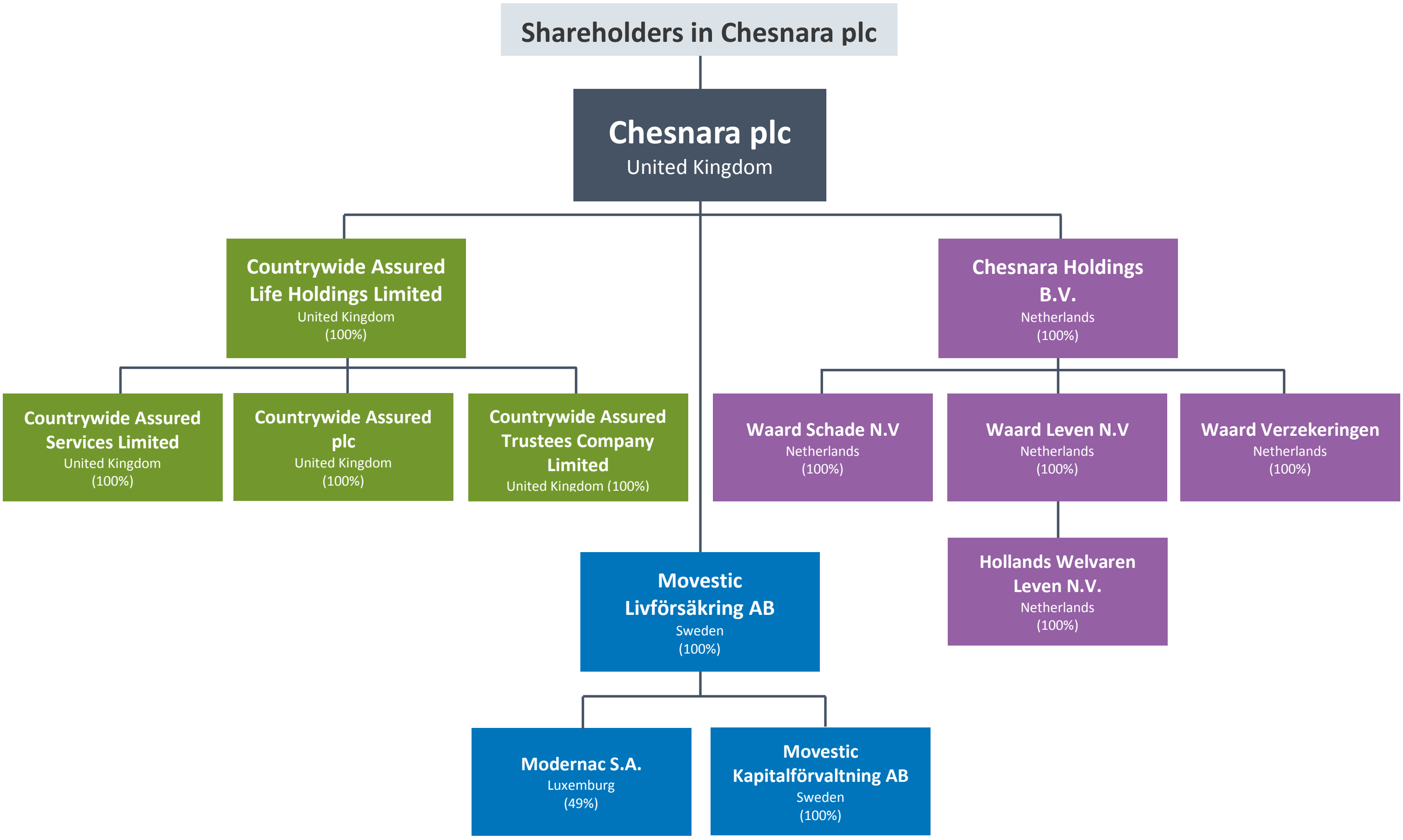
The Prudential Regulation Authority ('PRA') is the group supervisor for the insurance group headed-up by Chesnara plc. Contact details for the PRA can be found on the following website:
www.bankofengland.co.uk/pra

A.1.3 Name and contact details of external auditor

The group's external auditor is Deloitte LLP, Edinburgh, United Kingdom.

A.1.4 Shareholders and position within the group

The Chesnara plc group organisational structure shown below is as at 31 December 2016.



On the 5 April 2017, Chesnara Holdings B.V. acquired the entire share capital of Legal & General Nederland Levensverzekering Maatschappij N.V. which was subsequently renamed Scildon N.V.

The company is limited by shares, the majority of which are owned by private and institutional investors.

Chesnara plc has 100% ownership of Countrywide Assured Life Holdings Limited, Movestic Livforsakring AB and Chesnara Holdings BV. It is the ultimate group parent company, providing governance oversight to the UK, Swedish and Dutch divisions.

UK business: Countrywide Assured Life Holdings Limited acts as an intermediate holding company for the UK life and pension operations. Countrywide Assured plc is the UK's closed book life and pensions operation. Countrywide Assured Services Limited's principal activity is the provision of services to the other subsidiaries within the Countrywide Assured Life Holdings Limited group of companies. The principal activity of the Countrywide Assured Trustees Company is to act as trustee to the group pension schemes.

Swedish business: Movestic Livforsakring AB is the Swedish business which is open to new business and writes life assurance and pension business. Movestic Kapitalforvaltning AB is an investment fund management company and subsidiary of Movestic Livforsakring. Modernac SA is a Luxemburg based reinsurance company, in which Movestic Livforsakring AB has 49% share.

A.1 Business (continued)

A.1.4 Shareholders and position within the group (continued)

Dutch business: Chesnara Holdings BV acts as an intermediate holding company for the Dutch businesses. Waard Leven NV, Hollands Welvaren NV and Waard Schade are all insurance companies that are closed to new business. Waard Verzekeringen NV is a service company, providing administrative services to the other Dutch businesses and outsourced administration services to un-related third-parties. HWL transferred its portfolio of unit-linked policies to its parent and sole shareholder Waard Leven, following approval from DNB, effective from 1 January 2017. All assets and liabilities related to the portfolio were transferred, with only corporate assets and liabilities remaining in Hollands Welvaren.

A.1.5 Material lines of business and material geographical areas where business is carried out

A.1.5.1 Management segments:

The principal activity of the group consists of the acquisition, consolidation and servicing of long-term life insurance and pensions businesses. The group comprises the following business segments, which have been added to over time, as follows:

- 'CA': This segment is part of the group's UK life insurance and pensions run-off portfolio and comprises the following historical businesses:
  - the original business of Countrywide Assured plc, the group's principal UK operating subsidiary;
  - the business of City of Westminster Assurance Company Limited which was acquired in 2005 and transferred into Countrywide Assured plc during 2006.
  - the business of Protection Life Limited, which was purchased on 28 November 2013 and transferred into Countrywide Assured plc on 31 December 2014.

  This segment consists of index-linked and unit-linked insurance which makes up the vast majority of life insurance business managed by CA plc. The business mainly consists of endowment contracts, whole life assurance contracts and pension contracts, and also includes some term assurance, annuity and health insurance contracts. This segment also contains some with-profits business, which is 100% re-insured with ReAssure Limited;
- 'S&P': This represents the 'Save & Prosper' business that was purchased by the Chesnara plc group in 2010 and is closed to new business. The business was transferred into the operating company Countrywide Assured plc during 2011. This segment consists mostly of life and pension business, the vast majority of which is pension related. Some of this business is with-profits in nature. There are maturity guarantees on all of this with-profits business, including guaranteed minimum pensions and guaranteed minimum fund values. This segment also contains index-linked and unit-linked insurance;
- '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 pensions and savings business and providing some life and health product offerings. Within the Swedish division, Movestic's subsidiary, Movestic Kapitalförvaltning AB, performs investment fund management services, for which it receives related investment management fees. Movestic also has a 49% stake in an associate company, Modernac S.A., which is a Luxemburg based reinsurance operation.
- '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, Waard Verzekering. The Waard Group is closed to new business and its 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; and
- '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.

A.1.5.2 Significant intra group transactions

Chesnara plc undertakes centralised administration functions, the costs of which it charges back to its operating subsidiaries as an expense recovery at zero mark-up. During the years ended 31 December 2016 and 31 December 2015, the company recharged £3.5m and £3.1m respectively to its operating subsidiaries.

Movestic undertakes reinsurance transactions with its associate company Modernac. During 2016 and 2015, net reinsurance payments to Modernac amounted to £2.5m and £2.7m respectively. Amounts outstanding in relation to these transactions at 31 December 2016 was £3.6m (31 December 2015: £5.3m).

A.1.5.3 Solvency II lines of business:

Although the group manages its business using the reporting segments referred to above, Solvency II introduces some pre-defined "lines of business". The table on the following page provides some insight into the types of insurance the group has written, as classified on a Solvency II basis, and how this maps across to the reporting segments used by the group to manage the business. The group contains policies classified as "Life insurance obligations" and "Non-life insurance obligations". All business is within the United Kingdom, Sweden and the Netherlands.

A.1 Business (continued)

A.1.5 Material lines of business and material geographical areas where business is carried out (continued)

A.1.5.3 Solvency II lines of business:

	Net technical provisions (SII measurement basis)						
Line of business	**CA**	**S&P**	**UK Total**	**Movestic**	**Waard Group**	**Other Group Activities**	**Total**
Geographical area	UK	UK	UK	Sweden	Netherlands	UK	
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Life insurance:							
With-profits insurance business	–	313,730	313,730	–	–	–	313,730
Index-linked and unit-linked insurance	991,178	794,804	1,785,982	2,304,101	32,669	20,566	4,143,319
Other life insurance	154,480	–	154,480	1,714	62,721	–	218,915
Total life insurance	**1,145,658**	**1,108,534**	**2,254,192**	**2,305,815**	**95,390**	**20,566**	**4,675,964**
Health insurance:							
Health insurance (direct business)	243,210	–	243,210	25,079	5,585	–	273,874
Total health insurance	**243,210**	**–**	**243,210**	**25,079**	**5,585**	–	**273,874**
Total	**1,388,868**	**1,108,534**	**2,497,402**	**2,330,894**	**100,975**	**20,566**	**4,949,838**

	Net premiums earned (IFRS measurement basis)*					
Line of business	**CA**	**S&P**	**UK Total**	**Movestic**	**Waard Group**	**Total**
Geographical area	UK	UK	UK	Sweden	Netherlands	
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Life insurance						
With-profits insurance business	13	1,994	2,007	–	–	2,007
Index-linked and unit-linked insurance	16,745	2,756	19,501	314,781	1,612	335,894
Other life insurance	13,578	137	13,715	5,617	1,150	20,482
Total life insurance	**30,336**	**4,887**	**35,223**	**320,398**	**2,762**	**358,383**
Health insurance						
Health insurance (direct business)	15,590	–	15,590	9,286	(104)	24,772
Total health insurance	**15,590**	**–**	**15,590**	**9,286**	**(104)**	**24,772**
Total	**45,926**	**4,887**	**50,813**	**329,684**	**2,658**	**383,155**

** Net premiums earned as reported in the above table reflect premiums received on all policies in force during the year. This includes premiums on certain unit-linked savings and pensions policies that are categorised as "investment contracts" for IFRS reporting purposes in the group's Annual Report & Accounts. Where products are classified as "investment contracts" for IFRS reporting purposes the premiums received on such products are "deposit accounted" for, which means the premiums are not reported in the income statement. Consequently the premiums reported above do not agree to those reported in the group's 2016 IFRS financial statements.*

The underwriting performance in section A.2.2 has been analysed by business segment as opposed to the Solvency II lines of business.

Product mix within the material line of business

Insurance with-profit participation: Most of the with-profits business resides in the two ring-fenced with-profits funds – Save & Prosper Insurance WP and Save & Prosper Pensions WP. There are maturity guarantees on all of this business, including guaranteed minimum pensions and guaranteed minimum fund values. There is also some with-profits business in CA, which is 100% re-insured with ReAssure Limited.

Index-linked and unit-linked insurance: Both within CA plc and Movestic, this line of business makes up the vast majority of life insurance managed business. Within CA plc, approximately two thirds of this is pensions business primarily made up of individual contracts, with some group money purchase schemes. In Movestic, unit-linked occupational pensions form the segment's core policy base.

Other life insurance: Most of this line of business exists within the CA and Movestic segments and mainly includes a mixture of term assurance, annuity, endowment and whole life assurance contracts.

Health insurance: The vast majority of health insurance business sits in the CA plc and Movestic books of business and covers contracts for which the future benefits are primarily or wholly relating to health. Product types include critical illness and income protection contracts with most of these being index-linked in nature.

A. BUSINESS AND PERFORMANCE (CONTINUED)

A.1 Business (continued)

A.1.6 Significant business or other events that have occurred over the reporting period

The group analyses its significant business developments against its strategic objectives, culture and values. The group's strategic objectives can be summarised in the diagram below:

<table>
<tr><td rowspan="4">BUSINESS MODEL</td><td colspan="3">MAXIMISE VALUE FROM EXISTING BUSINESS</td><td rowspan="2">ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS</td><td rowspan="2">ACQUIRE LIFE AND PENSIONS BUSINESSES</td></tr>
<tr><td>Capital and value management</td><td>Customer outcomes</td><td>Governance</td></tr>
<tr><td colspan="5">CULTURE & VALUES</td></tr>
<tr><td>RESPONSIBLE RISK-BASED MANAGEMENT</td><td>FAIR TREATMENT OF CUSTOMERS</td><td>COMPETITIVE RETURN TO SHAREHOLDER</td><td>ROBUST REGULATORY COMPLIANCE</td><td>MAINTAIN ADEQUATE FINANCIAL RESOURCES</td></tr>
</table>

An update on progress against each category has been provided below:

Strategic focus:

	AREA OF FOCUS	Summary for 2016
MAXIMISE VALUE FROM EXISTING BUSINESS	Capital and value management	*UK* – Positive performance in equity markets contributed to growth in value of the business. – Falling bond yields put downward pressure on value generation in the year. – During 2016 CA plc implemented the recommendations from its strategic asset review of the assets backing the S&P with-profit funds, improving the position of the funds. – Outsourcers and investment managers delivered services in line with plans and budgets. – Cash[note 1] of £21.3m was generated by the division during the year. – The overall Economic Value [note 2] of the business, before the impact of dividend distributions and taxation, increased by £38m during the year. – Positive mortality and morbidity experience in the year. – On 23 June 2016 the UK voted to leave the European Union. As all of CA plc's business is written in the UK the direct impact of the Brexit decision was not significant. CA plc's results are, however, affected by investment markets and wider economic factors, and the longer-term impact of the referendum is not known at this stage. *SWEDEN* – Favourable equity market performance predominantly has driven assets under management growth (14.5%) and Economic Value growth (20%). – Significant improvements were seen in policyholder cash flows as a result of reductions in lapse levels and an increase in new business. – 2016 saw in increase in the solvency capital requirement (SCR), largely due to the impact of the positive growth in value, which has resulted in the closing Solvency II surplus of the division remaining broadly in line with the surplus at the start of the year. – Progress was made in optimising fee income by developing the division's investment fund operations, including introducing further white-label and Movestic branded funds. – An inaugural dividend of 30mSEK was declared. – Falling bond yields put downward pressure on value during 2016. *NETHERLANDS* – During 2016 the division obtained some further reductions in capital requirements, by implementing revised reinsurance arrangements and restructuring the asset portfolio which resulted in improved diversification and reduced concentration risk. – Accelerated growth of surplus by investment in a portfolio of mortgage loans, which has generated higher returns with lower risk as compared with the assets held previously.

Note 1: Cash generation is a financial metric that is used by the group to articulate how much additional distributable surplus capital has been generated in the period. Further information on the cash generation definition can be found in the glossary of terms.

Note 2: Economic value (EcV) is a financial metric that is used by the group as in indicator of its commercial value at a given point in time. Economic value is closely linked to the group's Solvency II own funds but includes certain adjustments that, in the group's view, are required to provide a more commercially meaningful valuation as compared with Solvency II own funds. Further information on economic value can be found in the glossary of terms.

A.1 Business (continued)

A.1.6 Significant business or other events that have occurred over the reporting period (continued)

Strategic focus (continued)

	AREA OF FOCUS	Summary for 2016
MAXIMISE VALUE FROM EXISTING BUSINESS	Customer outcomes	*UK* – During March 2016 the FCA announced an investigation into the company's disclosure of exit charges to customers. We are continuing to work with the FCA on the investigation. The FCA has confirmed that it: o is not looking to change terms and conditions of policies o will not apply an inappropriate interpretation of the TCF principles to the disclosure during the period the investigation covers o will not retrospectively apply standards that did not previously exist during the period the investigation covers. – Discussions are continuing with the FCA to progress matters following requests for further information in 2017. – An action plan has been created to ensure compliance with the draft and final guidelines of "FG16/8 Fair treatment of long-standing customers in the life insurance sector" that were issued by the FCA during the year. Good progress made to date. – Establishment of a customer committee to further embed customer focus. – Creation of a product review framework to assess whether products remain fit for purpose. – During 2016 preparations were being made for the implementation of the 1% exit fee cap on all pension products where the policyholder is over 55 years old. This was implemented in 2017. – Delivered policyholder returns in three main managed funds in excess of benchmark, representing a significant proportion of the assets under management. *SWEDEN* – Fund range development including improved sustainability rating. – Competitive unit linked fund returns. – Reduced lapse rates. – Operational and fund performance improvements result in improved IFA assessment ratings. *NETHERLANDS* – Completed the AFM's (national conduct regulator) programme to pro-actively communicate with all unit linked policyholders on the appropriateness of the insurance product that they originally purchased. – Continued investment in customer friendly tools, such as the re-design of the website and the roll out of the digital policy and transaction platform to a wider customer base, whilst also expanding it to provide further information and services.
	Governance	*Group-wide* A critical aspect of managing the value of the group is ensuring that the group remains compliant with rules and regulations. As such, a key focus of the management teams across the group was the full delivery of Solvency II, which came into force on 1 January 2016. All companies within the group successfully transitioned to the new regime. *UK* – A number of new appointments were made to strengthen the CA plc board during 2016, including the appointment of a new CEO. – Continued embedding of risk management framework, including full implementation of governance. – Solid delivery of outsourced services in the year. *SWEDEN* – Enhancement of Governance and Risk Management framework, including ORSA and risk reporting. – CEO announced his intention to retire during 2017 and replacement appointed during 2017. *NETHERLANDS* – Aligning the Governance and Risk Management framework to Chesnara practices, including ORSA, RSR, SFCR and risk reporting.

A. BUSINESS AND PERFORMANCE (CONTINUED)

A.1 Business (continued)

A.1.6 Significant business or other events that have occurred over the reporting period (continued)

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS	**Summary for 2016** *SWEDEN* – Record new business profits of £11.7m were reported in 2016. – Successful pricing strategy attracts increased levels of high value and higher margin transfer business. – Market shares were within their target range. – Increases in average gross margins.

ACQUIRE LIFE AND PENSIONS BUSINESS	**Summary for 2016** *NETHERLANDS* – On 24 November 2016 Chesnara announced the acquisition of Legal & General Nederland, which was still subject to regulatory approval at the end of 2016. Subsequent to this, on 5 April 2017 the acquisition was completed. – It was reported in the year end 2016 Annual Report & Accounts that: o The acquisition has a purchase price of €160m (€161.2m after allowing for interest payable up to the date of completion). o The deal has a 33% discount to Economic Value. o There is potential for phased, orderly extraction of excess capital.

Culture and values:

	AREA OF FOCUS	Summary for 2016
CULTURE & VALUES	Responsible risk-based management	– Embedded governance maps across the group. – Strengthened the CA plc board with some new appointments, including new CEO and a new non-executive director, independent of Chesnara plc. – Adopted SII across the group, and started embedding our understanding of the complex capital dynamics of the regime, particularly ensuring the linkage to our risk-based decision making processes. – Refreshed our capital management policies to ensure they are fully reflective of the Solvency II regime. – Delivered our inaugural divisional and group Own Risk and Solvency Assessments (ORSAs) to the relevant prudential regulator. The ORSA process is proving to be a powerful internal reporting and analysis process supporting the group in making informed risk-based decisions. – Applied our risk based acquisition process with regards to the Scildon acquisition.
	Fair treatment of Customers	– 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. – Service standards in Sweden remain strong as evidenced by external surveys of brokers undertaken by independent organisations. – Unit-linked policy returns in Movestic remain competitive based on both fund benchmarks and external unit-linked policy performance surveys. – Where complaints do arise we continue to manage them in accordance with regulatory best practice. – 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 where those terms are deemed to remain fair.
	Competitive return to shareholders	– Announced acquisition of Scildon, which completed in April 2017, at an approximate 33% discount to EcV. – Delivered EcV growth across the group. – Continued our dividend strategy.
	Robust regulatory compliance	– Effective implementation of Solvency II. – Positive relationship with the DNB built up through the Waard Group acquisition and retained throughout the LGN acquisition process. – Continued to fully support the work performed by the FCA in relation to its investigation into the disclosure of exit fees in customer correspondence. – Developed an action plan supporting the delivery of the FCA's final guidance on treating customers fairly, issued in December 2016.
	Maintain adequate financial resources	The group has maintained adequate financial resources over the year, and had a post-dividend solvency ratio of 158% at 31 December 2016. This remains well above the board's "dividend paying limit" which has been set at a solvency ratio of 110%, at which point a dividend would cease to be paid. Further information on the solvency position of the group at 31 December 2016 can be found in Section E "Capital management".

A.2 Underwriting performance

A.2.1 Introduction

Sections A.2, A.3 and A.4 of this report require qualitative and quantitative information to be provided on various different aspects of the performance of the group. Whilst this report in general provides information that is based on valuation rules required by the Solvency II reporting regime, sections A.2, A.3 and A.4 are required to be reported in accordance with the measurement basis as shown in the group's financial statements, which in Chesnara plc group's case, is IFRS. The disclosure rules of Solvency II require this information to be analysed by material line of business, as defined by the Solvency II rules. However, as the group is managed by business segment, rather than individual business lines, the underwriting performance has been presented in a format which is consistent with that disclosed within the group's financial statements.

A.2.2 Underwriting performance

The group has interpreted underwriting performance as being the IFRS profit before tax, as reported in the group's financial statements.

The table below summarises the underwriting performance of the Chesnara plc group by material business segment, in line with the presentation disclosed in the annual financial statements. Business was written in the United Kingdom, Sweden and the Netherlands.

	Underwriting performance 2016						
	CA	**S&P**	**UK Total**	**Movestic**	**Waard Group**	**Other Group Activities**	**Total**
	UK	UK	UK	Sweden	Netherlands	UK	
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Premiums earned	45,927	4,886	**50,813**	329,684	2,658	–	**383,155**
Claims incurred	(164,707)	(92,386)	**(257,093)**	(164,264)	(16,250)	–	**(437,607)**
Changes in other technical provisions	(77,259)	(33,274)	**(110,533)**	(325,687)	14,785	–	**(421,435)**
Expenses incurred	(13,429)	(9,466)	**(22,895)**	(38,978)	(4,612)	(8,223)	**(74,708)**
Other expenses	(501)	(3)	**(504)**	(3,156)	–	(1,641)	**(5,301)**
Investment performance (section A.3 for detail)	206,747	131,155	**337,902**	169,130	8,464	184	**515,680**
Other operating income	2,568	10,792	**13,360**	706	503	–	**14,569**
Fee & commission income	29,000	2,610	**31,610**	41,296	26	–	**72,932**
Consolidation adjustments	–	–	–	–	–	(6,600)	**(6,600)**
Underwriting performance (IFRS profit before tax)	**28,346**	**14,314**	**42,660**	**8,731**	**5,574**	**(16,280)**	**40,685**

	Underwriting performance 2015*						
	CA	**S&P**	**UK Total**	**Movestic**	**Waard Group**	**Other Group Activities**	**Total**
	UK	UK	UK	Sweden	Netherlands	UK	
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Premiums earned	52,041	5,413	**57,464**	285,338	1,131	–	**343,923**
Claims incurred	(150,884)	(92,832)	**(243,716)**	(156,341)	(12,787)	–	**(412,884)**
Changes in other technical provisions	79,390	56,189	**135,579**	(212,753)	15,357	–	**61,817**
Expenses incurred	(14,149)	(9,648)	**(23,797)**	(29,447)	(1,585)	(7,841)	**(62,670)**
Other expenses	(127)	(1)	**(128)**	(901)	(426)	(2,116)	**(3,571)**
Investment performance (section A.3 for detail)	24,538	37,605	**62,143**	87,137	(1,238)	445	**148,487**
Other operating income	2,854	11,331	**14,185**	199	42	–	**14,426**
Fee & commission income	30,216	2,513	**32,729**	33,502	18	–	**66,249**
Consolidation adjustments	–	–	**–**	–	–	(6,039)	**(6,039)**
Profit on business combination	–	–	–	–	–	16,644	**16,644**
Underwriting performance (IFRS profit before tax)	**23,879**	**10,570**	**34,449**	**6,734**	**512**	**1,093**	**42,788**

** Net premiums earned as reported in the above table do not agree with the net premiums earned as reported in the group's IFRS financial statements. This is because deposit accounting has not been performed.*

Premiums earned: This represents the sum of gross premiums during the year reduced by the amount ceded to reinsurance undertakings. Deposit accounting has not been performed.

Claims incurred: This is the sum of the claims paid and the change in the provision for claims outstanding during the financial year, net of reinsurance.

Changes in other technical provisions: This represents the changes in provisions, net of reinsurance, for policyholder liabilities. These have been calculated using actuarial methods.

Expenses incurred: This represents all technical expenses incurred by the group during the year, on an accruals basis.

Other expense: Other technical expenses including amounts payable under profit sharing arrangements.

A.2 Underwriting performance (continued)

A.2.2 Underwriting performance (continued)

Investment performance: Further detail on investment performance can be found in section A.3 of this report. Investment performance includes a combination of interest / dividend income on assets held and realised and unrealised gains and losses.

Other operating income: This line item mainly consists of other investment related income.

Fee and commission income: This represents policy-based fees, fund management-based fees and benefit-based fees.

A.2.3 Overall results commentary

UK

The overall underwriting performance of the UK division reflects surpluses arising from the UK's life and pensions contract portfolios, which have remained resilient to policy attrition. The underwriting result of £42.7m (2015: £34.4m) comprises £28.3m (2015: £23.9m) from the combined CA, CWA & PL portfolios (collectively known as the "CA" business), and £14.3m (2015: £10.6m) from the S&P book.

CA: The CA segment has reported results for the period in excess of those in 2015. Positive mortality experience has resulted in a positive change in mortality assumptions being reflected in the results. Modest investment market profits of c£2m have been reported, reflecting the impact of positive equity markets, offset by the negative impact of a fall in yields in the year.

S&P: The S&P segment has reported an increase in profits on the prior year. Positive economic profits of c£4m arise from the net impact of positive equity markets offset by falling bond yields. Positive assumption changes of c£5m include the positive impact of lapse assumption changes and a change in annuity pricing assumptions, off-set by the negative impact of additional reserves of c£3.5m being required for the impact of the 1% exit fee cap that was announced in the year for all pension policies where the policyholder is aged 55 and over.

SWEDEN

Record levels of new business performance combined with positive net pension transfers and generally favourable investment market returns, has led to an improved underwriting performance in 2016 when compared to 2015.

NETHERLANDS

Underwriting performance within the Dutch division is relatively predictable and hence fairly stable due to the run-off nature of the book. In 2016, the underwriting performance benefited from a change in the reinsurance programme which generated a net underwriting profit of circa £350k.

OTHER GROUP ACTIVITIES

Chesnara incurred additional expenses in 2016 when compared to 2015. These additional expenses were mainly in association with professional fees incurred as part of the work associated with the acquisition of Scildon (formerly Legal and General Nederland Levensverzekering Maatschappij N.V.).

A.3 Investment performance

A.3.1 Investment performance

The investment performance of the group can be summarised in the below tables:

	Investment performance 2016						
	CA £'000	S&P £'000	UK total £'000	Movestic £'000	Waard Group £'000	Other Group Activities £'000	Total £'000
Dividend income	21,432	7,732	**29,164**	–	1,279	–	**30,443**
Interest income	11,244	8,760	**20,004**	11	848	184	**21,047**
Rental income from investment properties	11	–	**11**	–	882	–	**893**
Net fair value gains and losses:							
Equity securities designated as at fair value through income on initial recognition	129,118	95,110	**224,228**	168,498	–	–	**392,726**
Debt securities designated as at fair value through income on initial recognition	44,941	23,061	**68,002**	622	3,396	–	**72,021**
Derivative financial instruments	–	(3,508)	**(3,508)**	–	2,058	–	**(1,450)**
Investment properties	–	–	**–**	–	–	–	**–**
Total	**206,748**	**131,155**	**337,902**	**169,131**	**8,463**	**184**	**515,681**

A.3 Investment performance (continued)

A.3.1 Investment performance (continued)

	Investment performance 2015						
	CA £'000	S&P £'000	UK total £'000	Movestic £'000	Waard Group £'000	Other Group Activities £'000	Total £'000
Dividend income	21,924	8,622	**30,546**	–	955	–	**31,501**
Interest income	11,444	12,528	**23,972**	1	487	231	**24,691**
Rental income from investment properties	–	111	**111**	–	–	–	**111**
Net fair value gains and losses:							
Equity securities designated as at fair value through income on initial recognition	2,841	24,571	**27,412**	87,144	(2,524)	214	**112,246**
Debt securities designated as at fair value through income on initial recognition	(11,685)	(11,679)	**(23,364)**	18	(156)	–	**(23,501)**
Derivative financial instruments	–	(811)	**(811)**	–	–	–	**(811)**
Investment properties	14	4,263	**4,277**	–	–	–	**4,277**
Total	**24,538**	**37,605**	**62,143**	**87,163**	**(1,238)**	**445**	**148,514**

Key reasons for the improvement in investment performance in the year are:
- A positive performance in the indexed-linked & unit-linked and non-linked investments, predominantly driven by the strong performance in equity markets across Europe over 2016 compared with 2015.
- European bond yields have fallen during the year which has resulted in an increase in total investment returns due to the associated growth in capital values.

A.3.2 Investment in securitisation

The group has historically held securitised assets within the Dutch division, however these were all sold during the year as part of delivering its revised investment strategy. As at the balance sheet date, the group therefore had no investments held directly in securitised assets. The UK division does, however, have exposures to securitised assets within the Save & Prosper Pension (SPP) with-profits fund via the fund's investments in certain collective investment schemes. These schemes, as part of their overall portfolio of investments, include some holdings in securitised assets. As at 31 December 2016, out of a total UK division investment portfolio of £2,795m, £11.7m was invested in securitised assets via the holdings in these collective investment schemes.

A.4 Performance of other activities

The group's only activity is that of life insurance and pension business. There are no other activities that take place in the group.

A.5 Any other information

As referred to in section "A.1.6 Significant business or other events that have occurred over the reporting period", on 24 November 2016 the company announced its proposed acquisition of Legal & General Nederland Levensverzekering Maatschappij N.V. (now "Scildon"). The acquisition completed on the 5 April 2017 and as a result the reported financial results and solvency position at 31 December 2016 did not include the impact of this acquisition, with the exception of the impact of the equity raising exercise that took place in the year, which increased own funds by circa £70m (before expenses). The 2017 SFCR will incorporate the results of Scildon

To provide an indication of the scale of the acquisition, information has been provided below, which has been extracted from the Prospectus and Notice of the EGM that was issued on 24 November 2016:

"Consideration:
The headline consideration for the acquisition is €160 million, to be paid in cash. The Acquisition consideration is proposed to be financed by a combination of a Firm Placing and Placing and Open Offer to raise in aggregate approximately £70 million (before expenses), New Debt Facilities totalling £100.2 million (£40 million and €71 million), which replace an existing debt facility of £52.8 million and raises £47.4 million of incremental debt and the balance from Chesnara's existing cash resources. In addition to the headline consideration, deferred capital related consideration will accrue from 1 October 2016 to the date of completion of the Acquisition, which is expected to occur during the first quarter of 2017. The company has calculated the maximum interest payable to be €2.3 million.

Key metrics:
Key Legal & General Nederland financial metrics at 30 June 2016 were as follows:
- *€219.8 million of Solvency II own funds;*
- *€2.2 billion of funds under management;*
- *Approximately 170,600 policies;*
- *Solvency ratio of 219 per cent; and*
- *IFRS net assets of €138,580."*

B. SYSTEM OF GOVERNANCE

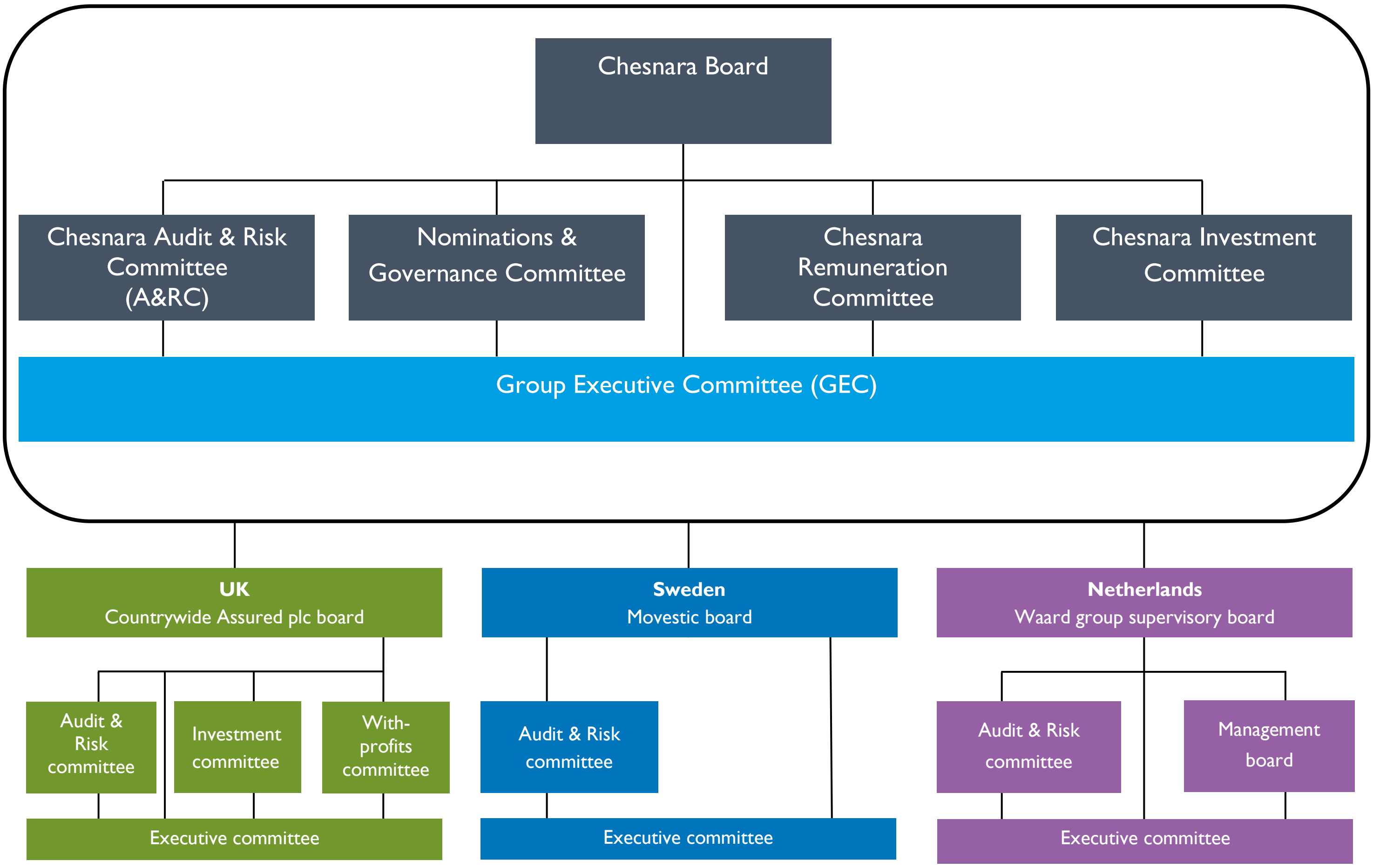
B.1 General information on the system of governance

B.1.1 Governance structure

Overview

Chesnara's governance system is the overarching governance across the Chesnara Group. It consists of the Board, Board committees and Executive committees. Chesnara maintains a group governance map which documents the detailed implementation of the system of governance. This includes the terms of reference of committees, and detailed roles and responsibilities of key functions.

The group governance structure is summarised in the diagram below:



Notes:

- Each divisional board has a reporting line to the Chesnara board and each divisional Audit & Risk Committee has a reporting line to the Chesnara Audit & Risk Committee.
- The Dutch division as reported above currently only includes the Waard Group business unit. Following the acquisition of Scildon, the Dutch division will also include the Scildon business unit.

B.1 General information on the system of governance (continued)

B.1.1 Governance structure (continued)

Chesnara board responsibilities

The board of directors, comprising both executive and non-executive directors, is collectively responsible for promoting the success of the group by directing and supervising the group's affairs. Its role is to provide entrepreneurial leadership of the group within a framework of prudent and effective controls which enable risks to be determined, assessed and managed. It sets the group's strategic aims, ensures that the necessary financial and human resources are in place for the group to meet its objectives and creates the structure against which to review management performance. It also sets the group's values and standards and ensures that its obligations to its customers, shareholders and other stakeholders are understood and met.

Sub-committees

The Chesnara board operates the following board committees:

- **Chesnara Audit & Risk Committee:** The responsibilities of the committee include:
  - monitoring the integrity of the financial statements of the group;
  - reviewing the definition and application of group and divisional internal control and risk management systems;
  - monitoring of capital, reviewing and challenging risk information and the treatment of risks;
  - reviewing risk management responsibilities across the group
  - ensuring due diligence appraisal is undertaken on all proposed strategic transactions involving acquisitions or disposals.
  - making recommendations to the board about approving the remuneration and terms of engagement of the external auditor;
  - monitoring and reviewing the independence and effectiveness of the external auditor;.
  - monitoring and reviewing the effectiveness of the group's internal audit function in the context of the group's overall risk management system;
  - approving the appointment and removal of the head of the Internal Audit function.
- **Chesnara Remuneration Committee:** This is responsible for:
  - ensuring that remuneration practices are appropriate;
  - implementing the Chesnara remuneration policy;
  - approve the design of, and determine targets for, any performance related pay schemes operated within the group and approve the total annual payments made under such schemes;
  - determining the policy for and scope of pension arrangements and other benefits;
  - approving service agreements and any termination payments made under them.
- **Chesnara Nomination and Governance Committee:** The role of the Nominations and Governance Committee is to ensure appointments are appropriate and that board members and executive committee members are 'fit and proper'. Its responsibilities include:
  - ensuring that there is a formal, transparent and rigorous procedure for appointments to the board;
  - evaluating the skills, knowledge and experience of the board;
  - ensuring the board's composition and balance are appropriate for the group's governance arrangements,
  - giving full consideration to succession planning for directors and senior executives.

Chesnara also operates the following non-board committees:

- **Group Executive Committee (GEC):** This is the principal body to assist the Group CEO to carry out those responsibilities assigned by the board. Responsibilities include:
  - recommending strategy and objectives for the group having regard to the interests of customers;
  - agreeing guidelines for divisions and business units based on approved group strategy;
  - developing and reviewing divisional and business unit objectives, plans and budgets;
  - contributing to succession plans for senior roles and addressing key organisational skill gaps;
  - reviewing business performance;
  - ensuring the control, co-ordination and monitoring within the group of capital, risk and internal controls;
  - ensuring the ongoing adoption and appropriateness of the group risk management framework (GRMF) and group policies within it, including their annual review;
  - ensuring appropriate levels of authority are delegated to senior management throughout the group;
  - reviewing the governance structures across divisions;
  - safeguarding the integrity of management information and financial reporting systems;
  - proposing to the board and monitoring the group risk appetite;
  - examining investments, divestments and major capital expenditure proposals and the recommendation to the board of those which in a group context are material either by nature or by cost;
  - monitoring the on-going capital and liquidity position of the group.
- **Group Investment & Capital Management Committee:** This is responsible for:
  - setting out any high level investment and capital management strategic matters to apply throughout the group;
  - investment management for Chesnara plc or group holding companies;
  - high-level oversight of investment strategy used by authorised subsidiaries within the three divisions;
  - oversight of group level capital management strategy and action planning;
  - reviewing and ensuring that the group is setting an investment strategy that is appropriate for shareholder needs and Chesnara's risk appetite;
  - overseeing implementation and performance of the shareholder funds and ensuring that Chesnara's shareholder investment governance framework is effective.

B.1 General information on the system of governance (continued)

B.1.1 Governance structure (continued)

Chesnara group divisional or business unit boards and committees:

- **Divisional and business unit boards:** Responsible for promoting the success of the relevant business by directing and supervising its affairs and providing leadership within a framework of prudent and effective controls which take account of the group's governance requirements as set out in the group governance map as well as local regulations and good practice guidance.
- **Divisional and business unit executive committees:** Support the relevant Chief Executives and act in an advisory capacity to assist that Chief Executive in developing the vision, strategy and business plans for the business and to oversee the day-to-day management of it and any subsidiaries it may have. The relevant Chief Executive acts as chairman of the committee, which consists of relevant senior managers within the business. The committee will report into the division or business unit board.
- **Divisional Audit & Risk Committees:** Responsible for reviewing the definition and application of group and division internal control and risk management requirements, including the GRMF, reviewing and challenging risk information and treatment within the division and reviewing risk management responsibilities across the division. The committees will report into the divisional board but will have a dotted reporting line into the Chesnara A&RC.
- **Divisional Investment Committees:** Responsible for the review of investment strategy and policy across a division, and monitoring and challenging investment performance. The Committee reports into the divisional board.
- **UK division With-profits Committee:** Responsible for ensuring that the interests of with-profits policyholders are appropriately considered within governance arrangements and to consider issues affecting with-profits policyholders as a whole or as separately identifiable groups of policyholders**.**

Senior management responsibilities

The role and responsibilities of the key Chesnara group members are summarised below:

- **Chairman of the Chesnara board:** Responsible for:
  - the leadership of the board, ensuring its effectiveness on all aspects of its role;
  - setting its agendas and reviewing its responsibilities;
  - upholding the highest standards of integrity, probity and corporate governance;
  - ensuring that there is appropriate delegation of authority from the board to the Group CEO;
  - ensuring the provision of accurate, timely and clear information to board directors sufficient to enable the board to make sound decisions,
  - monitor effectiveness and providing advice to promote the success of the group;
  - providing counsel and challenge to the Group CEO;
  - arranging the regular evaluation of the performance of the board, its committees and individual board directors;
  - facilitating the effective contribution of NEDs and ensuring constructive relations between Chesnara executive directors and NEDs;
  - maintaining open dialogue with shareholders and ensuring that shareholder views are shared with the board;
  - ensuring that a properly constituted and comprehensive induction programme is available for new board directors
  - initiating an independent review of the effectiveness of the board on a periodic basis.
- **Chesnara board directors:** Responsible for:
  - providing entrepreneurial leadership of the group within a framework of prudent and effective controls which enable risk to be assessed and managed;
  - setting the group's strategic aims
  - ensuring that the necessary financial and human resources are in place for the group to meet its objectives, and review management performance;
  - setting the group's values and standards and ensuring that its obligations to its members and others are understood and met.
- **Chesnara non-executive directors:** NEDs bring "dispassionate objectivity" and in addition to the responsibilities of the board directors they are required to:
  - provide entrepreneurial leadership of the group within a framework of prudent and effective controls which enable risk to be assessed and managed;
  - set the Group's strategic aims, values and standards
  - ensure that the necessary financial and human resources are in place for the group to meet its objectives;
  - ensure that its obligations to its members and others are understood and met;
  - constructively challenge and contribute to the development of strategy;
  - scrutinise the performance of management in meeting agreed goals and objectives;
  - satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.

B.1 General information on the system of governance (continued)

B.1.1 Governance structure (continued)

– **Chesnara Senior Independent Director:** As well as performing the role of a NED he is required to:
  - act as 'deputy' to the Chairman of the board as and when required;
  - meet with the other NEDs, without the Chairman being present at least once a year to appraise the Chairman's performance and on such other occasions as are deemed appropriate;
  - be available to shareholders in case they have concerns which cannot, or should not, be addressed by the Chairman or Chesnara executive directors;
  - act on the results of any performance evaluation of the Chairman;
  - maintain sufficient contact with major shareholders, when requested, to understand their issues and concerns thereby assisting the board to develop a balanced understanding;
  - attend the Chesnara's AGM and be available for discussion with shareholders; act as a sounding board for the Chairman; and act as a focal point through whom the NEDs, individually or collectively, may express any concerns.

– **Group Chief Executive (group CEO):** The board has delegated to the group CEO the management of the group, apart from those matters reserved to the board. The group CEO reports directly to the board and is a member of the board as well as the GEC and Investment and Capital Committee. The group CEO main responsibilities are: business strategy and management; investment and financing; risk management and controls and ensuring effective communication with employees, regulators, financial institutions, investors, government bodies, industry bodies, third-party advisors and the media.

– **Group Finance Director (group FD):** The group FD oversees all financial aspects of group strategy and financial management and ensures the flow of financial information to the group CEO, the group executive committee and the board and, where necessary, external parties such as investors or financial institutions. The group FD is a member of the board and the group executive committee.

– **Group Chief Risk Officer (group CRO):** The group CRO operates with independence within the group's businesses and oversees group-wide risk management processes and systems of reporting to the group's governance committees, in particular the Chesnara A&RC, on the group's risk exposures relative to its risk appetite and tolerance, and the extent to which the risks inherent in any proposed business strategy and plans are consistent with the board's risk appetite and tolerance. The group CRO attends the Chesnara board and Chesnara A&RC and is a member of the group executive committee.

– **Group Chief Actuary:** The Group Chief Actuary oversees all actuarial aspects of group strategy and financial management, including providing relevant information to the Group CEO, the GEC and the board. The Group Chief Actuary attends meetings of the Chesnara Board and A&RC and is a member of the GEC.

– **Company Secretary:** Responsible for:
  - ensuring the smooth running of the activities of the board and board committees, advising on board procedures and ensuring the board follows them;
  - keeping under close review all legislative, regulatory and corporate governance developments that might affect the group's operations and ensuring the board and its committees are fully briefed on these and that it has regard to them when taking decisions;
  - ensuring, where applicable, that all required standards and/or disclosures are observed and, where required, reflected in the Annual Report & Accounts;
  - inducting new board directors into the business, their roles and their responsibilities;
  - making arrangements for, and managing the whole process of, the Annual General Meeting and establishing, with the board's agreement, the items to be considered at the Annual General Meeting;
  - actioning all regulatory announcements as required; and
  - ensuring the website content is accurate, complete and compliant with all internal and external requirements.

– **Chairman of the Audit & Risk Committee:** The committee chairman reports formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities and also formally reports to the board on how it has discharged its responsibilities. This report includes: the significant issues that it has considered in relation to the financial statements and how these were addressed; the assessment of the effectiveness of the external audit process and its recommendations on the appointment or re-appointment of the external auditor; and any other issues on which the board has requested the opinion of the committee.

– **Chairman of the Remuneration Committee:** The committee chairman reports formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities and also formally reports to the board on how it has discharged its responsibilities. This report includes: the determination of the remuneration of the Board Chairman, Chesnara Executive Directors and the Group CEO's direct reports; the on-going appropriateness and relevance of the Chesnara Remuneration Policy; the design of, and targets for, any performance related pay schemes operated within the Group and approve the total annual payments made under such schemes; and any other issues on which the board has requested the opinion of the committee.

B.1 General information on the system of governance (continued)

B.1.1 Governance structure (continued)

- **Chairman of the Nominations & Governance Committee:** The committee chairman reports formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities and also formally reports to the board on how it has discharged its responsibilities. This report includes: its consideration of the structure, size and composition of the board, its committees, the directors and senior executives; diversity, including the skill mix, regional and industry experience, background and gender of directors; succession planning for directors and senior executives; governance practices and procedures, to ensure they remain appropriate and reflect best practices and principles; identifying and nominating candidates to fill relevant vacancies as and when they arise; recommendations to the board regarding the re-appointment of any NED at the conclusion of their specified term of office, the annual re-election by shareholders of any board director under the retirement by rotation provisions in Chesnara's Articles of Association and any matters relating to the continuation in office of any board director and the appointment of any board director to executive or other office other than to the positions of Chairman and Group Chief Executive.

B.1.2 Material changes in the system of governance

There have been no significant changes in the system of governance during the year. The group has, however, continued its ongoing development of both its risk management and governance systems during 2016 including:

- further embedding its risk and governance systems;
- building on 2015 developments arising largely from new or updated Solvency II and UK Corporate Governance Code requirements;
- increasing the consistency and effectiveness of its approach to risk management across the group by enhancing and relaunching the group risk management policy, and various underlying components
- completion of the first “post Solvency II day 1” Group ORSA reporting, which drew together various components of the risk management system, such as risk reporting, stress and scenario testing and continuous solvency monitoring.
- a full self-attestation of the group and division corporate governance maps to demonstrate to the board that Chesnara and all its divisions were fully complying with them, and to identify the few areas for improvement or refinement in 2017.

B.1.3 Information on the remuneration policy

B.1.3.1 Group remuneration principles

The group’s principles on remuneration, which underpin the remuneration policies across the group, have been summarised below. The principles have been developed with recognition that remuneration policies and schemes are essential to attract, motivate and retain high calibre resource with the required skills and experience needed for their role and to contribute to the success of the group. The group’s principles have also been designed recognising that the approach to remuneration needs to promote sound, prudent and effective management of its business.

Group remuneration principles:

- Remuneration will be aligned to the business and risk management strategy and take account of the long-term interests of the business;
- Remuneration policies and schemes will take into account all roles that involve significant influence and/or risk taking;
- Remuneration schemes will consider an appropriate balance between fixed, variable and deferred remuneration to promote good risk behaviours and avoid conflicts of interest;
- Governance and oversight will be provided by a Remuneration Committee or such similar body/individual as designated by the appropriate board;
- Remuneration policy will be adequately disclosed to all relevant stakeholders;
- Remuneration policy will comply with the Solvency II Directive, including the local regulator’s interpretation of Solvency II.

B.1.3.2 Chesnara directors’ remuneration policy

The directors’ remuneration policy has been summarised on the following pages. It was developed having full regard to the group’s remuneration principles and also the remuneration requirements imposed on the company as a result of being listed on the London Stock Exchange. The summaries on the subsequent pages reflects the proposed policy that was included in the group’s annual report and accounts for the year ended 31 December 2016. This policy was approved at the subsequent AGM which took place on 17 May 2017. Section B.1.3.3 has been used to summarise how the remuneration policies applying to other staff members across the group differ to this policy.

B.1 General information on the system of governance (continued)

B.1.3 Information on the remuneration policy (continued)

B.1.3.2 Chesnara directors' remuneration policy (continued)

Executive director remuneration policy:

Purpose and link to strategy	Operation	Performance measures and maximum
Base salary (fixed component of pay)		
To recruit and retain individuals with the skills and experience needed for the role and to contribute to the success of the group.	In setting salaries for new executive roles or reviewing the salaries for existing roles, the remuneration committee will take into account, as it considers appropriate, some or all of the following factors: – assessment of the responsibilities of the role – the experience and skills of the jobholder on commencement of the role and their development at the review point – 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 – balance between fixed and variable pay to help ensure good risk management. Where a new appointment is made, pay may be initially below that applicable to the role and then may increase over time subject to satisfactory performance. Salaries are usually reviewed annually. There may be reviews and changes during the year in exceptional circumstances (such as new appointments to executive positions or significant changes in the jobholder's responsibilities).	Changes to responsibilities, increased complexity of the organisation, personal and group performance is taken into consideration when deciding whether a salary increase should be awarded.
Taxable benefits (fixed component of pay)		
To recruit and retain individuals with the skills and experience needed for the role and to contribute to the success of the group and to minimise the potential of ill health to undermine executive's performance.	Executive directors receive life assurance, a company car, fuel benefit and private medical insurance. A cash equivalent may be paid in lieu of a car and fuel benefit. Benefits may be changed in response to changing circumstances whether personal to an executive director or otherwise subject to the cost of any changes being largely cost neutral.	No performance measures attached.
Pensions (fixed component of pay)		
To recruit and retain individuals with the skills and experience needed for the role and to contribute to the success of the group and to encourage responsible provision for retirement.	The executive directors can participate in a defined contribution pension scheme with employer contributions being 9.5% of basic salary. If pension limits are reached, the executive may elect to receive the balance of the contribution as cash.	No performance measures attached.
Short-term incentive (STI) scheme (variable component of pay)		
To drive and reward achievement of the group's business plan and key performance indicators. To help retention and align the interests of executive directors with those of shareholders.	The 2014 STI Scheme is discretionary. Awards are based on the remuneration committee's assessment and judgement of performance against specific targets and objectives in support of the group's business plan which are assessed over a financial year. Provided the minimum performance criteria is judged to have been achieved then an award will be granted in two parts; at least 35% into deferred share awards in the shape of nil cost options which will vest after a three-year deferral period and the balance in cash. Dividend equivalents accrue in cash with interest thereon in respect of the deferred share awards between the date the share award is granted and the date the options are exercised. It is the intention of the remuneration committee to grant awards annually and the performance criteria will be set out in the annual report and accounts. The STI Scheme includes malus and clawback provisions.	Performance is measured based on the financial results of the group and its strategic priorities, together with the performance of the executives in relation to specific objectives. The main weighting is given to financial results – typically 80%. The targets may include, but are not limited to, costs, IFRS pre-tax profit, EcV operating profit, cash generation, group strategic objectives and personal performance. STI Scheme targets are commercially sensitive and therefore, not disclosed. Actual targets and results will be disclosed in the group's Annual Report immediately following each performance period. The remuneration committee may substitute, vary or waive the performance measures in accordance with the scheme rules. The maximum award is 100% of basic salary with each participant being assigned a personal maximum which will be disclosed in the annual report and accounts with each award made.

B.1 General information on the system of governance (continued)

B.1.3 Information on the remuneration policy (continued)

B.1.3.2 Chesnara directors' remuneration policy (continued)

Executive director remuneration policy (continued):

Purpose and link to strategy	Operation	Performance measures and maximum
Long-term incentive (LTI) scheme (variable component of pay)		
To incentivise the delivery of the longer-term strategy by the setting of stretching targets based on shareholder value, and to help retain key executives and increase their share ownership in the company.	The 2014 LTI Scheme is discretionary. Awards are made under a performance share plan, with no exercise price. The right to receive shares awarded will be based on achievement of performance conditions over a minimum three-year period. It is the intention of the remuneration committee to grant awards annually and the performance criteria will be set out in the corresponding annual report and accounts. The LTI Scheme includes malus and clawback provisions.	Vesting is dependent on two weighted performance measures which the remuneration committee for 2017 weights equally but may vary the weighting and the Index as it considers appropriate in future years: **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 of this element 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 Economic Value:** This target is commercially sensitive and therefore, not disclosed upfront. Actual targets and results will be disclosed in the Annual Report for the year in which an award vests. The assumptions underpinning the calculations are subject to independent actuarial scrutiny. The remuneration committee may substitute, vary or waive the performance measures in accordance with the Scheme Rules. The maximum award is up to 100% of basic salary, with each participant being assigned a personal maximum to be disclosed in the annual report and accounts with each award made.

Non-executive directors' remuneration policy:

Purpose and link to strategy	Operation	Performance measures and maximum
Fees and expenses		
To recruit and retain independent individuals with the skills, experience and qualities relevant to the role and who are also able to fulfil the required time commitment.	Fees for the Chairman are determined and agreed with the board by the remuneration committee (without the Chairman being party to this). Non-executive director fees are determined by the Chairman and the executive directors. Fees are reviewed periodically and in setting fees consideration is given to market data for similar roles in companies of comparable size and complexity whilst also taking account of the required time commitment. All non-executive directors are paid a base fee. Additional fees are paid to the senior independent director, the chair of board committees and to other non-executive directors to reflect additional time commitments and responsibilities required by their role.	Fees for the Chairman and non-executive directors are not performance related. Reflecting the periodic nature of the fee reviews, increases at the time they are made, may be above those paid to executives and/or other employees.

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 business plan and 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, but are not limited to, costs, IFRS pre-tax profit, EcV operating profit, cash generation, group 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 EcV) and a comparative measure (TSR). The measures and targets are set by the remuneration committee. The maximum potential award for the group EcV measure requires significant outperformance of budgeted targets. The TSR measure uses the FTSE 350 Higher Yield Index over a 3 year period with averaging during the first and last month. The remuneration 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 remuneration committee exercises its judgement to try and ensure that there is a balance between stretch in the targets and the company's risk appetite. Full details of the performance measures, weightings and targets and the corresponding potential awards are set out in the group's annual report and accounts.

B.1 General information on the system of governance (continued)

B.1.3 Information on the remuneration policy (continued)

B.1.3.2 Chesnara directors' remuneration policy (continued)

Why these performance measures were chosen and how performance targets are set (continued)
The remuneration policy tables above note that all the financial targets for the STI Scheme are commercially sensitive as is one of the measures for the LTI Scheme. The remuneration 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.

Short-Term Incentive (STI) Scheme

(i) based on a broad range of measures – including group objectives;
(ii) performance measures and their weighting are determined by the committee each year to help ensure there is focus on each of the elements necessary to drive sustainable performance. The main weighting will be given to financial measures (typically 80%);
(iii) maximum potential award up to 100% of salary with each participant having a personal maximum which is to be disclosed in the annual report and accounts for each award made;
(iv) award is part cash and part share award deferred for a further 3 years. Currently the intention is to structure the award 65% cash and 35% deferred into shares provided that the total award to a participant is at least £20,000, otherwise the award is 100% cash with no deferral. The committee may increase the weighting for the share award in future years and adjust the de-minimis amount;
(v) unvested awards may be withheld under the terms of the malus provision. Cash awards are subject to a 2 year clawback provision; and
(vi) it is the intention of the committee to make a new award each year.

Long-Term Incentive (LTI) Scheme

(i) a performance share plan;
(ii) uses absolute and comparative measures;
(iii) in making a new award, the committee will determine the measures, their weighting and targets to maintain a clear focus on longer-term strategic aims;
(iv) performance period is at least 3 years;
(v) maximum potential award is up to 100% of salary with each participant having a personal maximum which is to be disclosed in the annual report and accounts for each award made;
(vi) includes a malus provision and a 2 year clawback provision; and
(vii) it is the intention of the committee to make a new award each year.

Minimum shareholding requirement
In order to align the executive directors' interests with those of shareholders, a minimum shareholding requirement applies equal to one times salary. There is no timescale attached and it may be achieved by participating in the company's share plans. It is a requirement that shares awarded under the STI and LTI Schemes (net of shares sold to pay for any income tax and National Insurance) must be retained if the minimum requirement has not been met.

Expenses
In line with the company's Expenses Policy, all directors may receive reimbursement of reasonable expenses incurred in connection with company business and including settling any tax incurred in relation to these.

B.1.3.3 Remuneration policy as applied to other members of staff

The following table outlines any differences in the company's policy on executive director remuneration from other employees of the group.

Remuneration element	Difference in policy
Base salary	There are no differences in policy. The committee takes into account the company's overall salary budget and percentage increases made to other employees.
Taxable benefits	There are no differences in policy although the benefits available vary by personnel and jurisdiction and with job role. For example cars and health insurance benefits are broadly consistent with the equivalent benefits when offered to UK non-director personnel. Executive directors receive fuel allowances which is a benefit not offered to other grades receiving a car allowance.
Annual bonus	This is an integral part of the company's philosophy with all UK employees below board level being eligible to participate in a bonus scheme which is based on personal performance 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. In line with local regulations the remuneration to employees within the Waard Group in the Netherlands does not include any bonus element.
Long-term plans	Only executive directors are currently 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. This may be reviewed as appropriate in the light of growth in the company.
Pension	The level of contribution made by the company to executive directors is the same as that offered to other UK employees.

B. SYSTEM OF GOVERNANCE (CONTINUED)

B.1 General information on the system of governance (continued)

B.1.4 Material transactions with shareholders and persons who exercise a significant influence on the group

The below provides information on transactions that the group has entered into during the year with shareholders and persons who have significant influence on the group:

Transactions with persons who have significant influence on the group:
The company has deemed that the people who have significant influence on the group is limited to those directors who are members of the Chesnara plc board. The transactions in the year can be summarised as follows.

	2016 £'000	2015 £'000
Short-term employee benefits	2,130	1,634
Long-term post employee benefits	192	–
Post-employment benefits	84	71
Total	**2,406**	**1,705**

Transactions with shareholders
The following table summarises the transactions with Chesnara's shareholders during the year:

	2016 £'000	2015 £'000
Dividends paid	**24,181**	**23,498**
Net proceeds from equity share issue during the year	**66,708**	**-**

B.1.5 Assessment of the adequacy of the system of governance

Through the implementation of Solvency II in 2015 and further refinements in 2016, Chesnara has carried out various informal and formal systems of governance (SoG) review exercises. During 2016, a framework was developed to assess the effectiveness of the SoG.

During 2016 the Chesnara board concluded that the Chesnara system of governance is considered to be fit for purpose for Solvency II and other applicable regulations. Further work on both risk management and governance has taken place in 2016 and further developments are planned in 2017.

B.2 Fit and proper requirements

Chesnara plc retains individual fit and proper policies for all divisions. These policies are signed off by the respective divisional board which is responsible for ensuring appropriate resources are in place to deliver effective and efficient management of the business. The individual divisions take appropriate steps to ensure that directors, senior managers and individuals responsible for key functions meet the requirements as established by the relevant fit and proper policy.

The requirements are expected to be proportionate to the nature, scale and complexity of the individual roles and responsibilities of these various positions. Checks are carried out on initial appointment and are re-assessed and verified every year. The results of all assessments are reported to the individual divisional boards. During 2015 and 2016, all employees were assessed against appropriate fit and proper tests. These tests included some or all of the following:

- Fit and proper questionnaires;
- Criminal record checks;
- Credit referencing;
- Curriculum Vitae detailing skills, qualifications and experience;
- Continuous professional development / performance management framework;
- Membership of professional institutes; and
- The recruitment and selection process in place at the time of appointment.

All directors and employees of Chesnara plc, including all divisions, also have to confirm their fitness and propriety annually. Each year personal performance assessments include a review of fitness and propriety of all employees and senior managers. The divisions within the group notify their local regulators, as required, of any changes to the identity of the persons responsible for the Controlled Functions along with all the information needed to assess whether any new persons appointed to these roles are fit and proper. The fit and proper policy is transparent and made available to all employees to review and shows that all decisions made on the fitness and propriety of an individual are made in a consistent manner within the entity.

B. SYSTEM OF GOVERNANCE (CONTINUED)

B.3 Risk management system including the own risk and solvency assessment

B.3.1 Risk management system

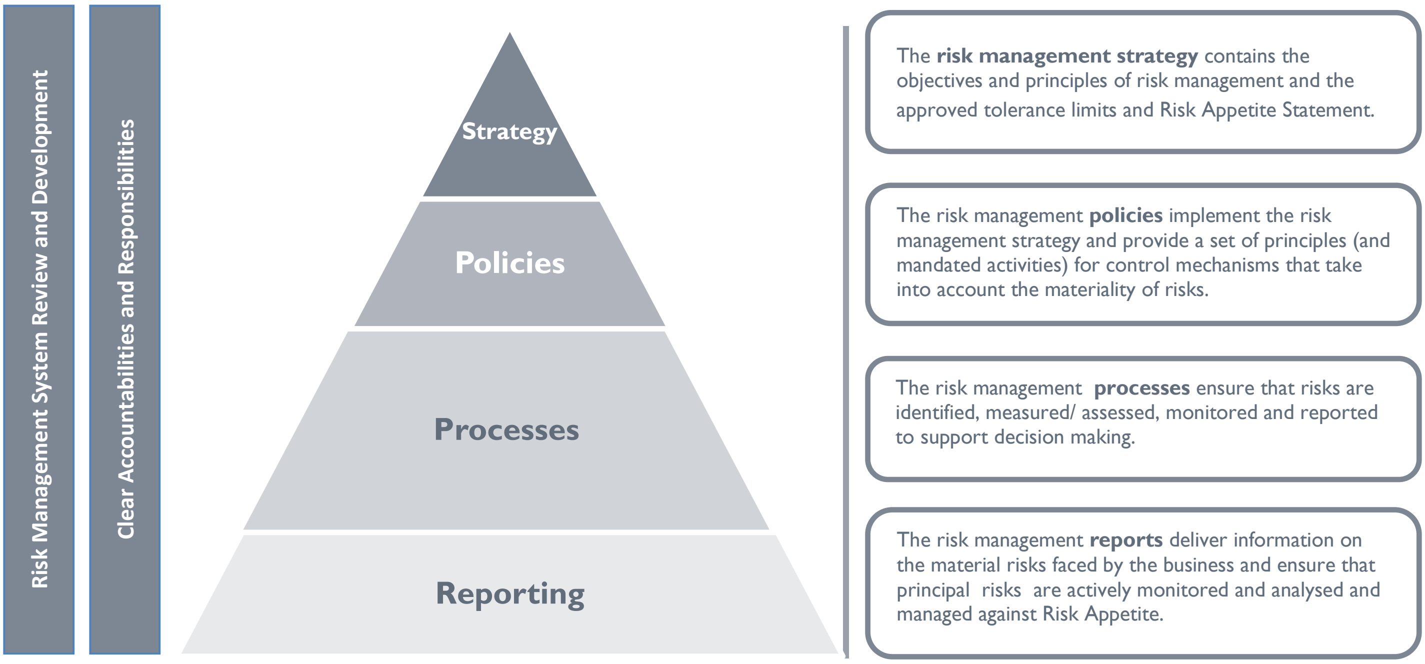
Overview

Chesnara has an established risk management system, which incorporates:
(a) Risk management strategy;
(b) Risk management and internal control policies;
(c) Risk management processes;
(d) Risk reporting.

The risk management system applies to all categories of risk, and unless stated otherwise, the following information applies for each separate risk category.

The risk management system is summarised in the diagram below:

Risk management system	**The risk management system supports the identification, assessment, and reporting of risks along with coordinated and economical application of resources to monitor and control the probability and/ or impact of adverse outcomes within the board's risk appetite or to maximise realisation of opportunities**



B.3 Risk management system including the own risk and solvency assessment (continued)

B.3.1 Risk management system (continued)

Risk universe

Chesnara's risk universe provides Chesnara's assessment of a comprehensive view of all risks that a business like Chesnara is exposed to, or could potentially be exposed to in the future. Consistent where appropriate with the standard formula categorisation, it is constructed with greater granularity to provide assurance that all the potential risks are considered within the risk management system design. It applies across all divisions and business units for structuring the identification, assessment, management and reporting of risks/controls to enable an aggregate understanding of the risk profile at both a group and divisional level.

The top two (of three) levels are portrayed in the diagram below:

Level 1	Life underwriting risk	Health underwriting risk	Other underwriting risk	Market risk	Counterparty default risk	Liquidity risk	Business / strategic risk	Operational risk	Emerging
Level 2	Mortality	Health expense	Unemployment	Interest rate	Reinsurance	Liquidity	Strategic design	People	Emerging
	Longevity	Morbidity	Income protection	Equity	Derivatives		Corporate governance	Information systems	
	Disability	Epidemic		Property	Outsourcer		Execution	Physical assets / facilities	
	Life expense			Spread	Security		Acquisition	Prudential risk	
	Lapse			Concentration	Counterparty concentration		Divestment	Conduct	
	Life catastrophe			Currency			Diversification	Process	
							Operational change	Financial crime	
							Regulatory change		
							Legal change		
							Political change		
							Reputational risk		

Risk management strategy

The primary risk objective of the Chesnara group, which applies to all divisions, business units and outsourcers, is to:

"Maintain the solvency and liquidity of the group and its underlying divisions and business units whilst delivering continuity of business services; fair customer outcomes; a regulatory compliant high quality service to customers and making payments to the group's stakeholders in line with expectations set."

The Chesnara group and its divisions have a defined risk strategy and supporting risk appetite framework to embed an effective risk management framework, with culture and processes at its heart and to create a holistic, transparent and focused approach to risk identification, assessment, management, monitoring and reporting. The objective is to provide excellence in risk management, supporting the achievement of strategic and business objectives within the limits of a clearly defined risk appetite. The group's risk appetite framework enables the board to articulate the amount of risk the group is willing to take and provides boundaries to when potentially too much, or too little, risk is being taken. This provides guidance to enable management to take-on "appropriate" risks and the "appropriate" amount of risk as part of the pursuit of its strategic objectives.

Each division and business unit is required to have risk appetite(s) which are consistent with, and aligned to, the group's risk appetite framework, at generally subordinate levels of materiality and approved by the divisional board.

Business decision making

So that all business decisions are risk-informed on a forward-looking basis, each division and business unit carries out processes such that:

(a) Forward looking risk analysis is an integral part of business planning;
(b) Risk assessment is made for all significant change proposals made to the board;
(c) Risk analysis, including ongoing identification and monitoring of implementation risks is an integral part of project governance; and
(d) Own Risk and Solvency Assessment (ORSA) is considered at the end of every Board meeting to consider whether any of the matters discussed, or decisions taken, may have a material impact on the ORSA, and to establish whether further analysis is needed.

B.3 Risk management system including the own risk and solvency assessment (continued)

B.3.1 Risk management system (continued)

Risk management policies

Chesnara has group-wide risk management policies that are annually reviewed and approved by the board and which cover the risks that the group is potentially exposed to through group or divisional activity. These are:
(a) Capital management policy;
(b) Liquidity policy;
(c) Concentration risk policy.

The divisions and business units are required to adopt these policies in a manner appropriate to their regulatory environment and, in addition, have their own risk management policies specific to their division, business units therein, and operations. These are all reviewed annually and approved by the relevant boards and cover all the material risks to which the division or business unit is exposed.

These policy documents clearly articulate the principles and practices for the management of risks including: an articulation of objectives; reporting procedures; roles and responsibilities; and processes and key controls in a manner that is consistent with the business strategy. Each policy is owned by an allocated member of the group, division or business unit executive committee member who is responsible for attesting to policy compliance on an annual basis.

Risk management processes

The group has established risk management processes for application at a group, divisional and business unit level and with risk policies defining how each risk category is managed.

Each division and business unit maintains a risk register, which intends to comprehensively list risks which might create, enhance, accelerate, prevent, degrade or delay the achievement of the objectives, along with the key controls to manage those risks. The group maintains a risk register of risks which are specific to its activity and reports these, along with the principal risks of each division and business unit, to the Chesnara Audit & Risk Committee on at least a quarterly basis.

In the identification of risks, the group and its divisions or business units consider:
- those risks that management are aware of and understand
- those risks that management are aware of but do not yet fully understand because of their changing nature, including new risks that emerge during the period and forward looking risks that may emerge in the future.

For each of the risks contained within the risk register, the senior manager responsible assesses the risk both with and without controls applied in terms of its likelihood and consequences. The consequences are considered in terms of impact on: customers; economic value; cash flow; reputational; regulatory; and other business impacts.

The group corporate governance map defines the scoring mechanism for assessment of impact against these criteria at a group level and sets-out the thresholds for establishing the principal risks. Each division or business unit similarly includes its board-approved thresholds in its own governance map. This mechanism is shared with the group risk function to enable aggregation. Each board must approve at least annually the materiality criteria to be applied in the risk scoring and in the determination of what is considered to be a principal risk.

At least quarterly, the group, divisional and business unit executive teams scan the horizon to identify potential risk events (e.g. political; economic; technological; environmental, legislative & social), assessing their proximity and potential impact. On an ongoing basis, they consider the impact of internal operational and strategic changes on its risk profile.

Each division and business unit has established processes and procedures for the management of crystallised risks. The group requires each division to have a threshold to trigger escalation of incidents to the relevant divisional Audit & Risk Committee.

Risk management information and communication

On a quarterly basis, the group risk team produces a quarterly risk report which presents the group-level risk information, supplemented by the appropriate escalations from divisional and business unit risk reports. These quarterly group risk reports are presented to the Chesnara A&RC and include:-
- A summary of the principal risks identified within the risk register by risk category;
- Consideration of significant changes in the risk profile including emerging risks;
- Monitoring against approved risk appetite tolerances;
- Evidence of continuous compliance with solvency requirements;
- Forward looking considerations; and
- Information on incidents / crystallised risk events.

In addition, each division and business unit Audit & Risk Committee is presented with a similar report of the granular risk information pertinent to its business and including that information escalated into the group risk report (e.g. the slice of principal risks in line with the group's reporting requirements).

B.3 Risk management system including the own risk and solvency assessment (continued)

B.3.1 Risk management system (continued)

On an annual basis, or more frequently if required, a Group ORSA report is produced which aggregates the divisional and business unit ORSA findings and supplements these with an assessment specific to group activities. The group and divisional ORSA policies outline the key processes and contents of these reports. An annual ORSA disclosure will be made to the regulatory authority within two weeks of the approval by the board of the ORSA report.

Risk management responsibilities

The board is responsible for the adequacy of the design of the group's risk management system and the level of its consistent application across divisions. All significant decisions for the development of the group's risk management system are the Board's responsibility.

The Audit & Risk Committee monitors the group's risk profile and adherence to the board's risk appetite, advising the board on any required actions to change the risk profile as well as proposed changes to the risk framework. The Committee also reviews and recommends to the board the disclosures to be included in the Annual Report in relation to internal controls, risk management and the viability statement.

Divisional and business unit boards are responsible for the adequacy of the design of their own risk management systems and ensuring they are consistent with the group's risk management system policy.

Divisional and business unit Audit & Risk Committees monitor the risk profile and adherence to the board's risk appetite, advising the board on any required actions to change the risk profile as well as proposed changes to the risk framework.

The Group Chief Risk Officer is responsible for advising the board regarding the effectiveness of the group and divisional risk management systems and reporting to it on the risk profiles of the group and its divisions against the board's risk appetite. The Group CRO is also responsible for providing board approved risk management practices to the divisions for their implementation.

B.3.2 Process undertaken to conduct an Own Risk and Solvency Assessment

Overview

Within the Chesnara group, each Division and business unit has its own ORSA policy and process approved by the relevant board. The purpose of the group report is to: assess the risk and solvency position at a group level taking into account the individual solo ORSA reports; record risks that are emerging that may impact the group; ensure that the board has a good understanding of the business model, the risks associated with the model, the governance in place to assess and manage risks; and to ensure there is sufficient capital to cover a set of defined stresses/scenarios commensurate with the Chesnara board's risk appetite.

The aim of the ORSA is to support the board to make risk-informed strategic and operational decisions and is therefore a key tool to enable effective management of the business.

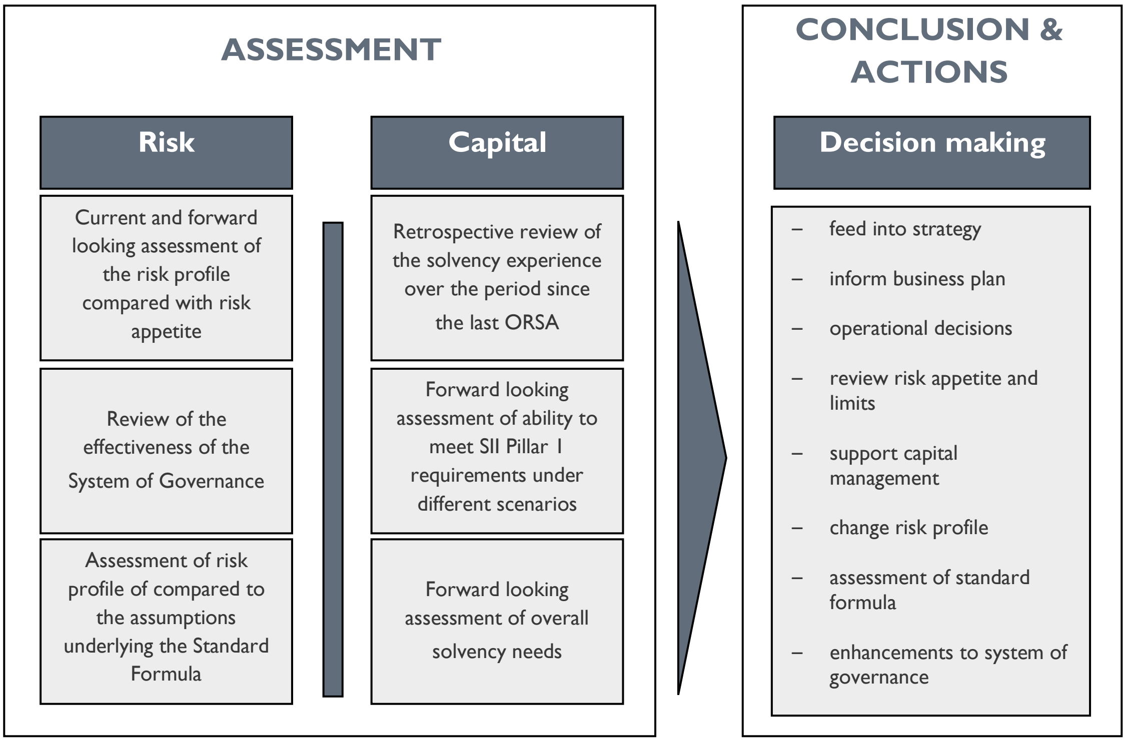
The ORSA follows a defined ORSA process which is documented in the ORSA policy. This policy is reviewed on annual basis and approved by the board. The ORSA process is described in more detail below, and incorporates several key processes to manage risk and capital.

The output from the ORSA process is an ORSA report, which is produced on an annual basis, or more frequently if there is a material change in the risk profile. The ORSA report is reviewed by senior management and approved by the board.

The diagram on the following page provides a summary of the overall ORSA process. Key stages of the process have been further described below the diagram.

B.3 Risk management system including the own risk and solvency assessment (continued)

B.3.2 Process undertaken to conduct an Own Risk and Solvency Assessment (continued)



Assessment of risk profile compared with risk appetite

The ORSA report includes the current view of the risk profile of the business. This includes:

- a summary of the principal risks, across the group as identified by risk owners, and documents the controls in place to limit the potential impact or likelihood of occurrence;
- A retrospective, current and forward looking review of the risk profile compared with the board's approved group risk appetite and tolerance limits
- An illustration of the group risk capital split by major risk categories and, for those significant risk categories containing a number of risks, a further breakdown (e.g. equity, property, interest within market risk); and
- A summary of the emerging risks identified by the business and any analysis performed to understand their potential impact.

As part of the risk management processes, the risk profile is regularly reviewed, updated and monitored against risk appetite and communicated to the Chesnara Audit & Risk Committee at least quarterly.

Review of the effectiveness of the system of governance

The outcome of the review of the systems of governance is summarised in the ORSA report, together with any plans to further develop the governance framework. As part of this, any deficiencies identified with the ORSA process are highlighted along with plans to remediate these. The scope of the review is approved in advance by the board each year.

Assessment of risk profile compared to the standard formula

All insurance companies within the Chesnara group currently apply the Standard Formula to calculate the SCR under Solvency II. The Standard Formula is also used within Chesnara to calculate the Group SCR itself.

An annual assessment will be performed to evaluate whether the group's risk profile is significantly different to the risk profile assumed by EIOPA when deriving the Standard Formula approach. The results of the assessment are reviewed and approved by the board.

In the event of a material change to the risk profile, the appropriateness of the Standard Formula will be reassessed.

Retrospective review of solvency experience

The ORSA evidences continuous compliance with regulatory solvency requirements by reviewing the solvency position during the period since the last ORSA.

Chesnara formally monitors its regulatory solvency position at least quarterly and this is reported to the board by the Group Chief Actuary and summarised retrospectively in regular risk and ORSA reports. More frequent estimates may also be performed to identify any material interim movements in the solvency position if the need arises, for example in the event of any significant investment market movements, or if the solvency position materially weakens.

B.3 Risk management system including the own risk and solvency assessment (continued)

B.3.2 Process undertaken to conduct an Own Risk and Solvency Assessment (continued)

Retrospective review of solvency experience (continued)
To provide continuous monitoring of the solvency position, a series of agreed risk indicators are monitored against the trigger levels that have been agreed by the board. Progress against these trigger levels is reported in the risk and ORSA reports. The risk indicators and trigger levels are reviewed at least annually by the Group Executive Committee and signed-off by the Chesnara board.

Assessment of ability to meet regulatory solvency requirements
From a forward-looking perspective, the ORSA evidences continuous compliance with regulatory solvency requirements by projecting the expected capital position, taking into account the business plan, dividend payments and the capital management policy. The projections also consider the impact of a range of pre-specified stress and scenario tests. The results are summarised in the ORSA report.

The ORSA report will evidence consistency between the business planning basis and the ORSA projection basis and include explicit documentation of consideration of the business plan and assumptions within the ORSA report.

The ORSA considers the results of the reverse stress testing analysis, identifying potential events that could cause the business model to fail. The definition of business model failure is agreed in advance by the board and reviewed on an annual basis.

The ORSA also considers the transferability and availability of cash within the group and its subsidiaries. This involves assessing whether there are any shortages across the group during the business planning period after the capital management policies across the entities have been followed locally and at a group level, and taking into account the obligations of Chesnara in terms of both planned capital repayments and continuation of its dividend strategy.

Forward looking assessment of overall solvency needs
The purpose of the Overall Solvency Needs Assessment (“OSNA”) is for the company to form its own view of its solvency needs over the business planning horizon, taking into account factors such as:

- ***Risk appetite:*** Whether the board wishes to hold capital levels to achieve a different confidence level of meeting the liabilities to that specified by the SII SCR as part of the Solvency II regulatory solvency requirements.
- ***Limitations within the regulatory calculation of own funds:*** There may be restrictions on the calculation of the Solvency II own funds that Chesnara would wish to alter for an accurate internal assessment.
- ***Appropriateness of the standard formula to calculate capital requirements:*** Whether the conclusions from the comparison of the group risk profile with the assumptions underlying the SII SCR (Standard Formula) identify any potential shortfalls in the capital requirements.
- ***Future solvency needs taking account of the business plan:*** Whether the solvency projections or sensitivity analysis has resulted in any desire to hold additional capital, taking into account the future business plan as well as potential future changes in its risk profile due to the business strategy and economic/financial environment.
- ***Non-quantifiable risks:*** Whether the board wishes to reserve any additional capital to allow for risks that are more difficult to quantify, and hence may not have resulted in explicit capital requirements as a result of quantitative analysis, such as strategic or reputational risk. A cross check is applied to demonstrate coverage of the principal risks and emerging risk log.
- ***Nature and quality of own funds:*** Whether there are issues regarding the nature and quality of own fund items or other resources appropriate to cover the risks identified.
- ***Availability of own funds:*** Whether the own funds are available and transferable to cover adverse conditions within the group in a timely manner.

The assessment will also take into account any internal solvency buffers as specified within the group’s capital management policy, as well as considering whether these buffers are sufficient.

Group ORSA report – decision making
The board and group executive committee take account of results and insights from the ORSA process for the purpose of capital management and business planning. Hence, the ORSA process has explicit consideration at both executive and board level of the conclusions and potential insights and actions. The ORSA report contains an explicit section summarising these.

In practice, the ORSA process and business planning process, and their underlying sub-processes, run continuously throughout the year but with formal overall summary reports less frequent.

Therefore, alignment of the two processes, including feeding key conclusions and outcomes from one to the other, is achieved largely by ensuring that regular risk and solvency information is considered alongside business performance and planning information at the regular group executive committee meetings. Information, considerations and conclusions are escalated to the board as appropriate.

B.4 Internal control system

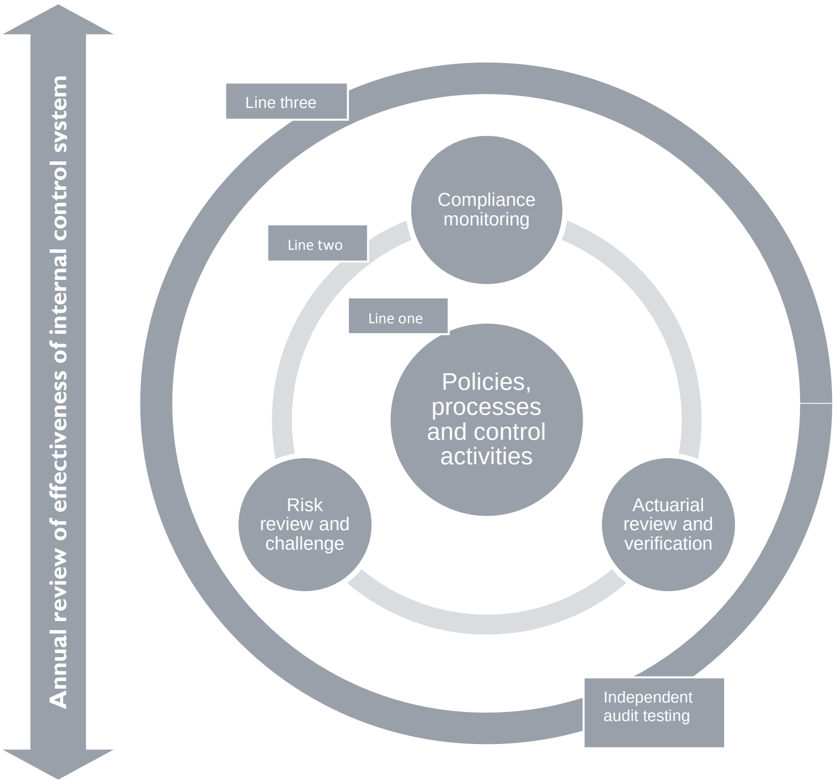
B.4.1 Description of internal control system

Overview

The Chesnara group has defined an internal control system for application at group, business unit and divisional levels. The internal control system assures the achievement of the group's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. It is comprised of defined policies, processes and control activities that are independently tested and reviewed according to the three lines of defence model. The internal control system is underpinned by policies providing the basis for financial reporting and valuation activity.

The internal control system can be described using the diagram below:

Internal control system	**The internal control system supports the achievement of an organisation's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.**



The three lines of defence model is a standard approach to safeguarding the internal control framework. The 1st line consists of senior management and their teams who together own the risks and carry responsibility for their management and control. The 2nd line is the risk management and compliance functions who develop the risk management principles and review/challenge the adequacy of the control environment. The 3rd line is the internal audit function that provides independent assurance to the board audit committee from its reviews of the control environment.

The control functions are functions with responsibility for advisory, monitoring, verification and independent assurance activities for day to day business activities. They have direct reporting line to the administrative body. Includes the actuarial function, the risk function and the compliance function.

Policies are sets of principles to guide decisions and process design. A process is a series of activities that deliver an objective and are the implementation of policies. A control activity is part of the process which serves to reduce the likelihood of a risk materialising or reduces the impact of a risk if it materialises. Key control activities are documented in risk policies.

The internal control report provides information on the adequacy of the internal control system to the board and senior management.

Three lines of defence model for internal control

The Chesnara group operates a "Three Lines of Defence Model" for the management of risks and internal controls which is adapted and applied by each division and business unit in proportion to the size and complexity of the business. This is illustrated in the diagram on the following page. Broadly this means that the risk function is responsible for providing a framework for risk management, the business functions are responsible for implementing the framework and the internal audit function is responsible for independently validating the appropriateness of both the design and its implementation.

B.4 Internal control system (continued)

B.4.1 Description of internal control system (continued)

1st Line Business functions	• Involved in day to day risk management • Apply internal controls and risk responses
2nd Line Risk, compliance & actuarial functions	• Review and challenge adequacy of internal control activities • Verify and Review Valuation Activity • Monitor compliance with legisation and regulations • Valuations and Continuous Solvency Monitoring
3rd Line Audit function	• Review 1st and 2nd lines • Provide an independent perspective and challenge the process

Internal control system 1st Line procedures
Chesnara has an established process for undertaking an annual review of the adequacy of its internal control system. A key component of this activity is the review of board policies and attestations regarding the adequacy of the risk management policies design and operation. The risk management policies articulate the principles and practices for implementation of controls within operational processes. Each policy document is owned by an allocated member of senior management who is responsible for regular attestation of compliance with it. Each is reviewed and approved by the relevant divisional or business unit board in which the policy operates. This procedure enables:

- Board oversight of the key controls defined for the management of risks and their operation;
- Management to reflect upon the adequacy of design- and operation- of their key controls;
- The risk function to challenge the adequacy of controls and drive risk management and control developments; and
- Audit testing.

Internal control system 2nd line procedures
Risk review and challenge
The risk function is responsible for developing the group risk management framework and the underlying principles and practices. The risk function is also responsible for reviewing the completeness and appropriateness of risk policies (including the identification of risks and effectiveness of controls) and provides oversight to the adherence of Line-1 to the agreed standards in these board-approved policies.

Compliance monitoring
The group and its divisions undertake compliance monitoring activity to assess the adequacy of implementation of regulations and legislation into business as usual activity. The activities of the compliance function are described in more detail in section B.4.2 below.

Actuarial review and verification
The group and its divisions undertake actuarial reviews to assess the reliability of valuations and calculations of technical provisions. This includes consideration of the methodology and assumptions, an assessment of the information systems used for the valuations systems and an assessment of the quality of the data. The activities of the actuarial function are described in more detail in section B.6 below.

Internal control system 3rd line procedures
The 3rd line describes the independent assurance and testing provided by the internal audit function. The activities of the internal audit function are described in more detail in section B.5 below.

Internal Control System reporting
The group and divisional boards are responsible for monitoring the internal control system of the group and its divisions respectively. To assist the board in its duties the board receives group and divisional annual internal control reports. These reports contain:

a) Directors statement of the adequacy of the risk management and internal controls system;
b) Description of the internal control system
c) Description of monitoring and reporting activity undertaken in the reporting period;
d) Results of monitoring activity including audit findings and attestations;
e) Description of any significant changes to the control environment over the reporting period.

The board also receives internal and external audit reports which contain the auditors' findings and recommendations.

B.4 Internal control system (continued)

B.4.2 Implementation of compliance function

B.4.2.1 Overview

The compliance functions of the group operate at a regulated insurance company level within each of its division. Each compliance function within the group has its responsibilities, authority, resources and operational independence to carry out tasks set out in a compliance policy, which is approved by the relevant board.

The compliance functions within the group are independent and objective in relation to the operational activities of the divisions that they oversee, and are headed up by a compliance officer.

The compliance functions ensure that procedures are in place to ensure that all regular regulatory reporting and ad-hoc requests are satisfied within the timescales set.

The compliance functions in each division ensure that all employees have an adequate level of compliance knowledge and they advise the relevant divisional board on compliance with applicable laws, regulations and administrative provisions that apply, including those adopted pursuant to the Solvency II Directive. The compliance functions are responsible for ensuring that an assessment of the possible impact of any changes in the regulatory environment on the operations of the undertaking concerned has been performed and performing the identification and assessment of compliance risk.

Each compliance function is responsible for the identification, measurement and monitoring of the risks that can impact the business in respect of the specific areas of responsibility within the compliance function, for example regulatory risk. They ensure that an effective control environment is in place to manage those risks. The regular assessment and reporting of risks is carried out in line with each division's risk policy, and reported to the relevant board and the Audit & Risk Committee. Each compliance function across the group maintains a compliance plan that provides detail of how the compliance function shall achieve its responsibilities.

B.4.2.2 Reporting lines

At a divisional level each compliance function reports directly to the CEO for management purposes, and directly to the board in delivering its obligations. Compliance function reporting at group level is facilitated through divisional reporting to the Chesnara board. This enables the Chesnara board to become aware of any material compliance matters across the group.

B.4.2.3 Responsibilities

The table below provides a summary of the key responsibilities of each compliance function:

Responsibility	CA plc	Movestic	Waard	Description
Regulatory reporting [1]	X	-	X	Ensure all regulatory reporting is completed in a timely manner.
Regulatory meetings	X	X	X	Ensure the when update meetings take place with the relevant regulatory bodies records are maintained of those meetings.
Conduct risk review [2]	X	-	X	Oversee annual review of conduct risk measures and mitigation.
Compliance risk oversight	X	X	X	Identify any compliance related risks and ensure they are included within the risk framework. Monitor these risks on a regular basis.
Fit and Proper	X	X	X	Oversee the process to ensure that the relevant division's fit and proper policy has been appropriately implemented.
Advice	X	X	X	Provide advice to all areas of the business and to the board on regulatory matters.
Training	X	X	X	Provide training on regulatory matters as required to all areas of the business and the board.
AML oversight [3]	X	-	-	Ensure all anti money laundering procedures and policies are adhered to and reviewed on an annual basis.
Compliance plan	X	X	X	Prepare and deliver the board-approved compliance plan.

[1] This responsibility falls to the legal department in Movestic
[2] Conduct risk is not reviewed separately in Movestic, it is included as part of the annual assessment of all compliance risks.
[3] Anti money laundering does not have separate report in the Waard Group but is included in the general compliance assessment reporting. For Movestic anti-money laundering is the responsibility of the legal department

B.4 Internal control system (continued)

B.4.2 Implementation of compliance function (continued)

B.4.2.4 Reporting

As part of delivering its obligations, each compliance function across the group produces the following key reports:

- **Compliance board report:** Provides the board with a detailed compliance function update, covering items such as regulatory changes, regulatory interaction, compliance monitoring, complaints information and a conduct risk.
- **Money-Laundering Reporting Officer report:** Report on the anti-money laundering risks and controls within the business to the extent this task is in the remit of the compliance function.
- **Annual assurance report:** An annual summary of the monitoring activities carried out by the OSP compliance functions and the compliance function (UK only).
- **Outsource service provider report:** A summary report covering breaches, SLAs, compliance monitoring, AML and regulatory change at an outsourcer level (UK only).

B.5 Internal audit function

B.5.1 Overview

Implemented at a divisional level, internal auditing is an independent and objective assurance activity that sits within each divisions' governance structure, and is guided by a philosophy of adding value to improve the operations of the group. It assists management in accomplishing its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes both internally and within any relevant outsourcer providers.

Each internal audit function across the group operates independently of management, and has no operational responsibilities. In addition, each internal audit function has regular direct access to the relevant Audit & Risk Committee, including formal access to the relevant non-executive directors without the executive directors being present.

Within CA plc the internal audit function is resourced internally, whilst Movestic and the Waard Group engage external service providers to deliver the role.

In respect of CA plc and the Waard Group, the appointment of the head of internal audit is made on a recommendation by the Audit & Risk Committee, with the internal audit function deriving its authority from this committee. In Movestic a specific board member is ultimately responsible for the service provider's delivery and will make the recommendation for appointment.

B.5.2 Reporting lines

Each internal audit function across the group has direct reporting lines to both the relevant board and Audit & Risk Committee. Each head of internal audit reports functionally to the relevant Audit & Risk Committee and administratively to the CEO of the operation in which the relevant internal audit function is implemented. Relevant internal audit matters at a divisional level are escalated up to the Chesnara Audit & Risk Committee via the reporting lines that each divisional Audit & Risk Committee has to the Chesnara Audit & Risk Committee.

B.5.3 Responsibilities

The table below provides a summary of the key responsibilities of each internal audit function across the group:

Responsibility	Description
Devise audit plan	An internal audit plan is drawn up on an annual basis which includes the proposed scope, timing and resource requirements for the forthcoming year.
Carry out audits and make recommendations	This involves audit planning, an internal controls assessment and the drafting of audit recommendations where deemed appropriate.
Follow up recommendations	All agreed audit recommendations are periodically followed-up to ensure they have been implemented.

B.5.4 Reporting

In delivering the responsibilities within B.5.3, each internal audit function across the group produces a number of reports that are presented to the relevant Audit & Risk Committee and board. These include:

- an annual audit plan, which includes a rationale for the selected plan, associated timings and any resource constraints; and
- a quarterly/bi-annual report, prepared for the Audit & Risk Committee, that includes: a summary of progress against and/or changes to the audit plan; key findings, significant issues and key themes arising from the performance of audits; and analysis of management's progress against implementing the recommendations made by internal audit.

At a Chesnara group level the Chesnara Audit & Risk Committee receives summaries of internal audit activity for each division.

B.6 Actuarial function

B.6.1 Overview

The actuarial function is split along legal entity lines, with Countrywide Assured, Movestic and the Waard Group all having their own actuarial functions. They are supported by the group actuarial function team for their Solvency II reporting.

Each entity's actuarial function is headed up by a Chief Actuary who has day to day responsibility for delivering the actuarial function's responsibilities. The group Chief Actuary heads up the group actuarial function.

B.6.2 Reporting lines

The group Chief Actuary oversees all actuarial aspects of group strategy and financial management, including providing relevant information to the group CEO, the group executive committee and the board.

B.6.3 Responsibilities

The group Chief Actuary has the responsibility to advise the group CEO and group FD of any concerns regarding the sufficiency of financial assets to meet liabilities. To aid this, the group Chief Actuary has responsibility for:

Responsibility	Description
Support	Acting as a focal point for actuarial matters and advice across the group. Overall control of the group's approach to economic value reporting. Support the chief actuaries within the divisions and business units as appropriate with guidance on the group approach to actuarial matters.
Technical provisions	Oversight of methodologies, models, bases and calculation of technical provisions within group companies
Solvency	Advising the group CEO of any concerns regarding the sufficiency of financial assets to meet liabilities to policyholders
Risk capital	Oversight of the modelling of risk capital for the group ORSA, including advising on suitable stress and scenario testing.
Pricing	Oversight of product pricing within group companies.
Reinsurance	Oversight of the reinsurance arrangements within the group.
Asset-liability matching	Oversight of asset-liability matching within the group.
Acquisitions	Support assessment of potential acquisition targets through (i) oversight of the review of all actuarial matters and (ii) provision of advice to the group CEO and group FD.

B.6.4 Reporting

The group Chief Actuary attends meetings of the Chesnara board and Chesnara A&RC and is a member of the group executive committee.

The group Chief Actuary reports to the Chesnara Audit & Risk Committee and the Chesnara board:

- the results of each quarterly valuation of technical provisions, covering the results of the calculations, including commentary on any material changes in data, methodologies or assumptions;
- the report also considers any deficiencies in the process or output and makes recommendations, in such cases, on how improvements can be introduced;
- on the assumptions and methodologies used.

B.7 Outsourcing

B.7.1 Overview

Chesnara plc's operating model is to maintain a skilled and experienced corporate governance team and will outsource operating activity to professional specialists should this suit the particular division's or business unit's structure. When services are outsourced a governance team will maintain oversight of the outsourced operations.

The extent to which activities are outsourced varies, dependent on the operating model and local regulatory requirements of the respective entities. Such activities are undertaken and monitored in line with the local policy and governance frameworks.

B.7 Outsourcing (continued)

B.7.2 Responsibilities

Each regulated entity recognises its accountability for services outsourced and has a defined governance model for outsourcers that provide critical services. Critical services can be defined as *"services that are vital for the ongoing operation of business"*.

A summary of the critical services that have been outsourced across the group has been provided below:

Critical services	UK	Sweden	Netherlands
Administration of life and pensions policies including call centre operations	X	-	-
Actuarial services including valuations of technical provisions	X	-	-
Investment of assets or portfolio management including unit pricing	X	-	X
Claims handling	X	-	-
Compliance	X	-	-
Internal audit	-	X	X
Financial reporting	X	-	-
Provision of IT support including cloud services, data storage and information security	X	-	X

Overall accountability is retained by the group and oversight of outsourced activities is a significant element of the responsibilities of executive management. The maintenance of service and performance standards is governed through a strict regime of service level agreements and through continuous monitoring of performance. This includes responsibility to ensure that outsourced activities are carried out in accordance with laws, regulations and industry best practice standards and adhere to the principles and practices of treating our customers fairly by delivering fair customer outcomes. All outsourced activities are contracts specific to the local jurisdiction of the entity.

To ensure effective control of outsourced activities, a documented outsourcing policy is in place within each entity. The aim of these policies is to set out rules and principles for outsourcing of activities. In particular it aims to ensure that:

- There are processes in place for how to enter into outsourcing agreements in a way that takes into account the effects of the agreement on the Company's operation;
- The implementation of suitable reporting and monitoring routines, to ensure effective control of the outsourced activities and manage the associated risks.

At a group level outsourced activity is monitored via local board reporting to the Chesnara board. This enables the group to oversee outsourced activity effectively, facilitating any action deemed necessary to be taken in a timely manner.

Strategic and operational matters are raised in the group CEO report, which will include any relevant information escalated in the board reporting within each division. The group risk function is responsible for the identification and monitoring of risks associated with outsourcing. The function receives quarterly risk reports from each division and any material risks identified are included in the group risk report that is presented to the board (also on a quarterly basis). An overview of outsourcer activity at an operational level is provided in the business review and compliance sections of the quarterly board reporting.

B.8 Any other information

There is no other material information regarding the system of governance of Chesnara plc that is deemed necessary to include.

C. RISK PROFILE

Introduction

The sections below provide a qualitative and quantitative summary of the risk profile for each category of risk. Where information is specific to each risk category it has been set out under the relevant heading. Where the information is common across all risk categories, or a holistic view is required presenting all risks together, it has been included in Section C.7. In particular:

- **Quantitative risk profile:** Section C.7.1 illustrates the quantitative risk profile of the group at 31 December 2016 using the risk capital requirements calculated when applying the "standard formula". The standard formula does not require all of the risks that are covered in sections C.1 to C.6 below to have capital held against them. Section C.7.1 shows how the risk profile, and any concentrations of risk, at 31 December 2016 compares with the position at 31 December 2015.
- **Risk mitigation:** Section C.7.2 sets out the techniques used for mitigating risks and the processes used for monitoring their continued effectiveness.
- **Stress and scenario testing:** Section C.7.3 provides a description of the methods used, the assumptions made and the outcome of the stress and scenario testing carried out for the material risks.

Chesnara's is partly closed to new business and as a result seeks growth through acquisitions. As a result Chesnara is exposed, over the longer term, to the risk of not achieving future acquisitions, whether as a result of a lack of availability of attractive deals, or as a result of factors affecting Chesnara's ability to compete or execute deals (e.g. regulatory constraints, unable to raise sufficient funding etc.). However, the acquisition of Scildon in 2017 (the impact of which is not reflected in the risk profile of the group at 31 December 2016) helps to diversify the risk of not achieving inorganic growth, by increasing the element of growth arising from new business that previously only came from Movestic. The risk profile is as would be expected for an international insurance business.

Assets invested in accordance with the prudent person principle
Each insurance company within the group has in place a board-approved investment policy which incorporates the requirements of the prudent person principle. The general requirements of the prudent person principle regarding invested assets are that assets should be invested such that:
- they are appropriate to meet the liabilities that they are designed to match
- an appropriate level of liquidity should be maintained and forecast to be maintained having regard to the maturity profile of the liabilities they are designed to match
- the asset portfolio should not be overly concentrated in any particular area, such as counterparty, particular industry etc.
- they are in the best interest of policyholders and beneficiaries

Where third party asset managers are employed to manage assets on behalf of the group, mandates are put in place to ensure that the prudent person principle continues to be adhered to.

The Chesnara and divisional boards set risk preferences for invested assets, having full regard for the prudent person principle, and these are applied by senior management when making investment decisions. The risk preferences that are set cover a range of aspects relating to invested assets, such as credit risk, equity, property and currency exposures, interest rate risk, liquidity risk and the use of derivatives. Regular reporting over the investment position and performance is performed to ensure ongoing adherence to the investment policy and associated risk preferences.

C.1 Underwriting risk

C.1.1 Qualitative review of risk profile

Underwriting risk
Material underwriting risks affecting the Chesnara group include mortality, morbidity, longevity, expense and lapse.

Mortality/morbidity risk arises in all divisions of Chesnara on contracts that pay out in the event of death or sickness. The risk is that deaths/sickness experience being higher than expected, resulting in higher than expected claims pay-outs. This can arise due to trend risk (e.g. changes in experience over time) or catastrophe risk (e.g. one off events or pandemics). Much of this risk is controlled through the use of reinsurance.

Longevity risk arises on deferred annuity and annuities in payment contracts, mainly affecting the Countrywide Assured business. The risk is that future mortality experience is lighter than that assumed in pricing these contracts, resulting in longer pay out periods and potential losses. Industry models to estimate future mortality improvements are used to monitor this risk.

Expense risk is the risk that future expenses turn out to be higher than expected. This may arise if expenses exceed budgeted levels, or if there are one-off unexpected costs e.g. regulatory change costs, or if future expense inflation is higher than expected. As part of the group book is in run off, it is also exposed to the expense risks associated with a reducing book, where fixed costs need to be spread over a lower in force policy base. Part of the group operating model is to outsource support activities to professional specialists where appropriate and aims to reduce the impact of fixed and semi-fixed costs, which may otherwise occur as the in-force business runs off.

Lapse risk arises mainly in Movestic and Countrywide Assured due to the loss of future charge income if policyholder discontinuance is higher than expected. This can be driven by external events such as economic recession or reputational damage, or by internal factors such as poor fund performance or customer service delivery. However, a significant part of the group's book of business has been in force for a significant period. Therefore, lapse experience tends to be relatively stable over time.

C.2 Market risk

C.2.1 Qualitative review of risk profile

Market risks results from fluctuations in asset values (equities, property, etc.), foreign exchange rates and interest rates and affects the group's ability to fund its promises to customers and other creditors, as well as pay a return to its shareholders. Market risk emerges in different ways through each of the different funds. It arises directly in the non-linked policyholder funds and shareholder fund and indirectly in the linked funds where future charge income is dependent on the investment performance of the underlying funds. Maintaining a well-diversified asset portfolio is used to manage the impact of market risk. Market risk also arises in the with-profits funds within Countrywide Assured due to the existence of minimum guaranteed benefits for with-profit policyholders.

C.3 Credit risk

C.3.1 Qualitative review of risk profile

Credit risk arises in all divisions directly via investment of non-linked policyholder funds and surplus assets and indirectly within unit-linked funds, through the impact on annual management charge income. The risk can materialise in the form of defaults or downgrades, or via the impact of credit spreads on corporate bond values.

Within the with-profits policyholder funds in CA plc, credit risk is generally borne by policyholders. However any defaults, or significant downgrades, could increase the cost of the guarantees in the funds. The portion of the with-profits funds which is attributable to shareholders is exposed to credit risk.

C.4 Liquidity risk

C.4.1 Qualitative review of risk profile

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, including timing and amounts of intra-group cash flows, and by adjusting investment and cash management strategies to meet those requirements. Other liquidity issues could arise from counterparty failures, a large spike in the level of claims or other unexpected expense. The group's objective regarding the management of liquidity risk is to ensure a high level of confidence of an adequate level of liquidity in the business.

C.4.2 Expected profit included in future premiums

The expected profit in future premiums as at 31 December 2016, was £199.0m (31 December 2015: £212.9m).

The expected profits included in future premiums (EPIFP) result from the inclusion in technical provisions of premiums on existing (in-force) business that will be received in the future, but that have not yet been received. Any premiums already received by the undertaking are not included within the scope of EPIFP. Single premium contracts where the premium has already been received are also excluded.

C.5 Operational risk

C.5.1 Qualitative review of risk profile

Operational risk is the risk of loss arising from inadequate or failed internal processes, human errors or failing systems. The group and Its divisions are exposed to operational risks which arise in the daily activities and running of the business. Operational risks may, for example, arise due to technical or human errors, failed internal processes, insufficient personnel resources or fraud caused by internal or external persons.

The group perceives operational risk as an inherent part of the day-to-day running of the business and understands that it cannot be completely eliminated. However, the group's objective is to always control or mitigate operational risks, when it is possible to do so in an appropriate and cost effective way.

Part of the group operating model is to outsource support activities to specialist service providers typically covering IT, legal and compliance, policy administration, claims management, complaints management, finance and accounting, actuarial, investment operations and fund management. Consequently some of the operational risk arises within the group's outsourced providers, and therefore operational risk management in this regard is heavily focused on the reviewing, overseeing and monitoring the operational controls that exist within the outsourced arrangements. Operational and expenses risks may also arise if the outsource service providers do not have adequate business continuity plans or if the outsource provider defaults on the contract (e.g. due to financial difficulties) requiring the service to be transferred to another provider.

C.6 Other material risks

C.6.1 Qualitative review of risk profile

Counterparty default risk

Counterparty default risk arises for all other third party agreements that Chesnara group and its subsidiaries have in place with financial institutions and other service providers/suppliers. This includes, for example, reinsurers, banks, outsourced administrative service providers, and independent financial advisors in Sweden. Should these counterparties default, Chesnara risks financial loss, subject to the extent of unrecoverable loss in the event of default, and also potential loss of service to customers or other business continuity risks. All counterparties including reinsurers, intermediaries and financial institutions are assessed for creditworthiness and before outsource arrangements are made full due diligence is carried out. Controls are in place across the group to limit the maximum exposure to single counterparties, to limit the minimum level of credit ratings for acceptable counterparties, and to monitor these credit ratings. Control and assurance is also provided in various contractual protections.

Conduct risk

Conduct risk is the risk of failure to comply with regulatory standards and guidance, breach internal standards of achieving good customer outcomes, or of not treating customers fairly. Conduct risk may also arise due a change in regulatory standards, particularly if this is applied retrospectively to policies that were set up a number of years ago. Where the group is open to new business there is also exposure to the conduct risks associated with the design, sales and marketing of new products.

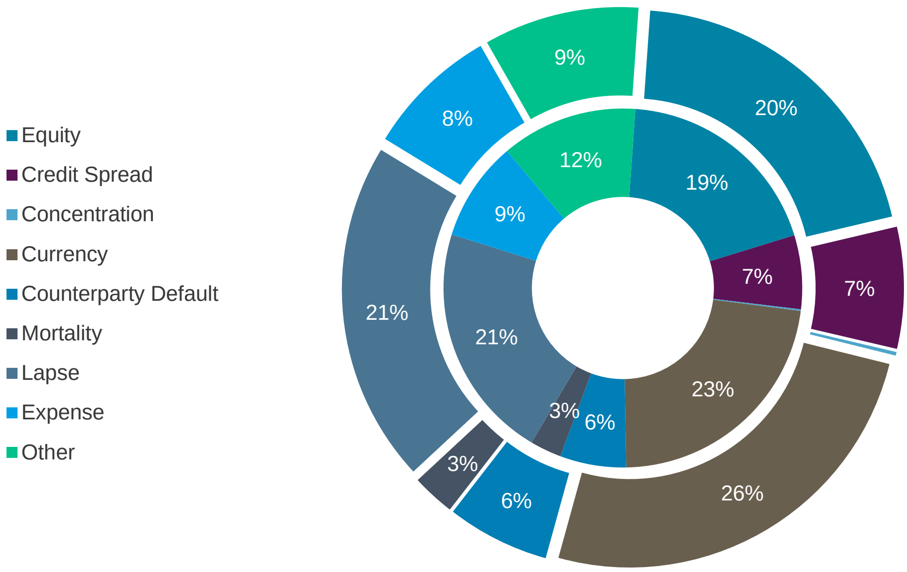
C.7 Any other information

C.7.1 Risk profile (quantitative)

This section considers the risk profile of Chesnara using the risk capital requirements calculated by the standard formula as at 31 December 2016. The group risk profile has been stable during 2016.

Chesnara has a well-diversified risk portfolio, with no large risk concentrations. The three most prominent risks are:

- Equity risk relating to unit-linked funds, mainly in Sweden and the UK, and the UK with-profits funds;
- Currency risk (specifically appreciation of sterling) due to Movestic and Waard businesses being denominated in Swedish Krona and Euro respectively
- Lapse risk arising in all divisions.

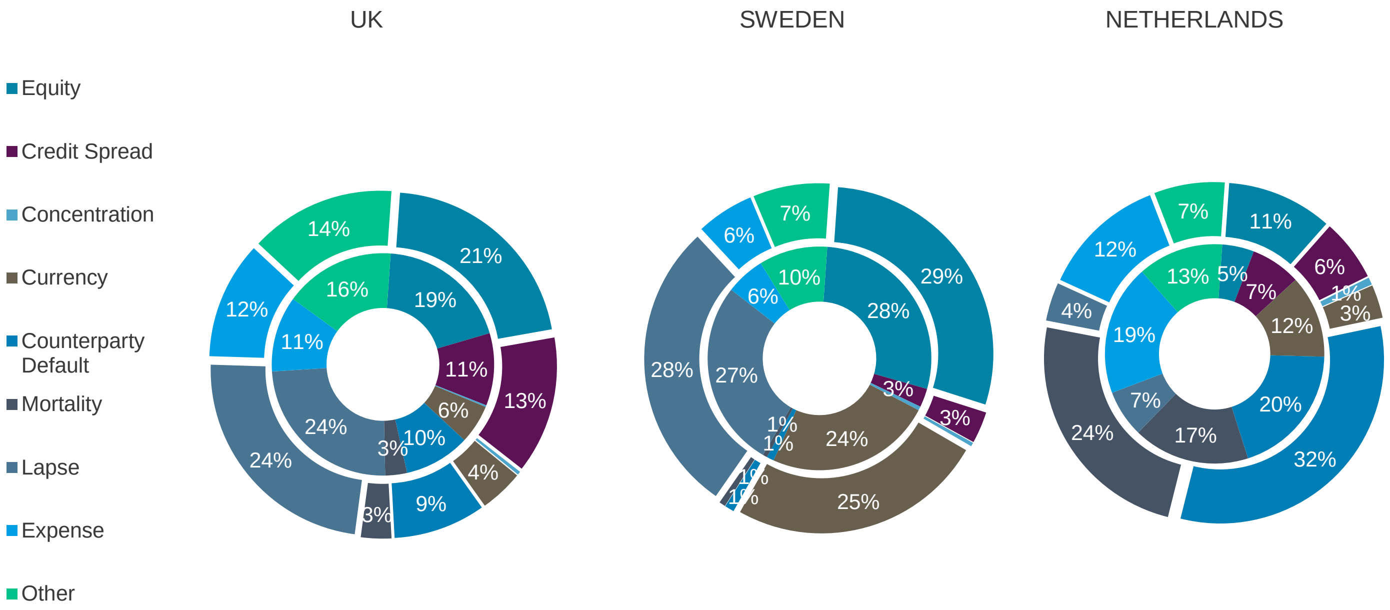


Note:-
Outer ring = 31 Dec 2016
Inner ring = 31 Dec 2015

C.7 Any other information

C.7.1 Risk profile (quantitative) (continued)

The charts below illustrate the risk profiles at a divisional level using the risk capital requirements calculated by the standard formula as at 31 December 2016.



Note
Outer ring = 31 Dec 2016
Inner ring = 31 Dec 2015

The UK risk profile, and hence SCR, has been fairly stable over the year.

The Swedish risk profile, and hence SCR, has been fairly stable over the year.

The Netherlands SCR graph reflects certain changes in the risk profile during the year. Credit spread and concentration risk have both reduced, following the sale of two financial instruments during the year that carried a higher risk profile. Expense risk has also reduced due to the adoption of a revised expense reserving approach that reduces expense volatility from future results. Counterparty default risk increased however, following the purchase of a mortgage portfolio in the period.

C.7 Any other information (continued)

C.7.2 Risk mitigation techniques and monitoring

Risk assessment

Section B.3.1 sets out the risk management system for Chesnara and section B.3.2 explains how Chesnara carries out its Own Risk and Solvency Assessment (ORSA). This provides the framework by which individual risks are identified, assessed, monitored and managed. As part of this framework, Chesnara quantifies the capital impact of different risks by:

- Determining the risk capital requirements using the standard formula as part of the quarterly financial reporting cycle.
- Performing additional stress and scenario testing to support the ORSA.

An assessment is carried out on an annual basis to confirm that the standard formula remains appropriate for establishing the regulatory capital requirements for Chesnara. This assessment is approved by the board.

The quantitative and qualitative review in the previous sections showed that there have been no material changes in risks over the reporting period.

Risk mitigation

Chesnara has an established risk management system which incorporates risk strategies, policies, control processes and reporting. The risk management system provides the framework to monitor and manage risks, and to assess the effectiveness of controls and risk mitigation techniques.

Within the risk management system there are a number of specific risk policies covering all the main categories of risk. The risk policies set out the reporting procedures, roles and responsibilities, and the processes and controls to manage risk. A summary of the key controls and risk mitigation techniques for each of the main risk areas is shown in the table below.

Risk category	Key controls and risk mitigation techniques
Underwriting risk	
– Mortality/Morbidity	– Reinsurance programmes to manage mortality and morbidity risk. – Regular experience investigations, and industry analysis, to support best estimate assumptions and identify trends. – Options on certain contracts to vary premiums in the light of adverse experience
– Expense risk	– Stringent regime of budgetary control, monitored as part of the annual planning and quarterly reporting cycles. – Outsourcing strategy to help reduce the impact of semi and fixed costs as the existing CA plc book runs off. – Options on certain contracts to increase policy charges.
– Lapse risk	– Regular experience investigations to support best estimate assumptions and identify trends. – Active investment management to support competitive policyholder returns. – Stringent management of customer service delivery and adherence to treating customers fairly (TCF) principles
Market risk	– Wide range of investment funds and managers to avoid significant concentrations of risk. – Individual fund mandates to diversify risks and produce competitive returns. – Matching of assets and liabilities to reduce the impact of adverse interest rate movements. – Established investment governance framework to provide review and oversight of external fund managers, and monitor adherence to investment policy.
Credit and counterparty default	– Operation of controls which limit the level of exposure to any single counterparty and impose limits on exposure by credit rating. – Reinsurance treaties with multiple reinsurers to help reduce reliance on a single reinsurance counterparty.
Liquidity	– Monthly cash flow forecasts to anticipate funding requirements over the following 12 months – Monthly treasury reporting showing the liquid assets held and how this compares to the minimum threshold set.
Operational risk	– Close oversight of the performance and risk management of all internal functions and outsourced service providers. – Rigorous service level measures for outsourced service providers and management information flows under its contractual arrangements. – Ongoing monitoring and testing of internal and outsourced service provider business continuity plans and financial assessments
Conduct risk	– Close oversight of the performance and risk management of all internal functions and outsourced service providers. – The compliance functions across the group maintain compliance plans which include comprehensive compliance monitoring programmes. The activities of the compliance functions are summarised in Section B.4.2

C.7 Any other information (continued)

C.7.3 Stress and scenario testing

C.7.3.1 Overview

Chesnara uses the standard formula to determine its regulatory capital requirements and these are calculated and reported on a quarterly basis. As part of the Own Risk and Solvency Assessment (ORSA) Chesnara performs a forward looking assessment of its ability to meet the regulatory capital requirements under a range of stresses and scenarios.

Full details of the stresses and scenarios, the methodologies used and the results are included in the Group ORSA report which is approved by the Board and has been submitted to the PRA. The stress and scenario tests approved by the board and included in the ORSA are summarised in the table below.

These were selected for the ORSA based on the outcomes of Executive workshops, and follow the principles set out in the group stress and scenario testing framework. As well as current known risks, the stresses and scenarios take account of forward looking and emerging risks. The stress and scenarios selected are approved by the board.

	Stress
1	Exchange rate appreciation
2	Immediate fall in the value of equities
3	Interest rate fall: parallel shift downwards in the yield curve, with no floor of 0%
4	Interest rate stretch: a stretching of the current yield curve
5	Interest rate rise: a shift upwards in the yield curve
6	A qualitative review of known and potential future regulatory issues
7	A qualitative review of any potential liquidity issues
8	A fall in new business volumes
9	Combined equity fall and exchange rate devaluation

C.7.3.2 Methodology

The stress and scenario tests have been carried out with a base date of 30 June 2016. The base capital position uses the same methodology and assumptions as the 30 June 2016 Solvency II financial reporting, but updated to take account of the draft expense modelling work to support the 2017 business plan.

Assets are recorded at market value, liabilities are calculated based on best estimate assumptions, with risk capital (SCR) determined in accordance with the standard formula. A risk margin is also held on the balance sheet to reflect the capital cost of holding capital to support the SCR.

In quantifying the financial impact of each stress, it is assumed that each stress occurs immediately after the valuation base date i.e. at 1 July 2016, with no subsequent recovery during the projection period. After applying the stress, risk capital is recalculated in accordance with the standard formula in order to re-establish the regulatory capital requirements.

C.7.3.3 Outcomes from the stress and scenario testing

Each stress and scenario test was performed using the methodology described above, and the solvency ratio (the ratio of own funds to the solvency capital requirement) was compared to the base financial position.

The analysis concluded that the free assets at 30 June 2016 were sufficient to withstand all of the stresses and scenarios approved by the board, and continue to meet its regulatory capital requirements. In other words the solvency ratio remained above 100% under all scenarios.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

Introduction

This section of the Solvency and Financial Condition report shows how the assets and liabilities of the group have been valued, both for Solvency and IFRS reporting purposes. The below table summarises the own funds (as measured on a solvency basis) and net assets (as measured on an IFRS basis) and provides a reference where further information has been provided:

		31 December 2016	
	Section reference	Solvency II value £'000	Statutory accounts value £'000
Assets	***Section D1***	5,750,511	5,865,430
Net technical provisions	***Section D2***	(4,949,838)	(5,207,817)
Other liabilities	***Section D3***	(265,522)	(264,052)
Assets less liabilities		**535,151**	**393,561**

The table below shows separately each class of asset under Solvency II values and the statutory accounts (IFRS) value:

		31 December 2016	
	Note	Solvency II value £'000	Statutory accounts value £'000
Assets			
Deferred acquisition costs	*1.01*	-	48,318
Intangible assets	*1.02*	-	70,239
Property, plant & equipment held for own use		519	519
Investments (other than assets held for index-linked and unit-linked contracts)		903,062	902,168
Holdings in related undertakings, including participations	*1.03*	7,314	6,420
Bonds		334,581	334,581
Government Bonds	*1.04*	278,140	278,140
Corporate Bonds	*1.04*	55,358	55,358
Collateralised securities	*1.04*	1,083	1,083
Collective Investments Undertakings	*1.04*	468,147	468,147
Derivatives	*1.04*	61,644	61,644
Deposits other than cash equivalents	*1.04*	31,376	31,376
Assets held for index-linked and unit-linked contracts	*1.05*	4,570,739	4,570,739
Loans and mortgages		58,042	55,460
Loans on policies	*1.06*	31	31
Loans and mortgages to individuals	*1.07*	57,338	54,756
Other loans and mortgages	*1.08*	673	673
Insurance and intermediaries receivables	*1.09*	21,053	21,053
Reinsurance receivables	*1.10*	29,276	29,276
Receivables (trade, not insurance)	*1.11*	11,407	11,407
Own shares (held directly)	*1.12*	161	-
Cash and cash equivalents	*1.13*	150,981	150,981
Any other assets, not elsewhere shown	*1.14*	5,270	5,270
Total assets		**5,750,511**	**5,865,430**

D.1 Assets (continued)

Introduction (continued)

Bases, methods, assumptions and inputs used in asset valuation for Solvency purposes, and difference between the amounts recorded in the financial statements:

In general assets are recognised and valued in line with IFRS accounting principles and consequently valued at fair value. For assets valued using market value, Chesnara plc relies on quoted prices in active markets to value its investments. Quoted market prices in an active market provide the most reliable evidence of fair value and are used without adjustment to measure fair value whenever available. The company assesses whether markets are active by considering both the frequency and volume of trades and whether these are sufficient to provide appropriate pricing information.

Further detail by material asset class has been provided below:

D.1.01 Deferred acquisition costs (DAC):

Basis and methods for IFRS valuation:

Deferred acquisition costs are stated at amortised cost, less impairment. On initial recognition the carrying value is based on cost. These costs are subsequently amortised over the expected life of the underlying policyholder contract to which they relate. Impairment losses are booked at the point of identification.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:

Judgment is applied in deciding the amount of direct costs that are incurred in acquiring the rights to the policyholder contract. Judgment is also applied in establishing the amortisation of the assets representing these contractual rights. Estimates are applied in determining the lifetime of the policyholder contracts and in determining the recoverability of the contractual rights assets by reference to expected future income and expense levels.

Inputs for IFRS valuation:

- Direct costs that are incurred in acquiring the rights to a policyholder contract.
- Estimated life of policyholder contracts to which the acquisition costs relate.

Solvency II valuation:

The general rule is that intangible assets, other than goodwill, are recognised in the Solvency II balance sheet at a value other than zero only if they can be sold separately and the insurance undertaking can demonstrate that there is a value for the same or similar assets that has been derived from quoted market prices in active markets. As deferred acquisition costs fail to meet these criteria, these are valued at zero in line with Solvency II rules.

Changes made to the recognition and valuation bases used or on estimations made during the year:

During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1.02 Intangible assets:

a. Acquired value of in-force business (AVIF)

Basis and Methods for IFRS Valuation:

The acquired value of in-force (AVIF) is stated at amortised cost. This represents an estimate of fair value on initial recognition, which is subsequently amortised over its estimated economic life. AVIF assets are presented net of impairment losses, which are recognised when a trigger event has been identified.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty):

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 is 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.

Inputs:

Best estimates of future cash flows arising from the in-force book on acquisition, as extracted from the company's actuarial valuation models.

Solvency II valuation:

Intangible assets, other than goodwill, are recognised in the Solvency II balance sheet at a value other than zero only if they can be sold separately and the insurance undertaking can demonstrate that there is a value for the same or similar assets that has been derived from quoted market prices in active markets. The AVIF asset does not meet this criteria and is therefore valued at zero in the group Solvency II balance sheet.

D.1 Assets (continued)

D.1.02 Intangibles assets (continued):

a. Acquired value of in-force business (AVIF) (continued)

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to either the recognition or valuation basis or estimation processes.

b. Acquired value of customer relationships (AVCR)

Basis and Methods for IFRS Valuation
AVCR is stated at amortised cost. The initial "cost" is taken to be the fair value on acquisition. This is subsequently amortised over its expected economic life. Impairment losses are recognised at the point of a trigger event being recognised.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty):
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. This is sensitive to the rate at which future cash flows are discounted and to the rates of return on invested assets.

Inputs:
Discounted cash flows relating to new insurance and investment contracts which are expected to arise from existing customer relationships.

Solvency II valuation:
Intangible assets, other than goodwill, are recognised in the Solvency II balance sheet at a value other than zero only if they can be sold separately and the insurance undertaking can demonstrate that there is a value for the same or similar assets that has been derived from quoted market prices in active markets. The AVCR asset does not meet this criteria and is therefore valued at zero in the group Solvency II balance sheet.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to either the recognition or valuation basis or estimation processes.

c. Software assets

Basis and Methods for IFRS Valuation:
Software assets in respect of internal development software costs are stated at cost less accumulated depreciation and impairment losses. Software assets are amortised on a straight-line basis over their estimated useful life, which typically varies between 3 and 5 years.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty):
A software asset 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.

Inputs:
- Initial development costs.
- Useful economic life of the asset

Solvency II valuation:
Intangible assets, other than goodwill, are recognised in the Solvency II balance sheet at a value other than zero only if they can be sold separately and the insurance undertaking can demonstrate that there is a value for the same or similar assets that has been derived from quoted market prices in active markets. Bespoke computer software tailored to the needs of the undertaking and "off the shelf" software licences that cannot be sold to another user shall bear valued at zero.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to either the recognition or valuation basis or estimation processes.

D.1.03 Holdings in related undertakings, including participations

Basis and methods for IFRS valuation:
Holdings in related undertakings, including participations are accounted for under IFRS using the "equity method". This means that the associate is initially carried at cost, and then subsequently 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.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty):
The impairment of an existing holding in a related undertaking.

Inputs:
Movement in the value of net assets of the associate.

D.1 Assets (continued)

D.1.03 Holdings in related undertakings, including participations (continued)

Solvency II valuation:
Under Solvency II valuation rules, the carrying value of the associate is determined by applying Solvency II valuation rules to the underlying assets and liabilities, whereas under IFRS the carrying value is determined with reference to the share of net assets as valued on an IFRS basis.

D.1.04 Non-linked investment assets

Basis and methods for IFRS valuation:
Non-linked assets are measured at fair value. Fair values are determined by reference to observable market prices where available and reliable. The fair value of financial assets quoted in an active market are their bid prices as at the balance sheet date.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
No significant assumptions or judgements are made in the valuation of these assets, as they are based upon market observable inputs.

Inputs for IFRS valuation:
Observable market prices.

Solvency II valuation:
There are no differences between IFRS and SII for valuation purposes.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1.05 Assets held for index-linked & unit-linked funds

Basis and methods for IFRS valuation:
Assets held for index-linked & unit-linked funds are measured at fair value. Fair values are determined by reference to observable market prices where available and reliable. The fair value of financial assets (other than those held in collective investment schemes) quoted in an active market, are their bid prices as at the balance sheet date. For collectives, fair value is taken to be the published bid price.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
No significant assumptions or judgements are made in the valuation of these assets, as they are based upon market observable inputs.

Inputs for IFRS valuation:
Observable market prices.

Solvency II valuation:
There are no differences between IFRS and SII for valuation purposes.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1.06 Loans on policies

Basis and methods for IFRS valuation:
Loans on policies are measured at fair value.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
No significant assumptions or judgements are made in the valuation of these assets, as they are based upon market observable inputs.

Inputs for IFRS valuation:
Observable market prices.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1 Assets (continued)

D.1.07 Loans and mortgages to individuals

Basis and methods for IFRS valuation:
At inception, loans and mortgages to individuals are measured at fair value, which is taken to be the acquisition value. Subsequent to this "loans and mortgages to individuals" is stated at amortised cost less impairment losses using the effective interest rate method.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
Loans and mortgages to individuals are reviewed annually for impairment.

Inputs for IFRS valuation:
The key input that is used for determining the effective interest rate is an estimate of the future cash flows that are expected to be received on the mortgage portfolio. The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the mortgage portfolio such that it equals the amount paid on initial recognition. After initial recognition, where there are indications in future periods that the estimated future cash flows no longer support the carrying value of the asset, in impairment is recognised.

Solvency II valuation:
Under Solvency II, loans and mortgages to individuals are valued at fair value using a valuation model.

Inputs for Solvency II valuation:
The discounted cash-flow model by which the future cash-flows are modelled into a current fair value, uses a range of inputs, such as, market rates of interest, contract-end-date, interest-reset date, consumer mortgage tariffs per category and a constant prepayment rate.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1.08 Other loans and mortgages

Basis and methods for IFRS valuation:
Other loans and mortgages are measured at fair value.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
No significant assumptions or judgements are made in the valuation of these assets, as they are based upon market observable inputs.

Inputs for IFRS valuation:
Observable market prices.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1.09 Insurance & intermediaries receivables

Basis and methods for IFRS valuation:
Insurance and intermediaries receivables are measured at fair value. Fair value is taken to be the value of the receivable on initial recognition. Should a subsequent indication of impairment be identified then the carrying value is adjusted to reflect the reduced value of the receivable.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
Insurance and intermediaries receivables are reviewed annually for impairment.

Inputs for IFRS valuation:
Period end statements and calculations that reflect amounts outstanding as at the balance sheet date from policyholders, reinsurers, financial institutions and other sundry debtors.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1 Assets (continued)

D.1.10 Reinsurance receivables

These comprise reinsurers' share of accrued policyholder claims. Reinsurance recoverables, representing reinsurers' share of technical provisions, are covered further in section D.2.

Basis and methods for IFRS valuation:
Reinsurance receivables, representing amounts due by reinsurers, are measured at fair value, taken as being the amount of reinsurance that is expected to be recoverable on initial recognition of the reinsurance asset. A reinsurance asset is recognised when the associated claim to which it relates is recognised.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
Assumptions are made regarding the extent to which a reinsurance receivable has a risk of not being fully recoverable. At each balance sheet date an assessment is performed regarding whether there should be any provisions raised against reinsurance receivables.

Inputs for IFRS valuation:
Reinsurance accounts prepared in accordance with the provisions contained within the underlying reinsurance treaties.

Solvency II valuation:
Reinsurance receivables are valued in Solvency II on the same basis as for IFRS.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1.11 Receivables (trade, not insurance)

Basis and methods for IFRS valuation:
Receivables are measured at fair value. Fair value is taken to be the value of the receivable on initial recognition. Should a subsequent indication of impairment be identified then the carrying value is adjusted to reflect the reduced value of the receivable.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
Receivables are assessed annually for impairment.

Inputs for IFRS valuation:
Invoices that reflect the initial recognition value.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1.12 Own shares

Basis and methods for IFRS valuation:
Own shares held are not recognised as an asset under IFRS.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
None.

Inputs for IFRS valuation:
Number of own shares held and price paid for the shares.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods. Under Solvency II, own shares are recognised on the market value balance sheet as an asset, but under IFRS this is recognised as part of equity.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1 Assets (continued)

D.1.13 Cash and cash equivalents

Basis and methods for IFRS valuation:
Cash and cash equivalents include cash-in-hand, deposits held at call with banks and other short-term highly liquid investments and are measured at fair value. Highly liquid is defined as having a short maturity of three months or less at their acquisition.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
None.

Inputs for IFRS valuation:
- Bank and term deposit statements.
- Bank reconciliation timing differences.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.1.14 Any other assets, not elsewhere shown

Basis and methods for IFRS valuation:
This category of assets only includes prepayments. Prepayments are valued by spreading the up front cost of an asset or service over the time period over which the service is received / time period over which the asset is consumed.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
Judgement is applied in estimating the benefit arising from the prepayment and the duration over which the asset is recognised.

Inputs for IFRS valuation:
The initial prepaid cost and spreading profile.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods as the carrying value in the IFRS balance sheet is deemed to represent the fair value of the asset.

Changes made to the recognition and valuation bases used or on estimations made during the period:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

Lease arrangements

Chesnara plc
Chesnara plc leased a property under an operating lease which it part occupies in the course of its day-to-day business. The lease expires in 2019, with an option to renew.

UK
The UK division has previously held leases on several offices arising from its historical business model. The last of these leases expired in 2016. It therefore no longer holds any operating or finance leases.

Netherlands
The Netherlands divisions are not party to any lease arrangements.

Sweden
The Swedish division leases a number of office premises and a number of office machines in the course of its day to day business. It also leases a number of cars. The longest of the operating leases ends in 2019.

There are no material finance leases within the group.

D.2 Technical provisions

D.2.1 Value of technical provisions

The following table analyses the net technical provisions / insurance liabilities under Solvency II and IFRS values. The figures below are 'net' as they show both the gross position and also the associated reinsurance recoverables.

	31 December 2016	
	Solvency II value £'000	Statutory accounts value £'000
Net technical provisions:		
Health (similar to non-life):		
Best Estimate / statutory accounts value	22,447	24,179
Risk margin	384	
Reinsurance recoverables	(15,693)	(18,271)
Total	**7,138**	**5,908**
Health (similar to life):		
Best Estimate / statutory accounts value	287,999	318,413
Risk margin	7,141	
Reinsurance recoverables	(28,404)	(33,697)
Total	**266,735**	**284,716**
Life (ex-health and index-linked and unit-linked):		
Best Estimate / statutory accounts value	617,028	776,476
Risk margin	17,815	
Reinsurance recoverables	(102,198)	(140,664)
Total	**532,645**	635,812
Index-linked and unit-linked:		
Best estimate / statutory accounts value	4,178,132	4,381,046
Risk margin	55,949	
Reinsurance recoverables	(90,761)	(99,664)
Total	**4,143,320**	**4,281,382**
Total net technical provision	**4,949,838**	**5,207,817**

Solvency II Technical provisions for the Chesnara group consist of the best estimate liabilities ('BEL') and the risk margin. This section considers the BEL and risk margin separately, describing the basis, methods and main assumptions. Where relevant, this section highlights differences in basis, methods and main assumptions between the lines of business.

BEL basis and methodology

The BEL corresponds to the probability-weighted average of future policyholder cash-flows allowing for items such as premiums, claims, expenses and lapses. The calculation takes account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure supplied by EIOPA.

For the UK and Netherland divisions, the calculation is conducted at a per-policy level for all business with negative BELs being permitted. Similarly, no implicit or explicit surrender value floor is assumed.

For the Swedish division, the calculation is conducted at a per-policy level for the health and unit-linked life business. For the non-life health business and the life (excluding health and unit-linked business) the best estimate is calculated on grouped policy data. Each group consists of a homogeneous risk group.

Policyholder cash-flows

The cash-flow projections include all the cash in-flows and out-flows required to settle the insurance and reinsurance obligations over the lifetime of the policy. Specifically:

- claim payments including both guaranteed and discretionary;
- expenses;
- premiums;
- renewal and initial commission;
- investment related cash-flows; and
- taxation payments.

D.2 Technical provisions (continued)

D.2.1 Value of technical provisions (continued)

Future developments that will have a material impact on the cash-flows within the BEL calculation are allowed for appropriately and include items such as demographic, legal, medical, technological, social, environmental and economic developments. Cash-flows included in the BEL are gross of any amounts recoverable from reinsurance. Reinsurance recoverables are calculated separately, by a similar cash flow approach as per the BEL taking into account the key features of relevant treaties, and sit within the assets on the SII balance sheet.

Through the cash-flow approach, Chesnara does not use any significant simplified methodology in calculating technical provisions.

Probability weighting

The probability weighting applied to each cash-flow explicitly takes account of the probability that the cash-flow will occur for the policyholder at each future time.

BEL description of main assumptions

Discount rates

The time-value of money is taken into account via discounting the cash-flow at a future time with reference to risk-free interest rates prescribed by EIOPA. The risk-free rates varying by time, for each currency and are derived with reference to interest rate swaps, with an adjustment to remove the credit risk. For insurance companies within the Chesnara group no matching adjustment or volatility adjustment have been adopted.

Demographic assumptions

The calculation of the probability weighting for each future cash-flow requires information on the likelihood of the policy still being in-force at the time that the cash-flow would materialise. This requires assumptions on the mortality, lapse and morbidity of the policy, as well as the point at which the policy matures. The approach to deriving appropriate assumptions for these demographics involves:

- Analyses of actual experience;
- Assessment on both amounts and policy bases;
- Comparison to standard tables (not for lapses);
- Ensuring appropriate time periods are used to minimise volatility in own-experience results; and
- Expert judgement

Assumptions are derived using analysis of actual experience and set separately for each class of business covering for example:

- Assurance products
- Term products
- Annuity products
- Critical illness products

Where applicable, assumptions are also required for future mortality improvement.

Expense assumptions

Latest management views on expenses for Chesnara are included within the calculation of the BEL and appropriate allowance within the SCR components. Where certain services are outsourced as identified in section B.7.2, the full cost associated with these arrangements are included in the BEL.

Policyholder behaviour - Lapse and Surrender Assumptions

It is necessary to make assumptions regarding the number of policies that are terminated early by policyholders as these can have a variety of effects on the value of future liabilities. These policyholder discontinuances include:

- Lapsing a policy such that no future premiums or benefits are payable.
- Making the policy paid-up by stopping paying premiums but with the policy continuing for the remainder of the term with a reduced level of benefits.
- Early retirement or transfer under a pension policy.

Assumptions on lapses and surrenders are based on each division’s own statistics and experiences together with other factors and circumstances that we believe will have a significant impact on the future lapse and surrender rates.

Risk margin

The risk margin is calculated in accordance with the Solvency II specifications. The risk margin represents the cost of capital which would be added to the BEL to arrive at a fair value of the liabilities i.e. the price at which a notional purchaser (the “reference undertaking”) would take on the liabilities assuming a rational market.

The Chesnara group risk margin is calculated as the sum of the individual divisions’ risk margins (i.e. UK, Netherlands and Sweden).

For each division. the risk margin for the whole portfolio of liabilities is calculated by projecting aspects of the Solvency Capital Requirement (SCR) for the division, applying a cost of capital rate to the projected SCR and then discounting the cost of capital using a risk-free rate.

D.2 Technical provisions (continued)

D.2.1 Value of technical provisions (continued)

Each division uses a simplified calculation for deriving the risk margin in accordance with Article 58 in the Solvency II Delegated Acts, where risk drivers are used to project the SCR at each future time.

The rate used in the determination of the cost of providing that amount of eligible Own Funds (Cost-of-Capital rate) is the same for all insurance undertakings and is defined in the regulations as 6% p.a.

The risk-free rate used for discounting in the risk margin calculation is that of the base risk-free rate term structure for each division, without any matching adjustment or volatility adjustment.

Group adjustments

As part of the consolidation process, the following Chesnara group level adjustments to the aggregated position are appropriately allowed for:

- appropriate allowance for contributions to the group SCR owing to investments held at a Group level,
- group level expenses not recharged out to the individual entities,
- removal of any potential double-stressing of GBP denominated assets in underlying entity SCR components when consolidating at a group level.

D.2.2 Level of uncertainty within the Technical Provisions

In terms of the BEL calculation, a characteristic of the discounted cash-flow technique which is core to the requirements is the reliance on assumptions regarding future experience. Any such assumptions are inherently uncertain, although detailed analysis is applied to mitigate the risk of misestimating.

D.2.3 Comparison of Technical Provisions Valuation Methods, Bases, Assumptions and Values for Solvency Purposes and IFRS

A comparison of the technical provisions under both IFRS and Solvency II bases is shown in the table below. All figures are net of reinsurance.

	Note	CA plc £'000	Movestic Livförsäkring £'000	Waard Group £'000	Chesnara plc £'000	Group Total £'000
IFRS technical provisions	*1*	2,568,119	2,530,132	109,567	–	5,207,817
Recognition of value in force	*2*	(125,514)	(231,357)	(10,203)	20,566	(346,507)
Contract boundary restrictions	*3*	13,774	13,233	–	–	27,008
Other adjustments for SII	*4*	3,163	(20,784)	(2,148)	–	(19,768)
SII BEL		**2,459,543**	**2,291,224**	**97,217**	**20,566**	**4,868,549**
SII risk margin	*5*	37,859	39,671	3,759	–	81,289
SII technical provisions		**2,497,402**	**2,330,895**	**100,975**	**20,566**	**4,949,838**

The main differences between the two bases can be explained as follows:

- Note 1: IFRS technical provisions continue to be largely based on the respective Solvency I regimes in the UK, Sweden and the Netherlands. The main difference between IFRS and the Solvency I regime is the inclusion of an additional cost of guarantee ('CoG') reserve in each of the with-profit funds in CA plc which aims to better model the guarantees to which the funds are exposed.
- Note 2: The IFRS assumptions contain prudence margins, whereas the Solvency II assumptions are best estimate. This impact represents the removal of these prudence margins. In the case of Chesnara plc the impact shown is actually the recognition of future expenses that are incurred at the group level.
- Note 3: Under Solvency II it is a requirement to establish contract boundaries to determine whether an insurance obligation or reinsurance obligation is to be treated as existing or future business (with only existing business considered in scope for the calculation of technical provisions). The impact shown above primarily relates to products with reviewable premiums, whereby the next premium review date is considered to be the termination date of the contract for the purposes of calculating technical provisions under Solvency II.
- Note 4: This represents the impact of other changes in methodology that have been introduced under Solvency II. For example, under IFRS future liability cash flows are discounted using a valuation rate of interest based on the risk-adjusted yield on held assets, whereas under Solvency II a swaps-based risk-free discount curve is prescribed by EIOPA. Also, under IFRS the unit-linked reserves are calculated as the sum of a unit reserve and a sterling reserve and the non-linked reserves are calculated using a net premium approach, whereas in both cases the Solvency II BEL is calculated using a discounted cash flow approach.
- Note 5: The risk margin does not exist under IFRS and so is an additional technical provision under Solvency II.

D.2 Technical provisions (continued)

D.2.4 Use of long term guarantee package

The implementation of Solvency II permitted the use of a number of adjustments, referred to as the “long term guarantee package”. The company’s use of the individual components within the long term guarantee package has been outlined below:

- **Matching adjustment**: This has not been applied by the group.
- **Volatility adjustment**: This has not been applied by the group.
- **Transition risk-free interest rate-term structure**: This transitional measure has not been applied by the group.
- **Transitional deduction to technical provisions**: This transitional measure has not been applied by the group.

D.2.5 Reinsurance recoverables

This section provides a description of the recoverables from the reinsurance contracts.

Value of reinsurance recoverables

A breakdown of the value of reinsurance recoverables, by line of business, has been provided in section D.2.1 above.

Methodology and assumptions

The methodology and assumptions used for calculating the value of reinsurance recoverables is identical to that used for the calculation of the BEL with the cash-flow items being the reinsurer’s share of all cash in-flows and out-flows.

Adjustment for expected default

The gross reinsurance recoverables are adjusted to take account of expected losses due to default of the reinsurance counterparty.

Methodology

The adjustment to take account of expected losses due to default of a counterparty is calculated as the present value of the lost reinsurance recoverables due to reinsurer default. It therefore relates to the stream of future reinsurance recoverables and to the probability of default in each future time period. It is carried out separately for each reinsurer. The loss on default is limited to a percentage of the recoverables from the time of default onwards (loss given default or LGD%), based on the collateral arrangements of the specific reinsurance arrangement. The LGD% is subject to a minimum of 50%.

Assumptions

- In the above methodology, the recoverables and discount factor used are as defined previously. Additional assumptions required are the probability of default, and the % recovery rate. The probability of default is derived with reference to the credit rating of the reinsurer. Tables of default probabilities corresponding to credit ratings are obtained from a credit ratings agency.
- The maximum 50% recovery rate upon default is defined in regulation. Whilst a recovery rate of greater than 50% is not permitted, Chesnara uses a rate lower than 50% where its assessment identifies reason to believe that 50% recovery on default would not be reliable.

D.2 Technical provisions (continued)

D.2.6 Changes in Assumptions

The methodology for setting the assumptions for the Solvency II calculations as at 31 December 2016 is unchanged from the valuation as at 31 December 2015.

Solvency II regulations require a probability-weighted basis for the experience assumptions. To achieve this, the assumptions have taken account of:
- experience in recent years,
- trends observed in recent years, and
- any other known or likely factors that may affect future behaviour.

As a rule it is assumed that recent experience (over the last few years) represents the central position for the probability weighted assumption, unless there are reasons why this is considered not immediately appropriate. To do this, actual experience is reviewed in comparison with expected experience, with a trigger for serious consideration to be given to amending an assumption when it deviates materially.

Key assumption changes over 2016 include:

Assumption	Division	Description
Economic	All	Updated EIOPA yield curves utilised plus updates to inflation parameters.
Mortality / morbidity		Mortality assumptions have been reviewed to take account of recent investigations, resulting in the following across the divisions:
	UK	A weakening of some assurance mortality assumptions and of the base mortality assumptions for annuities in payment.
	Netherlands	Unchanged mortality assumptions but updated morbidity assumptions to reflect experience.
	Sweden	Slight weakening of female mortality.
Persistency		Persistency assumptions have been reviewed to take account of recent investigations resulting in the following across the divisions:
	UK	A weakening of assumptions on some life products that have experienced a trend for lapse rates to reduce over recent years, and a careful consideration for assumptions on pension products with greater weight generally given to experience in 2015 to 2016, reflecting the introduction of pension freedoms.
	Netherlands	Further detailing of assumptions by separating single and instalment premium policies, and calculating lapse risk on a policy by policy basis, in accordance with varying policy conditions and terms.
	Sweden	No change in surrender or paid up rates but change in shape to the transfer rate assumption for occupations pensions and collective schemes, with a lowering of rates in early years, and increase in later years.
Expenses	All	Expense assumptions have been reviewed to reflect the latest management assessment of projected costs.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.3 Other liabilities

Introduction

The table below shows separately each class of liabilities under Solvency II values and the Statutory Accounts value.

		31 December 2016	
		Solvency II value	**Statutory accounts value**
	Note	**£'000**	**£'000**
Other liabilities			
Provisions other than technical provisions	*3.1*	823	823
Deferred tax liabilities	*3.2*	13,302	5,419
Derivatives	*3.3*	62,893	62,893
Debts owed to credit institutions	*3.4*	52,697	52,697
Financial liabilities other than debts owed to credit institutions	*3.5*	30,749	31,723
Insurance & intermediaries payables	*3.6*	61,393	61,114
Reinsurance payables	*3.7*	6,558	6,558
Payables (trade, not insurance)	*3.8*	37,106	37,106
Any other liabilities, not elsewhere shown	*3.9*	–	5,719
Total liabilities		**265,522**	**264,052**

Bases, methods, assumptions and inputs used in liability valuation for Solvency purposes, and difference between the amounts recorded in the financial statements:

In general liabilities are recognised and valued for solvency purposes in line with IFRS accounting principles and consequently valued at fair value.

Further detail by material liability class has been provided below:

D.3.1 Provisions other than technical provisions:

Basis and methods for IFRS valuation:

Provisions other than technical provisions represent small residual balances held in respect of historical complaint redress provisions and are measured at fair value. 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.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:

An estimation of future costs required to settle the obligation is required, together with an estimate of the future economic benefits to be derived from the contracts under-pinning the need for a provision.

Inputs for IFRS valuation:

Net present value of future cash flows calculation.

Solvency II valuation:

There are no differences between the IFRS and SII valuation methods.

Changes made to the recognition and valuation bases used or on estimations made during the year:

During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.3.2 Deferred tax liabilities:

Basis and methods for IFRS valuation:

Deferred tax liabilities are recognised in the IFRS balance sheet in accordance with IAS12. 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 IFRS deferred tax liability is comprised of the tax on the profit arising on the transition to the new tax regime in 2012 in the UK, which is expected to run-off over a ten year period, together with temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, namely deferred acquisition costs (DAC) and deferred income (DIL). The deferred tax in respect of deferred acquisition costs is amortised over the expected lifetime of the underlying investment management service contract. Deferred tax in respect of deferred income is amortised over the expected period over which it is earned.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:

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.

D.3 Other liabilities (continued)

D.3.2 Deferred tax liabilities (continued):

Inputs for IFRS valuation:

- Enacted or substantively enacted tax rates at the balance sheet date.
- Identified temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Solvency II valuation:
The valuation of deferred tax liabilities under Solvency II follows the same recognition criteria applied under IAS12 for statutory reporting purposes.

Valuation differences arising from the application of Solvency II recognition principles will be taxed at the prevailing deferred tax rate. These include the deferred tax arising on the valuation difference in the technical provisions between IFRS and Solvency II and the removal of deferred tax balances in respect of DAC and DIL, which are not recognised under Solvency II valuation principles.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.3.3 Derivatives:

Basis and Methods for IFRS Valuation:
Derivative financial instruments are measured at fair value and comprise forward exchange contracts. 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.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty):
No significant assumptions or judgements are made in the valuation of these assets, as they are based upon market observable inputs.

Inputs:
Observable market prices.

Solvency II valuation:
There are no differences between IFRS and SII for valuation purposes.

D.3.4 Debts owed to credit institutions:

Basis and Methods for IFRS Valuation:
Borrowings are recognised initially at fair value, less transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty):
None.

Inputs:
Effective interest rate calculation model.

Solvency II valuation:
Under Solvency II valuation rules, debts owed to credit institutions are valued at fair value. as opposed to amortised cost under IFRS.

D.3.5 Financial liabilities other than debts owed to credit institutions:

Basis and Methods for IFRS Valuation:
Financial liabilities other than debts owed to credit institutions are all valued at fair value.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty):
None.

Inputs:
Financial liabilities other than debts owed to credit institutions consists entirely of liabilities to reinsurers. The company has a quota share reinsurance agreement for its unit-linked business that includes a financial reinsurance component. This financial reinsurance component means that the reinsurer pays a share of related new business costs, which is repaid during a period of eight years. The liability is adjusted each quarter as new commission is accounted for and repayment including interest is made. Interest is calculated according to an agreed model based on market interest rates. This relates to the Swedish division.

Solvency II valuation:
For SII valuation purposes amounts of financial liabilities other than debts owed to credit institution are valued at book cost.

D.3 Other liabilities (continued)

D.3.6 Insurance and intermediaries payables:

Basis and methods for IFRS valuation:
Insurance & intermediaries payables represent outstanding accrued policyholder claims and premium reimbursements and are measured on initial recognition at the fair value of the liability to be paid. Given the short term nature of these liabilities no discounting is required to arrive at the initial fair value.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
The judgements that are required evolve around the estimates of the level of disability of claimants, the likelihood of reported illnesses turning into a genuine claim and the likelihood of recovery of claimants due to which periodical payments to may cease.

Inputs for IFRS valuation:
The actual amount of the outstanding liability or the best estimate of the liability to be settled.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods, other than in the Dutch division where there is a difference between the IFRS and SII valuation methods. The interest rate applied for discounting under solvency II uses the EIOPA prescribed rate whilst under IFRS a rate of 3% is applied.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.3.7 Reinsurance payables:

Basis and methods for IFRS valuation:
Reinsurance payables represent amounts due to reinsurers arising from the application of reinsurance treaty obligations and are measured at fair value, taken as the carrying value at the balance sheet date, which is based upon reinsurance account statements. Reinsurance balances are settled in line with the underlying treaty settlement arrangements.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
None.

Inputs for IFRS valuation:
Reinsurance accounts prepared in accordance with the provisions contained within the underlying reinsurance treaties.

Solvency II valuation:
Reinsurance payables are valued in Solvency II on the same basis as for IFRS.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.3.8 Payables (trade, not insurance):

Basis and methods for IFRS valuation:
Trade payables consist of accrued expenses and other trade related outstanding balances and are measured at fair value, taken as the carrying value at the balance sheet date based upon invoiced amounts due for settlement. Trade payables are settled in line with trade payment terms, usually within 30 days.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
None.

Inputs for IFRS valuation:
The actual amount payable based upon invoices or statements received or a best estimate of the amount payable as at the balance sheet date.

Solvency II valuation:
There are no differences between the IFRS and SII valuation methods
Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.3 Other liabilities (continued)

D.3.9 Any other liabilities, not elsewhere shown

Basis and methods for IFRS valuation:
Other liabilities, not elsewhere shown are measured at fair value, taken as the carrying value at the balance sheet date. For IFRS reporting purposes, this balance represents “Reinsurers’ share of deferred acquisitions costs” and “Deferred income”.

Assumptions and judgments (including future estimates and major sources of estimate uncertainty) for IFRS valuation:
None.

Inputs for IFRS valuation:
Invoices, statements or valuations of the liability as at the balance sheet date.

Solvency II valuation:
These items have a nil value for SII reporting purposes as they are linked to intangible assets that are not recognised on the SII balance sheet.

Changes made to the recognition and valuation bases used or on estimations made during the year:
During the year there were no changes made to the recognition or valuation basis or estimation processes for both IFRS and Solvency II purposes.

D.4 Alternative methods for valuation

The group does not hold any assets for which alternative methods of valuation are required.

D.5 Any other information

There is no other material information regarding the valuation of assets and liabilities that is deemed necessary to report.

E. CAPITAL MANAGEMENT

E.1 Own funds

E.1.1 Objectives, policies and processes used for managing own funds

Background

Own funds represents the type and level of capital that is held at both a group and company level within the group to be able to meet the solvency capital requirement of the group and the relevant insurance companies within the group. The group is required to hold own funds of sufficient quantity and quality in accordance with the Solvency II, Pillar 1 rules which sets out the characteristics and conditions for own funds. Further information on the objectives, policies and processes for managing own funds has been provided below.

Objectives

The objectives of the group in managing its own funds are as follows:

i) Business strategy consistency:

The management of own funds needs to align with the strategy of the group. The group's core strategic objectives are to:

- Maximise value from the existing businesses;
- Enhance value by writing profitable new business;
- Deliver value-enhancing acquisitions; and
- Adhere to the core culture and values of the group, specifically:
  - To treat customers fairly.
  - To maintain robust regulatory compliance
  - To maintain adequate financial resources
  - To provide a competitive return to shareholders
  - To ensure risk-based management decisions are made.

In this regard, the objectives of managing own funds across the group are:

- to hold sufficient levels of capital to safeguard the interests of policyholders, which is core to **delivering fair customer outcomes** and **robust regulatory compliance;**
- to hold appropriate levels of capital as a foundation for making sound business decisions, which is central to delivering the group's **risk-based management** strategy;
- to have a policy in place that describes the parameters that are considered in the context of dividend distributions, which supports the **delivery of returns to shareholders**;
- to hold sufficient own funds to provide a good foundation for further **acquisitions.**
- to ensure that appropriate levels of capital are held regarding supporting **new business growth.**

ii) Risk appetite:

- to establish a policy that reflects the board's risk appetite with regards to the level of own funds held.

iii) Risk tolerances:

- to set tolerance levels associated with the board's risk appetite regarding own funds and ensure that these are monitored.

Policies

Central to managing the own funds of the group is the application of the capital management policies both at a group level and the policies that operate within each insurance company within the group. The policies are built around the objectives outlined above, and are reviewed and approved at least once per year by the relevant board. The policies also incorporate:

- the roles and responsibilities of the relevant board and management in adhering to the policy
- the reporting procedures in place with regards to adhering to the policy
- the key controls and processes in place to ensure adherence to the policy

The group's capital management policy includes the following quantitative limits for managing own funds:

- ***Board risk appetite:*** Overall the board is averse to the own funds of the group falling below 100% of the SCR. As a result, the board has established additional buffers, which have been set having regard for the group's risk profile and the board's risk appetite, and are in place to manage the board's overall aversion for own funds to be below 100% of SCR.
- ***Dividend paying limit:*** Stated as own funds as a percentage of SCR, the group's dividend paying limit is 110%. This is the point at which a dividend would cease to be paid, until at such time the solvency position was restored above this point.
- ***Management actions limit:*** Stated as own funds as a percentage of SCR, the group's management actions limit is 105%. This is the point at which, should own funds fall below this level, additional management actions would be taken to restore own funds back above this level. In essence this represents an internal 'ladder of intervention limit' that is set by the Chesnara board.

To put these definitions in context, this means that, in the normal course of events, Chesnara will not pay a dividend should the payment of the dividend take the group's own funds to below 110% of its SCR. Should own funds fall below 105% of SCR additional management actions will be taken.

E.1 Own funds (continued)

E.1.1 Objectives, policies and processes used for managing own funds (continued)

Processes and controls

The following key process and controls are in place regarding how the group manages its own funds:

Internal reporting:

A number of reports are produced internally for both the group executive committee and/or board that include reporting on the own funds position of the group. These reports support the Chesnara board, which has ultimate responsibility for the group's capital management and capital allocation, in managing the group's own funds.

- **Quarterly MI report:** This report provides various financial information, including solvency position and movement analysis. Numerical analysis supported by commentary is provided for both the own funds and SCR movements that contribute to the overall movement in the solvency position of the group.
- **Quarterly actuarial report:** This report provides further detailed analysis and insight into the quarterly solvency valuation, covering assumptions and key reasons for any movements in solvency compared with previous periods.
- **Chesnara business plan:** A three year business plan is prepared annually and presented to the board. The business plan includes solvency projections over the planning horizon that are prepared on the basis of applying the group's capital management policy.
- **ORSA:** An ORSA report is produced annually. Amongst other things the ORSA includes solvency capital projections over the business planning horizon, which are based on applying the capital management policies across the group. The ORSA also includes supporting justification for the dividend paying buffer that is included within the group's capital management policy and also shows the triggers that are assessed for the purpose of intra-quarter solvency monitoring.
- **Annual dividend assessment paper:** Dividends are typically paid and approved twice per year. A paper is sent to the board supporting any dividend recommendation, which includes specific application of the group's capital management policy.
- **Quarterly risk report:** A risk report is produced quarterly that, amongst other things, includes reporting on the solvency position of the group as a whole, and how the group's solvency position accords with the stated risk appetite. It also evidences to the Audit & Risk Committee that the solvency monitoring protocol and triggers have been monitored frequently and the continuous solvency monitoring protocol has been followed.
- **Risk indicator / trigger assessments:** For the purpose of intra-quarter solvency monitoring a list of risk indicators has been identified, which are monitored. The frequency by which the risk indicators are tracked depends on the solvency position of the group and companies within the group.
- **Monthly solvency estimates:** Full solvency calculations are performed on a quarterly basis. For intra quarter periods, monthly solvency estimates may be produced if the circumstances arise. For example, if the capital position was close to the minimum capital buffer, if there were exceptional market movements or if the continuous solvency monitoring measures indicated the need.
- **Recovery management protocol and management actions:** On an annual basis a recovery protocol document is signed off by the board. The protocol, in effect, represents an internally set "ladder of intervention", which sets out protocols for items such as solvency monitoring frequency, what escalations need to be performed and what potential actions need to be considered and when.

Business planning

The group produces a 3 year business plan once per year. The business plan incorporates financial projections of the group's own funds and solvency capital requirements over a slightly longer 5 year projection period.

The most recent business plan, being the 2017 to 2019 plan, does not anticipate any material changes to the structure of own funds over the planning horizon.

E.1 Own funds (continued)

E.1.2 Analysis of own funds

The below table provides information, split by tier, on the structure, amount and quality of own funds at the end of 2015 and 2016, including an analysis of any significant changes in each tier over the year:

	31 December 2015 unaudited £'000	Movement in year £'000	Transfers £'000	31 December 2016 £'000
Tier 1:				
Ordinary share capital	42,600	1,166	–	43,766
Share premium account related to ordinary share capital	76,516	65,542	–	142,058
Total ordinary share capital & share premium	**119,116**	**66,708**	**–**	**185,824**
Reconciliation reserve before deductions	286,038	78,875	(15,586)	349,327
Own shares (held directly and indirectly)	(161)	–	–	(161)
Foreseeable dividends	(15,586)	(19,002)	15,586	(19,002)
Restricted own funds in ring fenced funds	(5,286)	(5,831)	515	(10,602)
Total reconciliation reserve	**265,005**	**54,042**	**515**	**319,562**
Total eligible own funds eligible to meet SCR	**384,121**	**120,750**	**515**	**505,386**
SCR	**258,496**	**62,193**	**–**	**320,689**
Ratio of eligible own funds to SCR	**148.6%**			**157.6%**
Total eligible own funds eligible to meet MCR*	**383,253**	**120,631**	**515**	**504,399**
MCR	**61,726**	**12,998**	**–**	**74,724**
Ratio of eligible own funds to MCR	**620.9%**			**675.0%**

** When assessing group own funds for the purpose of meeting the MCR, they are not allowed to include the own funds of companies in the group that are in other financial sectors. For the purpose of the Chesnara group at 31 December 2016 there were £987k (31 December 2015: £868k) of such own funds, which related to the fund management company in Sweden.*

Own funds analysis:

- Own funds of the group comprises tier 1 share capital and the reconciliation reserve.
- Share capital and the reconciliation reserve have been classified as tier 1 as they are fully available to be able to absorb losses.
- There were no changes in classification of own funds during the year.
- The group does not have any non-tier 1 own funds items, either at the start or the end of the year.
- Movements in eligible own funds during the year have arisen from:
  - *Own funds surplus emergence:* Own funds surplus can emerge over time as follows:
    - *New business:* New policies are sold in the Swedish division and this can create extra own funds.
    - *Existing policies at the start of the year:* Surpluses or deficits can emerge from the policies that were on the books at the start of the year. Surpluses or deficits can arise from experience differing to what was assumed in the opening valuation.
  - *Equity raise:* During the year additional equity was raised to part fund the acquisition of Scildon N.V.
  - *Foreign exchange:* As a result of the group having operations in Sweden and the Netherlands foreign exchange rate movements between Swedish Krona and the Euro against Sterling results in movements in the portion of group own funds arising from the Swedish and Dutch divisions..
  - *Movements in ring fenced funds restrictions:* The group has two ring fenced funds which subside with the UK division. Surpluses in these funds are restricted and therefore as the surpluses move this affects the amount of own funds available to meet the SCR and MCR. During 2016 a further £5.3m of surplus arose in the two ring fenced funds. Consequently this surplus is restricted until such time as the surplus is transferred out.
  - *Foreseeable dividends and dividend distributions:* As dividends are foreseen and subsequently paid, this reduces the own funds of the group. For the year ended 31 December 2016 the following dividends have affected the own funds of the group:
    - *Interim dividend:* During 2016 an interim dividend amounting to £8.6m was paid during October 2016.
    - *Final dividend:* A £19.0m foreseeable dividend was recognised in the year end solvency position in relation to the year end 2016 proposal. This was paid on 18 May 2017.

E.1 Own funds (continued)

E.1.2 Analysis of own funds (continued)

A summary of the movement in eligible own funds over the year has been shown below:

	£'000
Tier 1 own funds at 1 January 2016	**384,121**
Underlying movement in own funds (arising from new business and from in-force business at the start of the year)	56,323
Equity raise proceeds	66,882
Foreign exchange translation adjustment	30,974
Dividends:	
– Interim dividend paid	(8,596)
– Foreseeable dividend at 31 December 2016	(19,002)
Movements in ring fenced funds restrictions	(5,316)
Tier 1 own funds at 31 December 2016	**505,386**

Own funds to cover SCR:
The table on the previous page shows that the group, which only has tier 1 capital, has £505.4m of available own funds to be able to meet the group's SCR of £320.7m at 31 December 2016, resulting in an SCR coverage ratio of 157.6%.

Own funds to cover MCR:
The above table shows that the company, which only has tier 1 capital, has £504.4m of available own funds to be able to meet the company's MCR of £74.7m at 31 December 2016, resulting in a MCR coverage ratio of 675.0%.

Impact of equity raise and acquisition costs on group solvency position at 31 December 2016:
As referred to on the previous page the company raised new equity during November 2016 to part-fund the acquisition of Scildon NV. As a result the solvency position of the group was artificially inflated at 31 December 2016 due to including the equity raise proceeds which have subsequently been paid out to the previous owner of Scildon NV as part of the purchase consideration. Therefore the group's solvency summary below, stated at 31 December 2016, has been provided with and without the impact of the equity raise and the costs of both the equity raise and the acquisition.

	31 December 2016		
	Inclusive of equity raise and associated acquisition costs	Remove equity raise and associated acquisition costs	Underlying position after removing equity raise and associated acquisition costs
	£m	£m	£m
Assets less liabilities	**535.1**	**(62.1)**	**473.0**
Own shares (held directly or indirectly)	(0.2)	-	(0.2)
Foreseeable dividends	(19.0)	-	(19.0)
Restricted own funds in ring fenced funds	(10.6)	-	(10.6)
Own funds	**505.4**	**(62.1)**	**443.3**
Solvency Capital Requirement (SCR)	**320.7**	**(13.2)**	**307.5**
Surplus own funds over SCR	**184.7**	**(48.9)**	**135.8**
Ratio of eligible own funds to SCR	**157.6%**		**144.2%**

E. CAPITAL MANAGEMENT (CONTINUED)

E.1 Own funds (continued)

E.1.3 Differences between equity in the financial statements and excess of assets over liabilities as calculated for solvency purposes

The below table analyses the difference between the equity in the financial statements and the excess of assets over liabilities as calculated for solvency purposes at 31 December 2016:

	31 December 2016 £'000	
Equity per the IFRS financial statements:		
Share capital	43,766	
Share premium	142,058	
Retained earnings and other reserves	207,737	
Total equity as reported in the Chesnara plc IFRS financial statements		**393,561**
Adjustments between IFRS financial statements and excess of assets over liabilities for solvency purposes:		
Adj 1: Net valuation difference between IFRS and SII for technical provisions	257,979	
Adj 2: Removal of intangible assets included in IFRS valuation	(118,557)	
Adj 3: Net valuation difference between IFRS and SII for assets	3,638	
Adj 4: Adjustments to deferred tax	(7,883)	
Adj 5: Other adjustments	6,413	
Total adjustments between IFRS financial statements and excess of assets over liabilities for solvency purposes		**141,590**
Excess of assets over liabilities for solvency purposes (reconciliation reserve before deductions plus ordinary share capital):		**535,151**

Explanations of adjustments:

- *Adjustment 1:* This adjustment relates to the differences between IFRS and Solvency II in the way the liabilities for insurance contracts are calculated. This difference is primarily due to two key factors: (1) Solvency II permits the calculation of technical provisions to include an estimate of the future profits expected to emerge from the contracts in force at the valuation date, which is not permitted under IFRS reserving; and (2) IFRS reserves are calculated using a prudent estimate, whereas Solvency II requires technical provisions to be determined on a "best estimate" basis. This has resulted in the technical provisions under Solvency II being lower than under IFRS These differences are offset by the existence of the risk margin, which the company must hold as a liability in the balance sheet under Solvency II, whereas it was not required under IFRS.
- *Adjustment 2:* Intangible assets within the company comprises deferred acquisition costs, acquired value of customer relationships, software assets and acquired value of in-force business. These intangible assets are valued at zero in line with Solvency II rules.
- *Adjustment 3:* This adjustment relates to the differences between IFRS and Solvency II in the way the assets for holdings in related undertakings, including participations, and loans and mortgages to individuals are calculated.
- *Adjustment 4:* The valuation of deferred tax assets under Solvency II follows the same recognition criteria applied under IFRS. However, because of differences arising due to adjustments 1, 2 and 4, an additional deferred tax liability is required to be recognised.
- *Adjustment 5:* Other adjustments comprise of deferred income and reinsurer shares of deferred acquisitions cost. These items under the Solvency II reporting valuation have a nil value.

E.1.4 Items deducted from own funds

The table below illustrates the deductions that are applied to own funds

	31 December 2016 £'000
Assets less liabilities	**535,151**
Adjustments for:	
Own shares (held directly or indirectly)	(161)
Surplus in ring-fenced funds	(10,602)
Foreseeable dividends	(19,002)
Own funds	**505,386**

There are three items deducted from own funds. These are

Own shares (held directly or indirectly)

Solvency II requires own shares to be recognised as assets on the balance sheet and then deducting from the own funds.

Surplus in ring-fenced funds in accordance with Article 81 of delegated acts

The group has two ring-fenced funds: Save & Prosper Insurance (SPI) and Save & Prosper Pensions (SPP). Under Solvency II rules the surpluses within these funds cannot contribute to the overall solvency assessment. At 31 December 2016 the surplus in each of these funds was: SPI - £4,323,000 and SPP - £6,279,000.

Foreseeable dividends

Solvency II requires dividends to be recognised as a deduction to own funds when they are "foreseeable". At 31 December 2016 a foreseeable dividend, representing the dividend that was paid on 18 May 2017, was recognised within the Solvency II valuation.

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 SCR and MCR analysis

The information below provides some further detail of the solvency capital requirement and minimum capital requirement for the group at both the start and the end of the year. Explanations have been provided in narrative below the table regarding any significant changes in the year. In addition:

- The group, and all companies within the group, have applied the standard formula in calculating the solvency capital requirement, both at the start and the end of the year;
- The group does not use any simplified calculations in any risk modules or sub-modules and the group does not use any undertaking-specific parameters.
- No capital add-ons have been imposed on Chesnara by the PRA.
- Chesnara's group solvency is calculated using method 1 as defined in Article 230 of Directive 2009/138/EC. With reference to Article 336 of the Delegated Acts, the amount referred to in part (a) is shown below as the solvency capital requirement excluding capital add-on. The amount referred to in part (c) of the article is shown below as the capital requirement for other financial sectors. The amounts referred to in parts (b) and (d) are zero.
- The minimum consolidated group solvency capital requirement shown below includes a proportional share of the minimum capital requirement for Modernac, amounting to £566k.

	Note	31 December 2016 £'000	31 December 2015* unaudited £'000	Changes in the year £'000
Market risk	*1*	245,752	192,490	53,262
Counterparty default risk	*2*	34,965	28,084	6,881
Life underwriting risk	*3*	140,382	123,582	16,800
Health underwriting risk	*4*	19,927	19,521	406
Diversification	*5*	(104,821)	(88,629)	(16,192)
Basic Solvency Capital Requirement		**336,204**	**275,048**	**61,157**
Operational risk	*6*	8,018	7,189	829
Loss-absorbing capacity of technical provisions		-	-	-
Loss-absorbing capacity of deferred taxes	*7*	(23,961)	(24,055)	94
Solvency Capital Requirement excluding capital add-on		**320,262**	**258,182**	**62,080**
Capital requirement for other financial sectors	*8*	427	314	113
Solvency capital requirement		**320,689**	**258,496**	**62,193**
Notional SCR for remaining part	***9***	**279,532**	**223,935**	**55,597**
Notional SCR for ring fenced funds	***10***	**40,730**	**34,248**	**6,482**
Minimum consolidated group solvency capital requirement	***11***	**74,724**	**61,726**	**12,998**

The reasons for the changes in SCR over the reporting period are analysed in more detail below:

- Note 1: The increase in market risk is attributable to four main impacts. Firstly, the equity risk capital increased by £17.9m, partly due to an increased equity holding and partly due to the higher symmetric adjustment. Spread risk increased by £9.1m mainly due to an increase in the holding of securitisations, which attract a higher stress. Currency risk increased by £31.6m primarily due to the growth of Movestic's own funds and their increased holding of foreign assets. Finally, exchange rate movements further increased the sterling value of market risk by £9.5m. The diversification benefit increased by £13.2m.
- Note 2: Counterparty default risk has increased due to an increased exposure to cash counterparties at the group level (largely as a result of the equity raise in December 2016) and the introduction of mortgage portfolio exposures in the Waard group. Exchange rate movements have increased this risk module by £1.2m.
- Note 3: The main reason for the increase in life underwriting risk is a refinement to the mass lapse and catastrophe risk calculations for Movestic, amounting to £7.5m, the introduction of a reinsurance arrangement for the Waard group and a £7.5m increase as a result of exchange rate movements.
- Note 4: The increased amount of health underwriting risk comes from the continued sale, and thus increased volume, of health business not similar to life in Movestic.
- Note 5: The amount of diversification between the risk modules has increased as a direct consequence of the increase in the amount of risk capital held under each of the risk modules.
- Note 6: Operational risk has increased as a result of the continued sale of new business in Movestic.
- Note 7: The change in this metric is immaterial.
- Note 8: The change in this metric is immaterial.
- Note 9: The increase in the notional SCR for the remaining part is attributable to most of the points listed above, except for the securitisation positions. The largest factors overall are the equity risk capital, lapse risk for Movestic and the appreciation of sterling against the Euro and the Swedish krona.

E.2 Solvency Capital Requirement and Minimum Capital Requirement (continued)

E.2.1 SCR and MCR analysis (continued)

- Note 10: The increase in the notional SCR for ring fenced funds is mainly attributable to the increase in spread risk due to the securitisation positions, which are held in the SPP WP fund.

- Note 11: Most of the constituent companies in the group have a minimum capital requirement that is equal to the lower bound in the calculation, i.e. equal to 25% of the SCR. Thus, this has directly resulted in an increase to the minimum capital requirement.

Although the group SCR allows for some diversification across the group within certain risk submodules, overall the group diversification benefit is negative. This is because additional currency risk is held at the group level in respect of the value of own funds held by Movestic and Waard. This additional currency risk increases the SCR by £69.1m.

E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement

The duration-based equity risk sub-module is not used by Chesnara plc.

E.4 Differences between the standard formula and any internal models used

All constituent parts of the group use the standard formula for calculating capital requirements, and therefore this section does not apply to Chesnara plc.

E.5 Non-compliance with the MCR and significant non-compliance with the SCR

Chesnara plc has met its SCR and MCR at all times during the year.

E.6 Any other information

There is no other information regarding the capital management of the group and its subsidiaries that is deemed material to report.

F. GLOSSARY OF TERMS

AML	Anti-Money Laundering
Basic Own Funds	Basic Own Funds comprise the excess of assets over liabilities valued in accordance with the Solvency II principles.
Best Estimate Liability (BEL)	The probability weighted average of future cash flows, taking into account the time value of money (expected present value of future cash-flows), using the relevant interest rate term structure and taking into account economic and non-economic assumptions.
Cash generation	This represents the distributable cash that has been generated in the period. The cash generating capacity of the group and its divisions / business units is largely a function of the movement in the respective solvency position, and takes account of the group's board-approved capital management policies.
Company	Chesnara plc
CWA	City of Westminster Assurance Company Limited
Delegated Acts	Commission Delegated Regulation (EU) 2015/35 of 10 October 2014.
DNB	De Nederlandsche Bank is the central bank of the Netherlands and is the regulator of our Dutch subsidiary.
EcV	Economic Value. This represents Solvency II own funds, adjusted for: – *Contract boundaries:* Solvency II rules do not allow for the recognition of future cash flows on certain policies despite a high probability of receipt. – *Risk margin:* The Solvency II rules require a 'risk margin' liability which is deemed to be above the realistic cost. – *Ring-fenced funds:* Solvency II does not permit the recognition of surplus that exists within certain ring-fenced funds. As the surpluses in these funds are expected to ultimately be available to the group these surpluses have been recognised in the group's economic value calculations. – *Dividends:* On a Solvency II basis dividends are recognised when they are "foreseeable". For economic value purposes dividends are recognised when paid.
EIOPA	European Insurance and Occupational Pensions Authority - An independent An independent advisory body to the European Parliament, the Council of the European Union and the European Commission. EIOPA was established in January 2011 and replaced CEIOPS (the Committee of European Insurance and Occupational Pensions Supervisors).
FCA	Financial Conduct Authority
FSMA	Financial Services and Markets Act 2000
IFRS	International Financial Reporting Standards
GRMF	Group risk management framework
Group	The group of companies that is headed up by Chesnara plc.
Key Function	The Solvency II Directive has defined a minimum of four functions of the system of governance as key functions – Risk Management, Internal Audit, Actuarial and Compliance. Each key function is required to have a designated key function holder who will be subject to notification requirements to the regulator.
MCR	Minimum Capital Requirement - An absolute minimum level of required capital below which supervisory intervention will automatically be triggered. The MCR is defined by a formula with a lower/upper bound of 25%/45% of the SCR respectively.
NED	Non-Executive Director
ORSA	Own Risk and Solvency Assessment
OSP	Outsource Service Provider
PL	Protection Life
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulation Authority
Prudent Person Principle	The rules governing how investments are to be made in line with the Solvency II requirements – Article 132 of the Solvency II Directive and associated regulations and guidance.
QRT	Quantitative Reporting Template
Reconciliation Reserve	A reconciliation reserve, being an amount representing the total excess of assets and liabilities reduced by the basic own-fund items included in Tier 2, Tier 3 and elsewhere in Tier 1.
Risk Margin	The measure added to the Best Estimate Liability to reflect the cost of holding capital over a period of run-off of the liabilities to ensure that the value of Technical provisions meets the amount that an independent organisation would require to take over and meet all the obligations a rising from the existing business
S&P	Save & Prosper, made of two companies; Save & Prosper Insurance Limited and Save & Prosper Pensions Limited
SCR	SCR relates to risks and obligations to which the Group is exposed and calibrated so that the likelihood of a loss exceeding the SCR is less than 0.5% over one year. This ensure that capital is sufficient to withstand a broadly '1-in-200' event.
SFCR	Solvency and Financial Condition Report
Solvency II	A fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a set of EU-wide capital requirements and risk management standards and has replaced the Solvency I requirements.
SLAs	Service Level Agreements
Standard Formula	The set of prescribed rules used to calculate the regulatory SCR where an internal model is not being used.
Surplus Capital	The excess of Own Funds over the SCR
TCF	Treating customers fairly
Technical Provisions	The sum of the Best Estimate Liability and Risk Margin. The Technical Provisions are set at a level that an organisation would need to pay to another insurance organisation in order for them to fully accept the transfer of the related insurance obligations.

G. ANNEX – QUANTITATIVE REPORTING TEMPLATES

S.02.01.02 - Balance Sheet

	Assets	**Solvency II Value**
		C0010
R0010	Goodwill	–
R0020	Deferred acquisition costs	–
R0030	Intangible assets	–
R0040	Deferred tax assets	–
R0050	Pension benefit surplus	–
R0060	Property, plant & equipment held for own use	519,208
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	903,061,895
R0080	Property (other than for own use)	–
R0090	Holdings in related undertakings, including participations	7,314,032
R0100	Equities	–
R0110	Equities – listed	–
R0120	Equities – unlisted	–
R0130	Bonds	334,580,526
R0140	Government Bonds	278,140,203
R0150	Corporate Bonds	55,357,604
R0160	Structured notes	–
R0170	Collateralised securities	1,082,718
R0180	Collective Investments Undertakings	468,147,398
R0190	Derivatives	61,644,161
R0200	Deposits other than cash equivalents	31,375,778
R0210	Other investments	-
R0220	Assets held for index-linked and unit-linked contracts	4,570,739,231
R0230	Loans and mortgages	58,042,287
R0240	Loans on policies	30,825
R0250	Loans and mortgages to individuals	57,338,456
R0260	Other loans and mortgages	673,006
R0270	Reinsurance recoverables from:	237,055,462
R0280	Non-life and health similar to non-life	15,692,896
R0290	Non-life excluding health	–
R0300	Health similar to non-life	15,692,896
R0310	Life and health similar to life, excluding index-linked and unit-linked	130,601,418
R0320	Health similar to life	28,403,764
R0330	Life excluding health and index-linked and unit-linked	102,197,654
R0340	Life index-linked and unit-linked	90,761,148
R0350	Deposits to cedants	–
R0360	Insurance and intermediaries receivables	21,053,163
R0370	Reinsurance receivables	29,275,784
R0380	Receivables (trade, not insurance)	11,407,199
R0390	Own shares (held directly)	160,957
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	–
R0410	Cash and cash equivalents	150,980,874
R0420	Any other assets, not elsewhere shown	5,270,421
R0500	**Total assets**	**5,987,566,480**

S.02.01.02 - Balance Sheet (continued)

	Liabilities	Solvency II Value
		C0010
R0510	Technical provisions - non-life	22,830,968
R0520	Technical provisions - non-life (excluding health)	–
R0530	TP calculated as a whole	–
R0540	Best Estimate	–
R0550	Risk margin	–
R0560	Technical provisions - health (similar to non-life)	22,830,968
R0570	TP calculated as a whole	–
R0580	Best Estimate	22,446,787
R0590	Risk margin	384,181
R0600	Technical provisions - life (excluding index-linked and unit-linked)	929,981,962
R0610	Technical provisions - health (similar to life)	295,139,263
R0620	TP calculated as a whole	–
R0630	Best Estimate	287,998,574
R0640	Risk margin	7,140,689
R0650	Technical provisions - life (excluding health and index-linked and unit-linked)	634,842,699
R0660	TP calculated as a whole	–
R0670	Best Estimate	617,027,687
R0680	Risk margin	17,815,012
R0690	Technical provisions - index-linked and unit-linked	4,234,080,469
R0700	TP calculated as a whole	–
R0710	Best Estimate	4,178,131,726
R0720	Risk margin	55,948,743
R0730	Other technical provisions	
R0740	Contingent liabilities	–
R0750	Provisions other than technical provisions	822,676
R0760	Pension benefit obligations	–
R0770	Deposits from reinsurers	–
R0780	Deferred tax liabilities	13,302,248
R0790	Derivatives	62,893,169
R0800	Debts owed to credit institutions	52,696,509
R0810	Financial liabilities other than debts owed to credit institutions	30,749,391
R0820	Insurance & intermediaries payables	61,393,415
R0830	Reinsurance payables	6,558,437
R0840	Payables (trade, not insurance)	37,105,998
R0850	Subordinated liabilities	–
R0860	Subordinated liabilities not in BOF	–
R0870	Subordinated liabilities in BOF	–
R0880	Any other liabilities, not elsewhere shown	–
R0900	**Total liabilities**	**5,452,415,243**
R1000	**Excess of assets over liabilities**	**535,151,236**

S.05.01.02 - Premiums, claims and expenses by line of business

Non-Life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		Total
		Medical expense insurance	Income protection insurance	
		C0010	C0020	C0200
	Premiums written			
R0110	*Gross - Direct Business*	327	7,305,551	7,305,878
R0120	*Gross - Proportional reinsurance accepted*	–	–	–
R0130	*Gross - Non-proportional reinsurance accepted*			–
R0140	*Reinsurers' share*	(8,756)	4,232,171	4,223,415
R0200	*Net*	9,084	3,073,380	3,082,464
	Premiums earned			
R0210	*Gross - Direct Business*	541	7,486,590	7,487,131
R0220	*Gross - Proportional reinsurance accepted*	–	–	–
R0230	*Gross - Non-proportional reinsurance accepted*			–
R0240	*Reinsurers' share*	(8,702)	4,170,652	4,161,949
R0300	*Net*	9,243	3,315,938	3,325,181
	Claims incurred			
R0310	*Gross - Direct Business*	(1,148,528)	4,786,458	3,637,929
R0320	*Gross - Proportional reinsurance accepted*	–	–	–
R0330	*Gross - Non-proportional reinsurance accepted*			–
R0340	*Reinsurers' share*	(873,269)	(2,484,940)	1,611,671
R0400	*Net*	(275,260)	(2,301,518)	2,026,258
	Changes in other technical provisions			
R0410	*Gross - Direct Business*	–	–	–
R0420	*Gross - Proportional reinsurance accepted*	–	–	–
R0430	*Gross - Non-proportional reinsurance accepted*			–
R0440	*Reinsurers' share*	–	–	–
R0500	*Net*	–	–	–
R0550	**Expenses incurred**	125	1,732,169	1,732,294
R1200	**Other expenses**			–
R1300	**Total expenses**			1,732,294

S.05.01.02 - Premiums, claims and expenses by line of business

Life

		Line of Business for: life insurance obligations				Total
		Health insurance	Insurance with-profit participation	Index-linked and unit-linked insurance	Other life insurance	
		C0210	C0220	C0230	C0240	C0300
	Premiums written					
R1410	*Gross - Direct Business*	31,304,763	2,395,488	339,969,931	47,502,818	421,173,000
R1420	*Reinsurers' share*	9,998,185	388,956	4,021,405	26,527,101	40,935,648
R1500	*Net*	21,306,578	2,006,532	335,948,525	20,975,717	380,237,352
	Premiums earned					
R1510	*Gross - Direct Business*	31,516,524	2,395,488	339,969,931	46,872,940	420,754,882
R1520	*Reinsurers' share*	10,069,290	388,956	4,021,405	26,446,466	40,926,117
R1600	*Net*	21,447,234	2,006,532	335,948,525	20,426,474	379,828,765
	Claims incurred					
R1610	*Gross - Direct Business*	40,162,607	52,635,872	407,351,545	37,756,110	537,906,134
R1620	*Reinsurers' share*	7,227,569	30,690,156	41,786,029	22,620,912	102,324,666
R1700	*Net*	32,935,038	21,945,716	365,565,516	15,135,198	435,581,468
	Changes in other technical provisions					
R1710	*Gross - Direct Business*	11,449,665	(7,895,798)	373,050,326	9,873,111	386,477,304
R1720	*Reinsurers' share*	(1,039,216)	(17,284,466)	(3,302,063)	(13,331,486)	(34,957,232)
R1800	*Net*	12,488,881	9,388,669	376,352,389	23,204,597	421,434,536
R1900	**Expenses incurred**	4,748,808	3,566,912	38,321,734	17,498,203	64,135,657
R2500	**Other expenses**					2,682,283
R2600	**Total expenses**					66,817,940

S.05.02.01 - Premiums, claims and expenses by country

Non-Life

		Home Country	SE	Total Top 5 and home country
		C0080	C0090	C0140
	Premiums written			
R0110	*Gross - Direct Business*	–	7,305,878	7,305,878
R0120	*Gross - Proportional reinsurance accepted*	–	–	–
R0130	*Gross - Non-proportional reinsurance accepted*	–	–	–
R0140	*Reinsurers' share*	–	4,223,415	4,223,415
R0200	*Net*	–	3,082,464	3,082,464
	Premiums earned			
R0210	*Gross - Direct Business*	–	7,487,131	7,487,131
R0220	*Gross - Proportional reinsurance accepted*	–	–	–
R0230	*Gross - Non-proportional reinsurance accepted*	–	–	–
R0240	*Reinsurers' share*	–	4,161,949	4,161,949
R0300	*Net*	–	3,325,181	3,325,181
	Claims incurred			
R0310	*Gross - Direct Business*	–	3,637,929	3,637,929
R0320	*Gross - Proportional reinsurance accepted*	–	–	–
R0330	*Gross - Non-proportional reinsurance accepted*	–	–	–
R0340	*Reinsurers' share*	–	1,611,671	1,611,671
R0400	*Net*	–	2,026,258	2,026,258
	Changes in other technical provisions			
R0410	*Gross - Direct Business*	–	–	–
R0420	*Gross - Proportional reinsurance accepted*	–	–	–
R0430	*Gross - Non-proportional reinsurance accepted*	–	–	–
R0440	*Reinsurers' share*	–	–	–
R0500	*Net*	–	–	–
R0550	**Expenses incurred**	–	1,732,294	1,732,294
R1200	**Other expenses**			–
R1300	**Total expenses**			1,732,294

S.05.02.01 - Premiums, claims and expenses by country

Non-Life

		Home Country	SE	NL	Total Top 5 and home country
		C0080	C0090	C0090	C0140
	Premiums written				
R0110	*Gross - Direct Business*	75,685,929	342,706,293	2,780,778	421,173,000
R0140	*Reinsurers' share*	24,873,334	15,939,230	123,083	40,935,648
R0200	*Net*	50,812,595	326,767,063	2,657,694	380,237,352
	Premiums earned				
R0210	*Gross - Direct Business*	75,685,929	342,288,176	2,780,778	420,754,882
R0240	*Reinsurers' share*	24,873,334	15,929,699	123,083	40,926,117
R0300	*Net*	50,812,595	326,358,476	2,657,694	379,828,765
	Claims incurred				
R0310	*Gross - Direct Business*	346,017,925	174,865,065	17,023,145	537,906,134
R0340	*Reinsurers' share*	88,924,670	12,627,000	772,997	102,324,666
R0400	*Net*	257,093,255	162,238,065	16,250,147	435,581,468
	Changes in other technical provisions				
R0410	*Gross - Direct Business*	76,690,649	325,686,983	(15,900,328)	386,477,304
R0440	*Reinsurers' share*	(33,841,883)	–	(1,115,349)	(34,957,232)
R0500	*Net*	110,532,533	325,686,983	(14,784,980)	421,434,536
R0550	**Expenses incurred**	22,894,781	37,245,959	3,994,917	64,135,657
R1200	**Other expenses**				2,682,283
R1300	**Total expenses**				66,817,940

S.23.01.22 - Own funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
	Basic own funds before deduction for participations in other financial sector					
R0010	Ordinary share capital (gross of own shares)	43,766,000	43,766,000			
R0020	*Non-available called but not paid in ordinary share capital at group level*					
R0030	Share premium account related to ordinary share capital	142,058,000	142,058,000			
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings					
R0050	Subordinated mutual member accounts					
R0060	*Non-available subordinated mutual member accounts at group level*					
R0070	Surplus funds					
R0080	*Non-available surplus funds at group level*					
R0090	Preference shares					
R0100	*Non-available preference shares at group level*					
R0110	Share premium account related to preference shares					
R0120	*Non-available share premium account related to preference shares at group level*					
R0130	Reconciliation reserve	319,562,070	319,562,070			
R0140	Subordinated liabilities					
R0150	*Non-available subordinated liabilities at group level*					
R0160	An amount equal to the value of net deferred tax assets					
R0170	*The amount equal to the value of net deferred tax assets not available at the group level*					
R0180	Other items approved by supervisory authority as basic own funds not specified above					
R0190	*Non available own funds related to other own funds items approved by supervisory authority*					
R0200	Minority interests (if not reported as part of a specific own fund item)					
R0210	*Non-available minority interests at group level*					
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in financial and credit institutions	987,055	987,055			
R0240	whereof deducted according to art 228 of the Directive 2009/138/EC					
R0250	Deductions for participations where there is non-availability of information (Article 229)					
R0260	Deduction for participations included by using D&A when a combination of methods is used					
R0270	**Total of non-available own fund items**					
R0280	**Total deductions**	987,055	987,055			
R0290	**Total basic own funds after deductions**	504,399,016	504,399,016			
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial institutions, alternative investment fund manager, financial institutions	987,055	987,055			
R0420	Institutions for occupational retirement provision					
R0430	Non regulated entities carrying out financial activities					
R0440	**Total own funds of other financial sectors**	987,055	987,055			
	Available and eligible own funds					
R0520	Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	504,399,016	504,399,016			
R0530	Total available own funds to meet the minimum consolidated group SCR	504,399,016	504,399,016			
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	504,399,016	504,399,016			
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	504,399,016	504,399,016			

S.23.01.22 - Own funds

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0590	**Consolidated Group SCR**	320,689,260				
R0610	**Minimum consolidated Group SCR**	74,724,463				
R0630	**Ratio of Eligible own funds to the consolidated Group SCR (excluding other financial sectors and the undertakings included via D&A)**	157.50%				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	675.01%				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	505,386,070	505,386,070			
R0670	**SCR for entities included with D&A method**	–				
R0680	**Group SCR**	320,689,260				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	157.59%				
	Reconciliation reserve					
R0700	Excess of assets over liabilities	535,151,236				
R0710	Own shares (held directly and indirectly)	160,957				
R0720	Foreseeable dividends, distributions and charges	19,001,781				
R0730	Other basic own fund items	185,824,000				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	10,602,428				
R0760	Reconciliation reserve	319,562,071				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business	199,010,595				
R0780	Expected profits included in future premiums (EPIFP) - Non-life business	–				
R0790	Total Expected profits included in future premiums (EPIFP)	199,010,595				

S.25.01.22 - Solvency Capital Requirement – for undertakings on Standard Formula

		Net solvency capital requirement	Gross solvency capital requirement
		C0030	C0040
R0010	Market risk	245,752,365	245,752,365
R0020	Counterparty default risk	34,964,430	34,964,430
R0030	Life underwriting risk	140,381,552	140,381,552
R0040	Health underwriting risk	19,927,061	19,927,061
R0050	Non-life underwriting risk	–	–
R0060	Diversification	(109,488,900)	(109,488,900)
R0070	Intangible asset risk		
R0100	**Basic Solvency Capital Requirement**	**331,536,507**	

	Calculation of Solvency Capital Requirement	C0100
R0120	Adjustment due to RFF/MAP nSCR aggregation	4,667,891
R0130	Operational risk	8,018,364
R0140	Loss-absorbing capacity of technical provisions	
R0150	Loss-absorbing capacity of deferred taxes	(23,960,818)
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	**320,261,944**
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	**320,689,260**
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	279,532,142
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	40,729,802
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	
R0440	Diversification effects due to RFF nSCR aggregation for article 304	
R0470	Minimum consolidated group solvency capital requirement	74,724,463
	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	427,316
R0510	*Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies*	427,316
R0520	*Institutions for occupational retirement provisions*	
R0530	*Capital requirement for non- regulated entities carrying out financial activities*	
R0540	Capital requirement for non-controlled participation requirements	
R0550	Capital requirement for residual undertakings	
	Overall SCR	
R0560	SCR for undertakings included via D&A	
R0570	**Solvency capital requirement**	**320,689,260**

S.32.01.22 - Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
GB	213800VFRMBRTSZ3SJ06	LEI	Chesnara Plc	Insurance holding company	Limited by shares	Non-mutual	
GB	5493006PBGQRFI82TX40	LEI	Countrywide Assured plc	Life insurance undertaking	Limited by shares	Non-mutual	Prudential Regulation Authority (PRA)
GB	213800DQ2ZBKOTHG2M12	LEI	Countrywide Assured Life Holdings Limited	Insurance holding company	Limited by shares	Non-mutual	
GB	213800E18ZA3OVMM5P56	LEI	Countrywide Assured Services Limited	Ancillary services undertaking	Limited by shares	Non-mutual	
GB	213800U9SDMSLYT2JS80	LEI	Countrywide Assured Trustee Company Limited	Other	Limited by shares	Non-mutual	
SE	549300L3SKPPLGYVSI02	LEI	Movestic Livförsäkring AB	Life insurance undertaking	Limited by shares	Non-mutual	Finansinspektionen
LU	2221008794NZT5CD7U61	LEI	Modernac S.A.	Reinsurance undertaking	Limited by shares	Non-mutual	Commission de Surveillance du Secteur Financier (CSSF)
SE	5493002MRIRVRUHV4O57	LEI	Movestic Kapitalförvältning AB	Credit institution, investment firm and financial institution	Limited by shares	Non-mutual	Finansinspektionen
NL	2138007SDEM3JFUI8E22	LEI	Chesnara Holdings B.V.	Insurance holding company	Limited by shares	Non-mutual	
NL	724500M08RQQPV9C8030	LEI	Waard Leven N.V	Life insurance undertaking	Limited by shares	Non-mutual	De Nederlandsche Bank
NL	724500WRFVBV939K4N14	LEI	Hollands Welvaren Leven N.V	Life insurance undertaking	Limited by shares	Non-mutual	De Nederlandsche Bank
NL	7245000HKSZJZFYQ7K89	LEI	Waard Schade N.V	Life insurance undertaking	Limited by shares	Non-mutual	De Nederlandsche Bank
NL	21380051GTWS632OP611	LEI	Tadas Verzekering	Ancillary services undertaking	Limited by shares	Non-mutual	

				Criteria of influence					
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation
C0010	C0020	C0030	C0040	C0180	C0190	C0200	C0210	C0220	C0230
GB	213800VFRMBRTSZ3SJ06	LEI	Chesnara Plc	100.00%	100.00%	100.00%		Dominant	100.00%
GB	5493006PBGQRFI82TX40	LEI	Countrywide Assured plc	100.00%	100.00%	100.00%		Dominant	100.00%
GB	213800DQ2ZBKOTHG2M12	LEI	Countrywide Assured Life Holdings Limited	100.00%	100.00%	100.00%		Dominant	100.00%
GB	213800E18ZA3OVMM5P56	LEI	Countrywide Assured Services Limited	100.00%	100.00%	100.00%		Dominant	100.00%
GB	213800U9SDMSLYT2JS80	LEI	Countrywide Assured Trustee Company Limited	100.00%	100.00%	100.00%		Dominant	100.00%
SE	549300L3SKPPLGYVSI02	LEI	Movestic Livförsäkring AB	100.00%	100.00%	100.00%		Dominant	100.00%
LU	2221008794NZT5CD7U61	LEI	Modernac S.A.	49.00%	49.00%	49.00%		Significant	49.00%
SE	5493002MRIRVRUHV4O57	LEI	Movestic Kapitalförvältning AB	100.00%	100.00%	100.00%		Dominant	100.00%
NL	2138007SDEM3JFUI8E22	LEI	Chesnara Holdings B.V.	100.00%	100.00%	100.00%		Dominant	100.00%
NL	724500M08RQQPV9C8030	LEI	Waard Leven N.V	100.00%	100.00%	100.00%		Dominant	100.00%
NL	724500WRFVBV939K4N14	LEI	Hollands Welvaren Leven N.V	100.00%	100.00%	100.00%		Dominant	100.00%
NL	7245000HKSZJZFYQ7K89	LEI	Waard Schade N.V	100.00%	100.00%	100.00%		Dominant	100.00%
NL	21380051GTWS632OP611	LEI	Tadas Verzekering	100.00%	100.00%	100.00%		Dominant	100.00%

S.32.01.22 - Undertakings in the scope of the group (continued)

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Inclusion in the scope of Group supervision		Group solvency calculation
				YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking
C0010	C0020	C0030	C0040	C0240	C0250	C0260
GB	213800VFRMBRTSZ3SJ06	LEI	Chesnara Plc	Included in the scope		Method 1 – Full consolidation
GB	5493006PBGQRFI82TX40	LEI	Countrywide Assured plc	Included in the scope		Method 1 – Full consolidation
GB	213800DQ2ZBKOTHG2M12	LEI	Countrywide Assured Life Holdings Limited	Included in the scope		Method 1 – Full consolidation
GB	213800E18ZA3OVMM5P56	LEI	Countrywide Assured Services Limited	Included in the scope		Method 1 – Full consolidation
GB	213800U9SDMSLYT2JS80	LEI	Countrywide Assured Trustee Company Limited	Included in the scope		Method 1 – Full consolidation
SE	549300L3SKPPLGYVSI02	LEI	Movestic Livförsäkring AB	Included in the scope		Method 1 – Full consolidation
LU	2221008794NZT5CD7U61	LEI	Modernac S.A.	Included in the scope		Method 3 – Adjusted equity method
SE	5493002MRIRVRUHV4O57	LEI	Movestic Kapitalförvältning AB	Included in the scope		Method 1 – Full consolidation
NL	2138007SDEM3JFUI8E22	LEI	Chesnara Holdings B.V.	Included in the scope		Method 1 – Full consolidation
NL	724500M08RQQPV9C8030	LEI	Waard Leven N.V	Included in the scope		Method 1 – Full consolidation
NL	724500WRFVBV939K4N14	LEI	Hollands Welvaren Leven N.V	Included in the scope		Method 1 – Full consolidation
NL	7245000HKSZJZFYQ7K89	LEI	Waard Schade N.V	Included in the scope		Method 1 – Full consolidation
NL	21380051GTWS632OP611	LEI	Tadas Verzekering	Included in the scope		Method 1 – Full consolidation