This document is the Chesnara plc Remuneration Policy Report that was approved by our shareholders at the 2014 AGM. This Remuneration Policy Report has been extracted from the Annual Report & Accounts for the year ended 31 December 2013.

DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY REPORT

Introduction

Remuneration policy

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

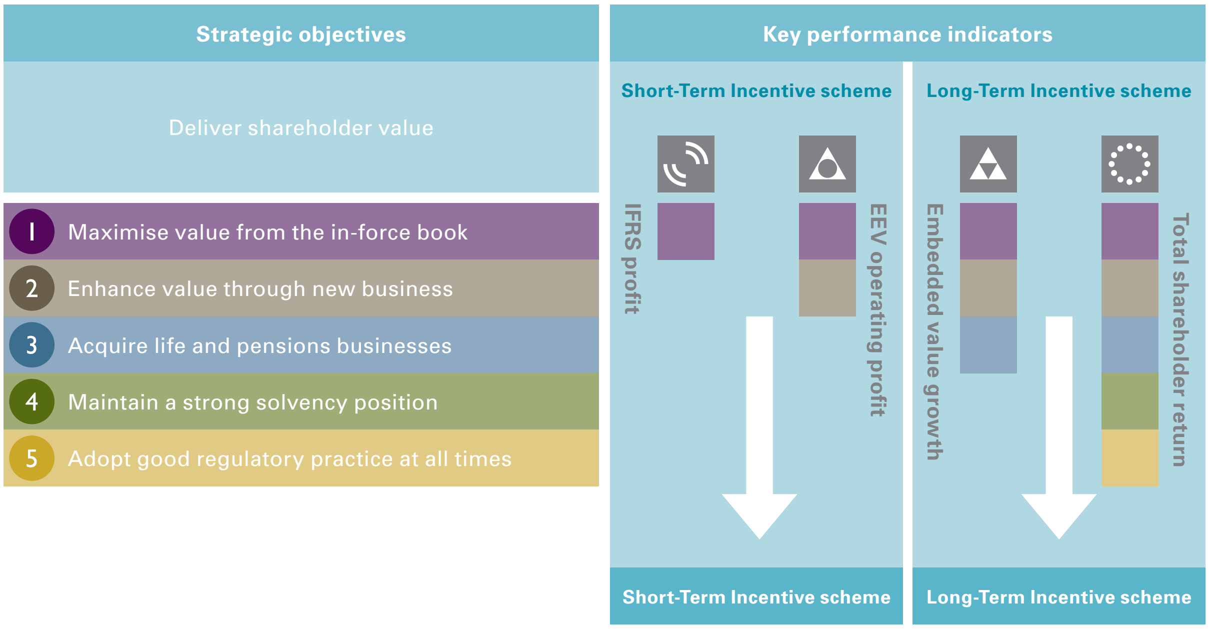
Shareholder approval is being sought for this Policy at the next AGM and if approval is granted, it will take effect from the date of the AGM. It is the intention of the Committee that this Policy remains in place for the next three years at which point it will, once again, be put to shareholders for approval. Any commitments made by the Company prior to the approval and implementation of this Policy which were consistent with the remuneration policy in force at the time, can be honoured, even if they would not be consistent with this Policy at the time the commitment is fulfilled.

In developing its policy and making decisions about Executive Director remuneration the Committee has taken into account the terms and conditions of employment for employees throughout the Company, together with the strategy and objectives for the business, and developments in the external marketplace. The Company has not consulted with employees.

Chesnara plc is a holding company engaged in the management of life and pension books of business in the UK and Western Europe. With an operating model in the UK which extensively utilises the benefits of outsourcing, Chesnara has 21 employees in the UK including three Executive Directors. Chesnara has a wholly owned life insurance subsidiary in Sweden, Movestic which is open to new business and employs 123 people.

The schematic below illustrates how the Company's KPI's align to the strategic objectives and in turn how those KPIs are recognised as key components of both the new short and long-term incentive schemes. Reading across the chart shows how the KPIs cover the objectives. For example, "Maximise the value from the in-force book", "Enhance value from new business" and "Acquire life and pensions businesses" will all directly impact the EEV growth of the Group. Likewise all objectives should have an impact on the TSR to varying degrees. Strong performance in terms of "maximising value from the in-force book" should positively influence all four KPIs.

The diagram demonstrates that the remuneration policy aligns well to all aspects of the Group's objectives. In addition to the KPIs shown, the Short-Term Incentive scheme includes a measure that assesses how effectively the Executive Directors have performed in delivering strategic initiatives. The initiatives will include any major regulatory projects and hence the objective to "Adopt good regulatory practice at all times" is also directly covered by the remuneration policy as well as being indirectly covered by way of the TSR measure.



DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY REPORT (CONTINUED)

Overall remuneration policy aims are:

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

The implementation of this policy involves:

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

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

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

Future policy table

Executive Directors' remuneration

<table>
<tr><th>Purpose and link to strategy</th><th>Operation</th><th>Performance measures and maximum</th><th>Changes to 2013 policy</th></tr>
<tr><td colspan="4">Basic salary</td></tr>
<tr><td>To recruit and retain individuals with the skills and experience needed for the role and to contribute to the success of the Group.</td><td>In setting salaries for new executive roles or reviewing the salaries for existing roles, the Committee will take into account, as it considers appropriate, some or all of the following factors:
– assessment of the responsibilities of the role and the experience and skills of the jobholder
– the Company's salary budgets and results
– the jobholder's performance
– with the use of periodic benchmarking exercises, the external market for roles of a similar size and accountability
– inflation and salaries across the Company
– balance between fixed and variable pay to help ensure good risk management.

Where a new appointment is made, pay may be initially below that applicable to the role and then may increase over time subject to satisfactory performance.

Salaries are usually reviewed annually There may be reviews and changes during the year in exceptional circumstances (such as new appointments to executive positions).

Since the last Report salaries for the CEO and Business Services Director have risen by 2.5% – slightly below the average increase awarded to all staff – and are effective 1 January 2014.
<table>
<tr><th>Director</th><th>Increase</th><th>Basic salary from 1 January 2014</th></tr>
<tr><td>Graham Kettleborough</td><td>2.5%</td><td>£328,189</td></tr>
<tr><td>Frank Hughes</td><td>2.5%</td><td>£202,814</td></tr>
</table>
The Finance Director, David Rimmington was newly appointed to the role in May 2013 and has quickly demonstrated an ability to operate at a higher level of competency than his starting salary suggested and was awarded an increase of 16.6% in November 2013 taking his salary to £175,000 which remains below that appropriate for the role and may be adjusted further subject to continued satisfactory performance.</td><td>Personal and Group performance is taken into consideration when deciding whether a salary increase should be awarded – but salary increases may not be awarded on the strength of performance alone.</td><td>There have been no changes to the 2013 policy.</td></tr>
<tr><td colspan="4">Taxable benefits</td></tr>
<tr><td>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.</td><td>Executive Directors receive life assurance, a company car, fuel benefit and private medical insurance. A cash equivalent may be paid in lieu of a car.

Benefits may be changed in response to changing circumstances whether personal to an Executive Director or otherwise subject to the cost of any changes being largely cost neutral.</td><td>No performance measures attached.</td><td>There have been no changes to the 2013 policy.</td></tr>
<tr><td colspan="4">Pensions</td></tr>
<tr><td>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.</td><td>The Executive Directors participate in a defined contribution pension scheme with employer contributions varying between 7.5% and 9.5% of basic salary. If regulatory maxima have been reached, the executive can elect to receive the balance of the contribution as cash.</td><td>No performance measures attached.</td><td>Change to allow pension contributions to be taken in cash once regulatory maxima have been reached.</td></tr>
</table>

DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY REPORT (CONTINUED)

Future policy table (continued)
Executive Directors' remuneration (continued)

Purpose and link to strategy	Operation	Performance measures and maximum	Changes to 2013 policy
Short-Term Incentive (STI) scheme			
To drive and reward achievement of the Group's business plan and key performance indicators. To help retention and align the interests of Executive Directors with those of shareholders.	The 2014 STI Scheme is discretionary. Awards are based on the Committee's assessment and judgement of performance against specific performance targets and Group strategic objectives, assessed over a financial year. Provided the minimum performance criteria is judged to have been achieved then an award will be granted in two parts; at least 35% into deferred share awards in the shape of nil cost options which will vest after a 3 year deferral period and the balance in cash. Dividend equivalents accrue in cash with interest thereon in respect of the deferred share awards between the date the share award is granted and the date the options are exercised. It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Implementation Plan. The Committee can apply malus provisions to unvested awards, for example, in the event of misstated performance or misconduct.	Performance is measured based on the financial results of the Group and its strategic priorities, together with the performance of the Executives in relation to specific objectives. The main weighting is given to financial results – typically 80%. The targets may include costs, IFRS pre-tax profit, EEV operating profit, cash generation, Group objectives and personal performance. STI Scheme targets are commercially sensitive and therefore, not disclosed. Actual targets and results will be disclosed in the Annual Report immediately following each performance period. For the 2014 STI award the measures and their weighting are: – IFRS pre-tax profit 50% – EEV operating profit 30% – Group Strategic objectives 20% The Committee may substitute, vary or waive the performance measures in accordance with the Scheme Rules. The maximum award is 100% of basic salary, however the STI Scheme award for 2014 is limited to 75%.	The Remuneration Committee has undertaken a review of the remuneration policy during 2013. This is a new scheme for which shareholder approval is being sought at the AGM. More information is set out in the notes to this table and in the Resolution on page 199.
Long-Term Incentive (LTI) scheme			
To incentivise the delivery of the longer-term strategy by the setting of stretching targets based on shareholder value, and to help retain key executives and increase their share ownership in the Company.	The 2014 LTI Scheme is discretionary. Awards are made under a performance share plan, with no exercise price. The right to receive shares awarded will be based on achievement of performance conditions over a minimum three-year period. It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Implementation Plan. The Committee may apply malus provisions to unvested awards, for example, in the event of misstated performance or misconduct.	For 2014 vesting is dependent on two equally weighted performance measures: **1. Total Shareholder Return:** Performance conditions are based on total shareholder return of the Company when compared to that of the companies comprising the FTSE 350 High Yield Index. No payout will be made unless the Company achieves at least median performance. Full vesting will be achieved if the Company is at the upper quartile compared to the peer group. **2. Group Embedded Value:** This target is commercially sensitive and therefore, not disclosed. Actual targets and results will be disclosed in the Annual Report for the year in which an award vests. The assumptions underpinning the calculations are subject to independent actuarial scrutiny. The Committee may substitute, vary or waive the performance measures in accordance with the Scheme Rules. The maximum award is 100% of basic salary, however the LTI Scheme award for 2014 is limited to 75%.	The Remuneration Committee has undertaken a review of the remuneration policy during 2013. This is a new scheme for which shareholder approval is being sought at the AGM. More information is set out in the notes to this table and in the Resolution on page 199.

Non-executive Directors' remuneration

Purpose and link to strategy	Operation	Performance measures and maximum (where applicable)	Changes to 2013 policy
Fees			
To recruit and retain independent individuals with the skills, experience and qualities relevant to the role and who are also able to fulfil the required time commitment.	Fees for the Chairman are determined and agreed with the Board by the Committee (without the Chairman being party to this). Non-executive Director fees are determined by the Chairman and the Executive Directors. Fees are reviewed periodically and in setting fees consideration is given to market data for similar roles in companies of comparable size and complexity whilst also taking account of the required time commitment. All Non-executive Directors are paid a base fee. Additional fees are paid to the Senior Independent Director, the chair of Board Committees and to other Non-executive Directors to reflect additional time commitments and responsibilities required by their role. Since our last report and following a review of market practice on fees for similar sized organisations, the Chairman's fees have been increased by 11.1% from £90,000 to £100,000 effective from 1 January 2014. The last increase was in 2010. The Remuneration Committee Chairman will be paid an additional fee of £5,000 in 2013 and 2014 to reflect the increased time commitment required to support the changes to the company's remuneration policy and other regulatory requirements.	Fees for the Chairman and Non-executive Directors are not performance related. Reflecting the periodic nature of the fee reviews, increases at the time they are made, may be above those paid to Executives and/or other employees.	There have been no changes to the 2013 policy.

DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY REPORT (CONTINUED)

Explanatory notes:

1. Why these performance measures were chosen and how performance targets are set

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

LTI Scheme – The performance measures for the LTI Scheme have been selected for their alignment to shareholder interests using an absolute measure (growth in Group EEV) and a comparative measure (TSR). The measures and the targets are set by the Committee. The maximum potential award for the Group EEV measure requires significant outperformance of budgeted targets. The TSR measure uses the FTSE 350 High Yield Index over a 3 year period with averaging during the first and last month. The Committee currently considers this to be an appropriate comparator given Chesnara's strategic aims and focus on dividend payments.

In setting targets for both Schemes, the Committee exercises its judgement to try and ensure that there is a balance between stretch in the targets and the company's risk appetite. Full details of the performance measures, weightings and targets and the corresponding potential awards are set out in the Implementation Plan. (For 2014 see page 66).

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

2. Changes to the Executive Directors' incentive schemes

The Committee has undertaken a wide ranging review of the Executive Directors' incentive schemes primarily to better align the interests of Executive Directors and shareholders; and to improve the balance of awards between short-term results and achievement of longer-term strategic initiatives. The review has resulted in two new schemes being put to shareholders for approval at the 2014 AGM.

Short-Term Incentive (STI) scheme

The Committee has made the following changes in relation to its approach to short-term incentives to address concerns that have been expressed about the previous arrangements and to better align the Executive Directors' interests to those of shareholders:-

(i) moved away from a single performance measure (IFRS pre-tax profit) to a broader range of measures – including Group strategic objectives;

(ii) each year, the Committee will determine the measures and their weighting 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) replaced a purely cash-based award without any deferral with an award that is part cash and part share award deferred for a further 3 years. For 2014 the award is 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;

(iv) the period during which unvested awards may be withheld under the terms of the malus provisions has been extended by virtue of the introduction of a 3 year deferred period for part of the award; and

(v) it is the intention of the Committee to make a new award each year.

Further information about the new 2014 STI Scheme can be found in the Scheme Summary on page 79.

Long-Term Incentive (LTI) scheme

Following its review the Committee believes this new scheme provides a more transparent approach to long-term incentives and better aligns the interests of Executive Directors with those of shareholders. More specifically:

(i) replaced a purely cash based award with a performance share plan;

(ii) moved away from a single absolute performance measure (EEV) to use of 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 at least three years and exactly three years for the awards made in 2014; and

(v) it is the intention of the Committee to make a new award each year.

Consistent with the previous LTIP, malus provisions are included.

Further information about the new 2014 LTI Scheme can be found in the Scheme Summary on page 80.

Changes common to both new incentive schemes

Maximum Potential Awards

Under the existing incentive arrangements, the potential maximum award is 100% of basic salary and is shared between the annual and long-term plans. The maximum is now 75% and applies to each new Scheme independently which has the effect of increasing the Executive Director's overall maximum potential across the two Schemes. The Committee is of the view that independent maxima are preferable in order to remove any potential bias in the Executive Directors' behaviours to favour creation of good short-term results at the expense of creating value over the longer-term. Additionally, the Committee is of the view that the revised quantum (75% of basic salary for each award in 2014) strikes the right balance between being motivational for the Executive Directors and not excessive either in absolute terms or by comparison with the market. The Committee may, in future years, increase the maximum award for the STI Scheme and/or the LTI Scheme up to 100% of basic salary if it considers that the targets justify a higher potential reward.

Minimum shareholding requirement

In order to further align the Executive Directors' interests with those of shareholders, a minimum shareholding requirement has been introduced 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. Details of Executive Directors' shareholdings and the extent to which the requirements have been met are disclosed on page 79 of the Annual Report on Remuneration.

Existing incentive plans

Vesting of outstanding awards made under existing plans will be dependent on the performance conditions and other rules of the Long-Term Incentive plan under which the awards were granted.

3. Differences in policy compared with other employees:

The following note outlines any differences in the Company's policy on Executive Director remuneration from other employees of the Group.

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

4. Other

The Company currently operates an SAYE scheme which expires in 2014. The Committee has the discretion to renew the SAYE scheme, a tax efficient all employee scheme in which Executive Directors are eligible to participate.

Approach to remuneration on recruitment

The following principles apply when recruiting Executive Directors:

- To offer a remuneration package that is sufficient to attract individuals with the skills and experience appropriate to the role to be filled whilst also being consistent with this Policy. In addition to salary and variable remuneration, this may include pension, taxable benefits and other allowances such as relocation, housing and education.
- Pay levels will be set taking account of remuneration across the company including other senior appointees, and the salary offered for similar roles by other companies of similar size and complexity.
- Each element of remuneration offered will be considered separately and collectively in this context.
- The maximum awards in respect of the STI Scheme and LTI Scheme as set out in the table on pages 79 and 80 apply in recruitment situations, save that exceptionally the Company may award a one-off compensatory bonus or LTI award where the new joiner would lose a bonus or long-term award relating to his or her former role. In the event that such a payment is made, full details will be disclosed in the Annual Report on remuneration for the relevant year.

DIRECTORS' REMUNERATION REPORT

REMUNERATION POLICY REPORT (CONTINUED)

Service contracts and loss of office

Executive Directors

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

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

The Committee has discretion to classify an employee as a Good Leaver or a Bad Leaver and to determine the treatment of their outstanding awards upon departure.

Typical treatment in relation to salary, benefits and outstanding incentive awards for leavers under each scenario is shown below:

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

Non-executive Directors

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

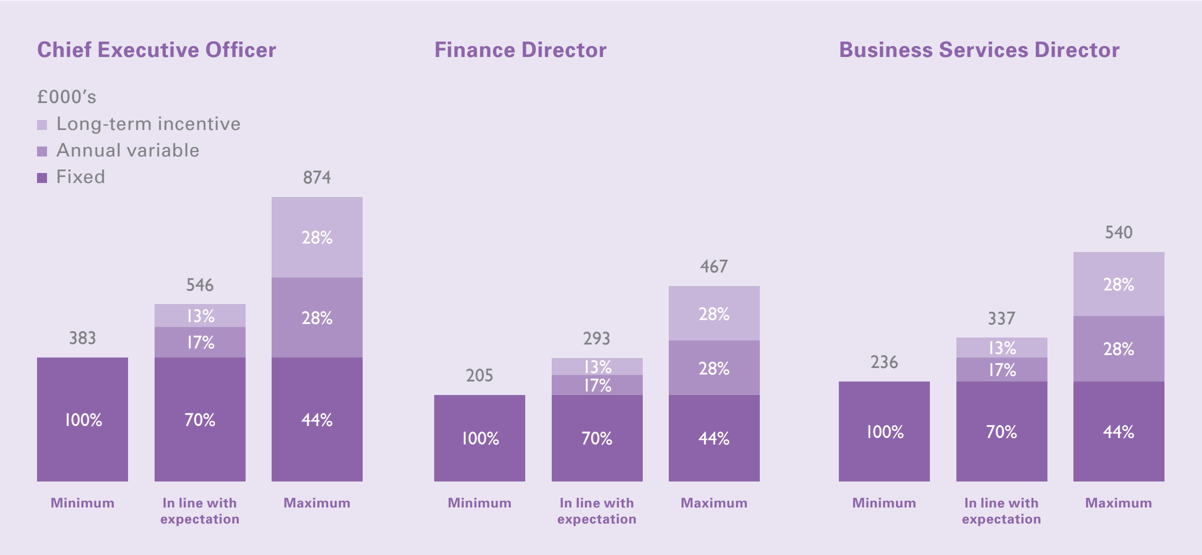
Other Directorships

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

Illustration of application of Remuneration Policy

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

The charts below provide estimates of the potential future reward opportunities for each Executive Director, and the potential split between the different elements of remuneration under three different performance scenarios: 'Minimum', 'In line with expectation' and 'Maximum'. The illustration assumes that the 2014 Policy applies throughout the period and that the new STI and LTI Schemes are both approved by shareholders.



Minimum

The table below analyses the constitution of the minimum earnings projection for 2014:

Director	Salary and fees £000	Benefits £000	Pension £000	Total fixed pay £000
Chief Executive Officer	326	21	36	383
Finance Director	166	15	24	205
Business Services Director	198	14	24	236

The pension information above includes both employee and employer contributions. Employee pension contributions are funded by way of a salary sacrifice arrangement and as such are reported as part of the pensions value with a corresponding reduction in salary. The employer contribution element of the pension value varies by Director, and is between 7.5% and 9.5% of gross basic salary before salary sacrifice items.

Statement of shareholder views

The review of Executive Director incentives which has been carried out during 2013 by the Remuneration Committee has taken into account views expressed by shareholders in connection with the 2012 Remuneration Report.