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Chesnara

Annual Report and Accounts 2011

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Forward-looking statements

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

Note on terminology

As explained in Note 8 to the IFRS financial statements, the principal reporting segments of the Group are

- (1) CA, which comprises the business of Countrywide Assured plc, the Group's original UK operating subsidiary, and of City of Westminster Assurance Company Limited, which was acquired by the Group in 2005 and the long-term business of which was transferred to Countrywide Assured plc during 2006,
- (2) S&P, which was acquired on 20 December 2010 and is the balance of the Group's UK business. This business was transferred from Save & Prosper Insurance Limited and Save & Prosper Pensions Limited to Countrywide Assured plc on 31 December 2011 under the provisions of Part VII of the Financial Services and Markets Act 2000 (referred to in this document as 'the Part VII Transfer'), and
- (3) Movestic, which comprises the Group's Swedish business, Movestic Livförsäkring AB and its subsidiary and associated companies.

In this Report and Accounts

- (i) The CA and S&P segments may also be collectively referred to as the 'UK Business',
- (ii) The Movestic segment may also be referred to as the 'Swedish Business',
- (iii) 'CA' may also refer to Countrywide Assured plc, as the context implies,
- (iv) 'CWA' refers to City of Westminster Assurance Company Limited or to its long-term business funds transferred to Countrywide Assured plc
- (v) 'S&P' may also refer collectively to Save & Prosper Insurance Limited and Save & Prosper Pensions Limited, as the context implies,
- (vi) Where it is necessary to distinguish reference to Save & Prosper Insurance Limited and Save & Prosper Pensions Limited, or to the businesses subsisting in those companies prior to the transfer referred to above, they are designated 'SPI' and 'SPP' respectively, and
- (vii) 'Movestic' may also refer to Movestic Livförsäkring AB, as the context implies.

OVERVIEW AND STRATEGY

IN THIS SECTION

Page 3	Performance Highlights
Page 4	Chairman's Statement
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2011 Highlights Note 1

Financial

- Increase in IFRS pre-tax profits of 22% to £22.4m (2010: £18.3m, excluding exceptional profits on the acquisition of S&P and Aspis of £15.9m) [see *Financial Review Page 19*]
- IFRS pre-tax profits for 2011 include £12.4m profit arising from the alignment of actuarial assumptions following the Part VII Transfer.
- Net cash generated during 2011 of £25.4m^{Note 2} (2010: £42.6m). [see *Cash Generation Page 21*]
- Reduction in EEV from £354.6m to £294.5m mainly arising from adverse economic experience and assumption changes of £49.5m. [see *Financial Review Page 24*]
- Pre-tax operating EEV profit (including uncovered business) increased to £12.5m from £0.3m. [see *Financial Review Page 22*]
- Strong Insurance Group Directive solvency cover of 198% (2010: 200%). [see *Financial Management Page 28*]
- Proposed final dividend increased by 2.8% to 10.9p per share

Operational

- Successful Part VII Transfer of S&P funds into CA.
- Effective operational integration of S&P into the Chesnara Group, with full integration of governance procedures.
- Constructive ongoing re-negotiation of core outsource arrangement in the UK.
- Good regulatory compliance record continues.
- Increase in new business market share in the core Movestic unit-linked pensions target market.

Notes

- 1) Throughout the Chairman's Statement, Chief Executive Review and Financial Review sections following, all results quoted at business segment level exclude the impact of consolidation adjustments relating to the amortisation of acquired VIF and other consolidation adjustment, arising on the acquisition of Movestic. These consolidation adjustments are analysed by business segment on page 19
- 2) Net cash generation in the year is defined as the net amount of the following items
 - (i) The change in the excess of actual regulatory capital resource over target capital resource in respect of the CA and S&P operating segments to the extent that distribution of the excess to shareholder funds is not restricted,
 - (ii) Capital contributions made by the Group to the Movestic operating segment, and
 - (iii) Cash utilised by Parent Company operations

Details of target capital resource are set out in Note 32 to the IFRS financial statements

Chairman's Statement

As with any Financial Services organisation, Chesnara is influenced by the general economic climate in which it operates. During 2011 there was a decline in both UK and Swedish equity markets and also a marked reduction in global bond yields, together with a general level of uncertainty and lack of confidence due to the Eurozone crisis. Whilst, clearly, the Board of Chesnara cannot directly influence market conditions, we do have the responsibility to ensure we make business decisions to ensure the Group can weather economic downturns and continue to create shareholder value.

I am reassured that the Chesnara Group has proven to be resilient to the current difficult economic climate in terms of IFRS earnings, solvency, cash and dividend paying capacity. The EEV results have, predominantly due to investment market effects, fared less well. We benefit from our long established values which put responsible risk management at the heart of all decisions we make. The cumulative impact of our responsible risk-based decision making has resulted in a business that has minimised the level of exposure to external economic conditions.

- Unit-linked policies are at the core of Chesnara's in-force book (78% of our year-end UK and Swedish liabilities relate to unit-linked contracts), with the policyholder bearing market risk.
- Our stringent acquisition assessment criteria and investment management frameworks have resulted in only minimal exposure to high risk sovereign debt.
- Investment policy is strongly influenced by the objective to protect capital and minimise market and credit risk. Chesnara's outsourced investment management mandates and executive remuneration schemes create no positive incentive to pursue complex, short-term or high-risk investment portfolios and as such our financial assets have limited exposure to derivative instruments.

In short we have a relatively low-risk and transparent investment model and an efficient operating platform.

There has, however, inevitably been a degree of investment market strain on the underlying results. The S&P with-profit guarantees become, by their nature, increasingly onerous as bond yields decline and the core fund-based income streams for the Movestic Pensions and Savings business suffer as equity values fall. Results on an EEV basis are significantly more sensitive to investment market volatility than the IFRS results. This is because the EEV result recognises the cumulative future impact of any short term adverse investment market conditions. High-level analysis of the financial results, including specific reference to investment market impacts, is provided later in my statement.

Despite the short term pressure on the results of the recently acquired businesses, I am encouraged by the continued development and integration of both S&P and Movestic.

As expected, the acquisition of S&P has resulted in an increased level of earnings volatility for the UK business. In light of this the successful integration of S&P into the Group governance and risk management framework has been a priority during 2011. A key requirement to drive shareholder value from the S&P acquisition was to transfer the long-term insurance funds into the CA fund. The successful Part VII Transfer during the year was, therefore, a significant achievement and the year-end results incorporate fiscal and capital synergies arising from the transfer. Such benefits have effectively sheltered the Group from any underlying with-profit strain during the year resulting from the decline in bond yields. In light of the above, I remain confident that the long-term value from the S&P acquisition will significantly outweigh the impacts from short-term volatility.

Trading conditions have been difficult for Movestic. The short-term focus has been on enhancing the core Pension and Savings proposition. Operating platforms have been improved and new products are being developed such that we are in a good position to take advantage of any future recovery in the investment and new business markets. This is evidenced by an encouraging increase in new business market share towards the end of 2011.

CA IFRS profits have continued to prove relatively immune to investment market movement and this, together with the effect of distributions from surplus funds arising on the acquisition of S&P in 2010, has contributed to a strong proposed cash distribution to Chesnara of £44m. The CA operation remains at the heart of our business model and as such the level of continuing cash generation is encouraging.

IFRS Results

On the IFRS basis, we have achieved a pre-tax profit of £22.4m for the year ended 31 December 2011. This compares to a pre-tax profit, excluding £15.9m of profits arising on the acquisition of S&P and Aspis, of £18.3m for the year ended 31 December 2010. Profits from the core CA closed book which is in run-off, have remained relatively resilient to adverse investment market conditions (2011 - £25.7m, 2010 - £29.4m). The 2011 result includes a £7.5m profit from the recently acquired S&P business for which the benefits accruing from the Part VII Transfer, including the recognition of a £12.4m profit arising from the alignment of actuarial assumptions, have exceeded the adverse impact of a reduction in bond yields. There is a £2.8m improvement in the Movestic result which has moved from loss to a small profit. The IFRS results are analysed in more detail within the "Financial Review" section on page 19.

EEV Results

On the EEV basis of reporting, excluding the profit arising on the acquisition of S&P and Aspis and the effects of modelling adjustments in Movestic, we made a loss after tax of £(29.8)m for the year ended 31 December 2011, compared with a profit after tax of £18.9m for the year ended 31 December 2010. Investment market factors directly account for a year-on-year decline of £71.9m. Adverse economic experience and assumption items of £49.4m dominate the 2011 loss. However, in contrast to this, the underlying operating result has improved by £12.2m in 2011. The EEV results are analysed in more detail within the "Financial Review" section on page 22.

Solvency and Cash Generation

The capacity of the Group to pursue its dividend policy relies on the continuing generation of cash in the UK businesses. During 2011 cash generation was £25.4m including significant synergies of £12.4m arising from the Part VII Transfer. This healthy outcome supports a proposed dividend of £44m from CA to Chesnara and is reinforced by a strong post-dividend solvency ratio of 183% in CA as at 31 December 2011. The associated Group solvency ratio was also strong at 198%.

We have continued to make good progress on the implementation of Solvency II requirements and further information on this is provided on page 33.

Dividend

Continuing surplus generated from the CA book together with the positive impact of the Part VII Transfer of S&P, enables the Group to continue its progressive dividend policy. The 2011 full year dividend of £19.3m represents a 2.8% increase over the prior year.

People and Business Partners

The fact that we end the year in good shape and well positioned for the future is largely due to the skill and dedication of our people and those within our outsource partners.

I greatly value the professional relationship with our operational and investment management partners. In light of this, the ongoing renegotiation of the outsourcing contract with HCL is a positive development which is expected to ensure UK CA policyholders and shareholders will continue to benefit from the servicing and commercial benefits of our UK operating model for the long-term.

Delivery of the strategic objectives of the Group, as detailed in the "Our Vision and Strategy" section on page 6, is highly dependent on the skills, professionalism and integrity of our people. The successful implementation of the Part VII Transfer, the continued positive relationship with regulators and the significant level of business change undertaken in Sweden are all testament to the quality and dedication of all involved.

In recognition of this key dependence on our people, we have invested in the governance infrastructure during the year and have achieved impressive levels of staff retention.

During the year we set up a Share-save scheme that enables UK staff to invest in the future success of the Group.

Corporate Governance

We note the continuing dialogue relating to the corporate governance of publicly listed companies and I provide further comment in my overview on page 35.

Business Development

Whilst the Group has weathered the storms in investment markets in 2011 we are not complacent regarding future challenges particularly as regards the economic impact that may arise from any Euro bond default. Therefore we will continue to work to protect shareholder value whilst not unnecessarily restricting any upside the expected recovery in markets may bring. As part of this we will continue to investigate acquisition opportunities and we will only progress these where we see value and a clear strategic fit. Businesses in the UK and Western Europe will be considered and, as ever, we will continue to apply strict financial and risk criteria when we assess them.

Outlook

Investment markets have shown signs of recovery in the first quarter of 2012. However, we do not take market recovery for granted and our financial and capital management procedures will continue to recognise the risk of continued poor or indeed worsening economic conditions. The decline in EEV earnings for 2011 is considered to be of a short-term nature and even if investment market recovery does not arise, the modelling of our business, indicates continued healthy cash generation and a solvency capital surplus in both base and adverse stress scenarios.



Peter Mason
Chairman
29 March 2012

Mission and Vision

Mission

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

Vision

To be recognised as a responsible and profitable company engaged in the management of life and pensions books in the UK and Western Europe through

- Commitment to the core business of closed UK life and pensions book management
- Further acquisitions where they meet stringent assessment criteria
- Realisation of increasing economies of scale
- Continued delivery of competitive returns to shareholders and policyholders

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

Strategic Objectives

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

MAXIMISE VALUE FROM THE IN-FORCE BOOK

Why is this of strategic importance?

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

How do we deliver this strategic objective?

We proactively manage continuing financial exposures

- Significant financial exposures in life and pensions portfolios typically arise in the areas of onerous policy options and guarantees and of compensation claims for past mis-selling of products. The Group's portfolios have, historically, had very little exposure to the impact of investment market performance on options and guarantees. However, just under 30% of the policies managed by S&P, which was acquired in December 2010, contain guarantees to policyholders and therefore the Company's exposure has increased. Furthermore, it continues to have exposure to market falls by way of policyholders' linked funds, which have expanded significantly following the purchase of S&P, and from which surplus is generated. We seek to minimise this exposure by regular review of investment asset holdings and by adjusting investment manager guidelines where appropriate and within the boundaries of our obligations to policyholders.

We operate in a manner that ensures policy attrition is as low as possible, as this is a key determinant of our future profitability and of the level and longevity of the emergence of surplus, which underpins our dividend-paying capacity

- We will continue to invest in a service proposition that ensures a high level of customer satisfaction
- We continue to maintain a strong focus on the retention of policies where it is in the interest of customers to continue with their arrangements

We continue to manage investment performance so as to provide a competitive level of return to our policyholders. The CA funds are primarily managed by Schroder

Investment Management Limited while the CWA funds continue to be managed by Insh Life Investment Managers Limited. The S&P funds are managed by JPMorgan in order to maintain continuity for policyholders. We meet formally with fund managers on a quarterly basis to assess past performance and future strategy.

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

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

- UK operations are predominantly outsourced, with contract charging structures that ensure a significant element of the cost base is variable in line with book run off.
- Acquisitions are integrated into the Chesnara Group in a manner to ensure optimum operational and financial synergies.

Risks associated with this strategic objective

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

ACQUIRE LIFE AND PENSIONS BUSINESSES

Why is this of strategic importance?

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

How do we deliver this strategic objective?

Ultimately we rely on acquisition opportunities being available in the market. To maximise our opportunities we have extended our target market beyond the UK, to include Western Europe.

We actively engage various investment bank advisers (including Hawkpoint Partners Ltd on a retained basis) to ensure we are aware of acquisition opportunities. We extend our network to cover opportunities in the UK and Western Europe.

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

We will not pursue opportunities which do not meet very stringent assessment criteria.

Risks associated with this strategic objective

- If Chesnara make no further acquisitions there will be a potential strain on the per policy unit costs of the existing business.
- Any departure from the current, stringent acquisition assessment criteria and due diligence procedures could result in an acquisition that, under certain stress scenarios, adversely impacts the financial strength of the Group.

ENHANCE VALUE THROUGH NEW BUSINESS IN SELECTED MARKETS

Why is this of strategic importance?

- Although the Chesnara business model primarily focuses on “closed book” consolidation, where acquisitions offer the potential to write new business at an adequate return on capital we will continue to invest in the new business operations so as to maximise value from the business
- Maintaining a flexible position regarding the willingness to remain open to new business will potentially increase the potential number of acquisition targets and indeed our attractiveness to such targets

How do we deliver this strategic objective?

Currently the only part of the Chesnara Group writing material levels of new business is Movestic, our operation in

Sweden. Movestic has a new business operation that delivers a positive new business contribution. There are detailed business plans in place that aim to increase new business profits through a combination of new product launches and improvements to operational effectiveness. Local and group management receive management information to enable a continuous assessment of the performance to ensure being open to new business continues to enhance value.

Risks associated with this strategic objective

- New business volumes fall below levels required to ensure sufficient return on the acquisition cost base
- Product margins fall to unsustainable levels due to factors including, market price pressures, reduced investment growth, increased policy lapse rates and increasing maintenance unit costs

MAINTAIN A STRONG SOLVENCY POSITION

Why is this of strategic importance?

Adequate solvency capital

- Protects against volatility particularly due to external economic conditions outside management control
- Supports potential acquisition opportunities
- Supports ongoing dividend capability

How do we deliver this strategic objective?

We ensure the Board are furnished with high quality information regarding the solvency position. This includes information regarding the actual solvency position together with the projection of solvency under stress scenarios.

The management team tracks the performance of the key factors known to impact the solvency position. Trigger points are set and documented such that management action will be instigated should any of the key trigger points be reached. The setting and review of trigger points is an integral component of the Group's risk appetite model.

Potential acquisitions are assessed by taking a prudent view on not only the short term impact on the Group's Solvency position but also giving full consideration of the potential risk to long term solvency.

Risks associated with this strategic objective

- Sustained adverse economic conditions outside of “risk appetite” tolerances will erode the solvency surplus

ADOPT GOOD REGULATORY PRACTICE AT ALL TIMES

Why is this of strategic importance?

Chesnara management fully recognise the benefits to both shareholders and policyholders of adherence to good regulatory practice. We comply not because the regulations insist but because the rules clearly reflect good, responsible business management and governance.

How do we deliver this strategic objective?

We maintain a strong internal risk management culture and regime throughout the Group and we maintain systems and controls which satisfy regulatory requirements at all levels. Details of the key processes we utilise to identify, evaluate and manage the risks within the Group can be found on page 30.

The UK and Swedish life assurance and pensions industries are both highly regulated, in terms of both the conduct of business operations and of financial reporting. We place particular emphasis on managing our regulatory compliance through a proactive and prudent approach and on maintaining a positive relationship with our principal regulators, the Financial Services Authority (“FSA”) and the Finansinspektionen (“FI”).

Accordingly, significant effort is directed towards ensuring that the operations are effectively managed in terms of conduct of business regulations and of prudential solvency requirements and towards the significant change that is required in the business to implement Solvency II and to ensure continuing compliance with its requirements.

Continued

Overview and Strategy

Our Vision and Strategy

How do we deliver this strategic objective? continued

We have developed a strong Governance core at the heart of the Chesnara operating model, which is operated within a robust and effective Corporate Governance framework

- All governance roles, with direct impact on regulatory compliance, are carried out by people with significant industry experience
- The level of investment in the Governance team is fully reflective of the Board's recognition and understanding of the implications and challenges of effective adherence to all regulatory best practice

- The Chesnara culture ensures other objectives do not conflict with the objection to adopt good regulatory practice at all times

Risks associated with this strategic objective

The key risk relating to regulatory compliance is that rules and regulations are poorly understood or implemented

DELIVER VALUE TO STAKEHOLDERS ON A RESPONSIBLE AND BALANCED BASIS

Underlying the fulfillment of strategic objectives is the core value shared by the Board and Management Team of recognising responsibilities to all stakeholders on a balanced basis

Often decisions are required that may have conflicting impacts on the different stakeholders. Maintaining a balanced view across the stakeholder groups is critical to ensuring management continue to make decisions that will benefit all stakeholders in the longer term

The general governance framework ensures controls and procedures are in place to protect all stakeholders. The effectiveness of the framework is enhanced by the fact that the value of responsibility to all stakeholders is shared by the Board and Management Team

The Chesnara Business

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

2004	Chesnara listed on the London Stock Exchange, following its acquisition of CA on the latter's demerger from Countrywide plc, a large estate agency group. CA is a substantially closed UK Life and Pensions business whose portfolio predominantly comprises unit-linked endowment and protection policies.
2005	Chesnara acquired CWA from Irish Life and Permanent plc for a consideration of £47.8m, funded principally by a mixture of debt and new equity capital. CWA is also a substantially closed UK Life and Pensions business. Its portfolio, which is also predominantly unit-linked, comprises endowments, protection and pensions policies.
2006	The long-term business of CWA was transferred to CA under the provisions of Part VII of the Financial Services and Markets Act 2000 ('FSMA'), thereby realising significant financial and operational synergies.
2009	Chesnara acquired Movestic Liv, an open predominantly unit-linked Swedish Life and Pensions business, for £20m at a significant discount to its embedded value. Subsequently a new subsidiary, Movestic Kapitalförvaltning was established to separate out fund selection and management activities from Movestic Liv and to develop these services in the wider marketplace.
2010	Movestic acquired the in-force business, personnel, expertise and systems of Aspis Forsakrings Liv AB, a small Swedish life and health insurer, thereby complementing Movestic's existing focus on pensions and savings contracts. Chesnara acquired SPI and its subsidiary, SPP, from JPMorgan Asset Management Limited for a consideration of £63.5m, funded by a mixture of debt and new equity capital. SPI and SPP are also closed UK Life and Pensions businesses whose portfolios predominantly comprise unit-linked pensions policies, endowments (some with profits) and protection policies.
2011	The long-term business funds and part of the shareholder funds of SPI and SPP were transferred to CA under the provisions of Part VII of FSMA, thereby realising significant financial and operational synergies.

The higher proportion of pensions policies in the successive acquisitions made by Chesnara has progressively increased the overall longevity of its run-off portfolio, while diversifying the policy base. At 31 December 2011, the Group had 136,000 life policies and 269,000 pensions policies in force.

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

Business Model

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

- Chesnara plc and the UK business activities are based in Preston, Lancashire with a small office in the City of London. Movestic is based in Stockholm in Sweden and has an administration office in Norrköping in southern Sweden. Chesnara has 22 FTE employees in its corporate governance team in the UK. In Sweden, the headcount, across the two sites, is 134.

UK

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

Sweden

- The primary focus of the Swedish business is to grow market share in the company-paid and individual pensions market, whilst developing further profitable business in other areas, in particular in the risk and health market. Writing new business requires funding to support the initial costs incurred; this is provided by way of external financial reinsurance or cash contributions from Chesnara. As the in-force business portfolio grows in scale the income generated by it eventually allows the business to self-fund and become a net generator of cash. Movestic is targeted to reach this pivotal point over the next two years.
- In Sweden, as the Movestic book is open and in a growth phase, we retain a broader-based management and operational team. Rather than outsource core functions, we believe that it is important that the drive and team ethic of Movestic is preserved as they seek to grow profitable market share in our target markets, whilst maximising the strategic and organisational opportunities presented by the acquisition of Aspis. We do, however, outsource the provision of IT infrastructure as this mitigates operational risk and, whilst Movestic manages the selection of appropriate investment funds, investment decisions are made solely by the fund managers.



PERFORMANCE

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Chief Executive's Review

Challenging times, especially in investment markets, but we remain well placed to meet our objectives

Highlights:

Despite difficult investment market conditions the Group delivered an IFRS pre-tax profit of £22.4m (2010: £18.3m, excluding exceptional profits on the acquisition of S&P of £15.9m)

The increase in IFRS pre-tax profits for 2011 includes £12.4m arising from the alignment of actuarial assumptions following the Part VII Transfer.

Movestic has generated a first-time IFRS pre-tax profit (excluding consolidation adjustments) of £0.4m (2010: £2.6m loss)

Equity market performance and the falling yield curve, have had an adverse impact of £49.4m on the EEV result.

Despite investment market conditions both cash generation and group solvency remain strong

Full and effective integration of Save & Prosper, including completion of the Part VII Transfer

Constructive ongoing re-negotiation of the core outsource arrangement to provide longevity of the UK business model

Insurance Group Directive Solvency

198% (2010: 200%)

Group IFRS pre-tax Profit

£22.4m (2010: £18.3m, excluding exceptional profits on the acquisition of S&P of £15.9m)

Group EEV net of tax Result*

£(29.8)m loss

(2010: £18.9m profit)

**Excluding exceptional profits on acquisitions and the impact of EEV modelling adjustments (2011: £(10.3)m loss, 2010: £13.2m profit)*

Review of the Year

Both IFRS and EEV results during the year have been impacted by the downturn in equity markets and the general decline in bond yields, although benefits from the successful Part VII Transfer of S&P have mitigated this impact. Other than a slight positive effect, on both the IFRS and EEV bases, arising from falling bond yields in the CA book of business, market movements have been universally adverse. The acquisitions of S&P, in December 2010, and Movestic have increased the volatility of profits, particularly in terms of short-term sensitivities. S&P is, as highlighted at the time of purchase, sensitive to falling bond yields due to a portion of the product base having investment return guarantees for policyholders whilst Movestic is sensitive to equity market movements as a significant part of its current and future earnings arise from the value of funds under management.

Investment in our operating model, which is required to ensure we continue to provide high quality service to our policyholders and to protect the longevity of the UK business outsource operating model upon which our strategy is based, has had an adverse impact on the Group cost base. Revised commercial terms have been agreed in principle with HCL, which has resulted in an increase in IFRS reserves of some £8m and EEV reserves of some £7m. The impact on the 2011 results is partially mitigated by the release of an opening £4.5m provision. Further information regarding the performance of our major business segments, namely the UK closed book operations and Movestic, our open book operation in Sweden, is presented

in the following sections together with a number of Key Performance Indicators. The IFRS and EEV results are analysed in more detail within the Financial Review (page 18).

On the positive side, cash generation from the UK book has proved resilient to the adverse market conditions and the Group and subsidiary solvency positions remain strong, which enables us to continue with our progressive dividend policy. We have minimal exposure to euro-denominated sovereign debt.

Outlook

Clearly management does not take market recovery for granted and our financial and capital management procedures recognise the risk of continued poor or indeed worsening economic conditions. However, we regard decline in earnings for 2011 as being of a short-term nature. Even if this is not the case, the projections we produce as an integral part of our financial management procedures indicate continued healthy cash generation and a solvency capital surplus in both base and adverse stress scenarios.

The Group continues to investigate further acquisition opportunities and we will progress these where we see value and a clear strategic fit. We remain open-minded as to location in the UK and Western Europe and, as ever, we will continue to apply our strict financial and risk criteria when we assess them.

UK Business Review

Despite difficult investment market conditions the core CA business reported a pre-tax IFRS profit of £25.7m (before consolidation adjustments) which contributed to a proposed distribution to the Chesnara parent company of £44m.

Highlights:

Benefits from the Part VII Transfer of S&P, including the recognition of a £12.4m profit arising from the alignment of actuarial assumptions, exceed the adverse impact of reductions in bond yields such that S&P has posted a £7.5m IFRS pre-tax profit during the year

Continued, effective operational integration of S&P into the Chesnara Group, with full integration of governance procedures.

Successful Part VII Transfer of the S&P business into CA

Good progress regarding renegotiation of the core outsource arrangement with HCL

Policy attrition rates better than expected and prior year.

Good regulatory compliance record continues

Review of the Year

This year has been focused on three areas – management of the assets in the light of the turmoil in equity markets and a falling UK yield curve, integration of S&P into the CA business including completion of the Part VII Transfer and seeking longevity as regards our outsourcing arrangements

Management of Assets

The acquisition of S&P has resulted, as signalled at the time of acquisition, in an increased level of earnings volatility for the UK business. S&P has a proportion of its product base that provides guaranteed returns. As asset values fall the cost of guaranteeing those returns increases, with a consequential impact on profitability. The converse of this is that as asset values rise, as might be expected in the medium term, the cost of the guarantees will fall. Linked to the cost of guarantees is the return we use in calculating our liabilities to policyholders – which in turn is linked to the yield curve. As the yield curve falls the rate we can use to value the liabilities to meet those guarantees also falls. Although there is a rise in the capital value of the matching assets this is outweighed by the effect of the yield drop in calculating the future returns. However, there are two elements of mitigation. Firstly the CA book of business acts as a partial hedge as the effect on that book is the reverse of the effect on the S&P book. This has mitigated, but clearly not wholly negated, the effects of the fall in the yield curve. The second element of mitigation has been the purchase of further higher-yielding fixed interest securities in the fourth quarter which has the effect of moving the valuation rate slightly upwards.

KEY PERFORMANCE INDICATORS:

IFRS Profit Before Tax*

£33.2m (2010 £29.6m)

*Excluding profits on the acquisition of S&P and AVIF amortisation

Cash Transfer to Chesnara Parent Company

£44m* (2010 £26m)

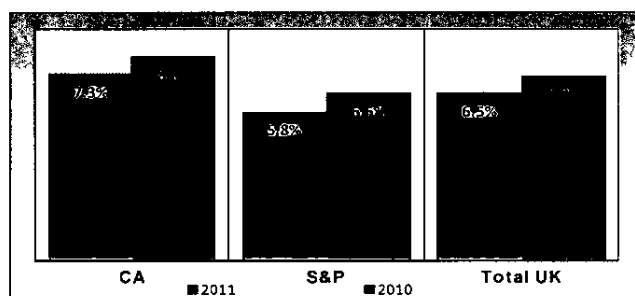
*Includes the effect of the distributions from surplus funds arising on acquisition of S&P in 2010

EEV Result net of tax

£(13.7)m loss (2010 £18.0m profit*)

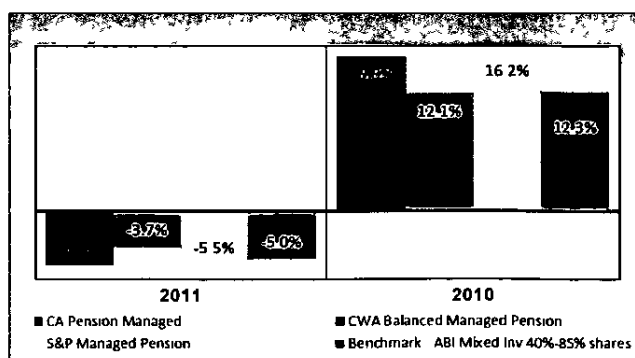
*Excluding profit on acquisition of S&P

Annual Policy Attrition Rate



Fund Performance

Relative outperformance in the unit-linked funds helps promote policy retention and, when positive, increases the embedded value of the Group as future management charges received will be of a higher magnitude. Returns on two of the funds in 2011 are below the comparable sector average although not considerably so and the longer term returns continue to be above benchmarks.



We have taken a measured approach to this as, in the medium to long-term, we see the yield curve moving upwards and do not want to significantly restrict the upside. It follows that the effective steps we have undertaken, together with the continued earnings stability from the CA and CWA books, mitigate the impact of short term S&P earnings volatility, such that, on a UK consolidated basis, the Board remain confident that the long-term value from the S&P acquisition will significantly outweigh short-term volatility experience.

Integration of S&P

We are very pleased that we have completed the operational integration of S&P within expected timescales. The business now operates in line with practice and procedures that have proven resilient for CA and, where appropriate, we have adopted existing S&P practices. In particular we have established a With-Profits Committee which is responsible for ensuring that the interests of the with-profits policyholders are maintained. We are also particularly pleased that the Part VII Transfer was completed at the end of the year. Despite some testing timescales the team worked hard to ensure that the process was completed before year end which allowed the transfer of the S&P long-term business into CA on 31 December 2011. Capital efficiencies will accrue immediately and we anticipate that further funds will be released when we deregulate the two S&P companies in the second quarter of 2012.

Outsourcing Arrangements

Following the acquisition of S&P we decided to investigate the possibility of extending the term of our outsourcing agreements. The original CA agreement with HCL was due to end in early 2015 and the S&P agreement was of indefinite term but contained provisions that allowed either party to terminate the agreements at two years notice or less. We took the view that we would seek a longer-term agreement and, as well as negotiating with HCL, we benchmarked costs by comparing with other potential suppliers' indicative terms. The commercial terms were agreed in principle in late December and give rise to an increase in the total cost base. An opening provision of £4.5m to cover this potential outcome restricted the adverse impact on the IFRS result to £3.5m and the impact on the EEV loss to £2.8m. Legal negotiations continue and we fully expect to sign the formal agreement in the very near future. The agreement will give us certainty of terms for the next 10 years with an agreed pricing basis for administrative services thereafter.

Unit Costs

A key area of focus for the UK operations is the management of expenses incurred in servicing the in-force life and pensions policy base. In particular we seek, through outsourcing arrangements, to maximise the proportion of costs which vary with policy volume. Continued attention to expense management, combined with the positive in-force book retention and the apportionment of fixed overheads across the broadening business segment base following the

acquisitions of Movestic and S&P, has resulted in a small reduction in the maintenance unit costs for the CA fund (2011 £42.50 per policy, 2010 £44.60 per policy).

No corresponding analysis is provided for S&P because prior year comparisons are not available. That said, management are confident that S&P unit costs are effectively controlled due to:

- i) a significant proportion of the cost base is variable in line with book run off, due to both asset management and policy administration being outsourced with variable charging structures,
- ii) policy attrition is relatively low, and
- iii) the S&P operation has been integrated into the Chesnara Group without a significant increase in total governance overhead thereby creating significant synergies.

Unit-linked Funds Under Management

The continuing level of unit-linked funds under management is an indicator of the ongoing level of profitability of the UK businesses as fund-related charges are an important component of profit. The movement in the value of unit-linked funds under management is a function of:

- i) performance of the funds across UK equities, international equities, property and fixed interest securities,
- ii) received and invested premiums, and
- iii) policies closed due to surrender, transfer or claim.

The combined impact of these three drivers has resulted in a reduction in Unit-linked Assets under Management from £2,475m at the end of 2010 to £2,190m at the end of 2011.

Other Issues

With regard to Solvency II implementation, a significant and increasing amount of work means that our progress remains in line with plans. Based on QIS5 calculations we do not foresee that any increase in solvency capital will be required.

Cash generation, despite the adverse market influences, remains strong. Whilst, in the short term, the expectation of cash releases from S&P has diminished, we do not see this as a particular issue as S&P was acquired as a medium to long-term underpin to the stronger, shorter-term cash generation from CA and CWA.

Swedish Business Review

First time IFRS pre-tax profit but Embedded Value negatively affected by investment markets and modelling adjustments.

Highlights:

First time IFRS pre-tax profit of £0.4m (2010 £(2.6)m loss) before consolidation adjustments

Market shares showing gradual improvement

EEV adversely impacted by falls in value of investments and modelling adjustments

Expansion of fund range with new distributor agreements

Measures introduced to stem policy attrition

Review of the year

2011 was a challenging year for Movestic. In particular investment market performance, both in equities and fixed interest securities, has dented investor confidence and, in turn, affected Movestic's results and business opportunities. As well as this, a system migration, necessary to prepare the business for future growth, allow greater product development flexibility and deliver administrative efficiencies, introduced some short-term administrative issues. These, in turn, led to a reduction in IFA support. As previously reported, errors found in the company's EEV modelling systems have also contributed to a testing year. It is, therefore, particularly pleasing that we are able to report a profit on an IFRS pre-tax basis of £0.4m (2010 £(2.6)m loss). Unfortunately the picture is less attractive on the EEV measure. Although a profit was made on new business of £3.1m (2010 £2.1m), the adverse impact of investment markets outweighed this significantly such that a net of tax loss of £14.2m (2010 £3.1m profit) was incurred. These amounts exclude the impact of modelling adjustments and exceptional profits arising on the acquisition of Aspis.

A detailed breakdown of the constituents of this is provided in the Financial Review on page 22. EEV modelling adjustments have affected the Movestic EEV for the last two years, with a £13.2m positive impact in 2010 and a £9.7m adverse impact in 2011. In light of this, we undertook a line-by-line review of the model used to calculate embedded value and are not expecting any further significant adjustments to be necessary.

It is clear that the Swedish market as a whole has suffered and, although our new business premiums have reduced, our market share has slightly increased. This demonstrates the viability of our business model and is particularly pleasing bearing in mind the systems and consequent administrative issues we have had. In the fourth quarter we introduced measures aimed at reducing the attrition in the business and, although they will not be reflected in these results, initial indications show that they are proving to be successful with reductions in attrition beginning to be seen.

Movestic has continued to move administrative functions away from Stockholm to its lower cost base operation in Norrköping. This process is now nearing completion and cost benefits are expected to flow through in 2012.

Looking forward we continue to seek to build on the good relationships that we have with IFAs. In particular we have recently launched bespoke funds for one of the larger IFA organisations and we maintain close relationships with all the key broker organisations. In terms of systems we aim to capitalise on the investments we made in 2011 and we are recruiting internally in the IT area to bring more expertise in-house and improve our specification and testing capabilities for future changes. As for new initiatives, we will continue to research new fund and investment opportunities, plan to launch a new single premium product in the second quarter and are also planning revisions and new offerings within our risk and health product portfolio.

KEY PERFORMANCE INDICATORS:

IFRS pre-tax Profit*

£0.4m (2010 £(2.6)m loss)

*Excluding consolidation adjustments of £(1.1)m

EEV Result net of tax*

£(14.2)m loss (2010 £3.1m profit)

*Excluding modelling adjustments and profit on acquisition of Aspis

Funds Under Management **£1,220m** (2010 £1,284m)

The value of assets under management is a key reference point for establishing the ongoing profit-earning capacity of the business, as fees are received based on those values. Whilst the fall in assets under management is, at face value, disappointing, when taken in the context of the general falls in equity markets we consider that they have held up well.

Premiums

Premium Income	2011	2010
	£m	£m
Pensions and Savings	230.0	260.3
Risk and Health	39.0	38.0
Total	269.0	298.3

Premium income, in the form of new business and continuing premiums into existing contracts, is key to the success of Movestic. Policy attrition combined with a reduction in new business volumes during the year has resulted in the reduction in total premiums earned.

New Business Market Share

New Business Market Share (excluding "tick the box" market)	2011	2010
Total Unit-linked Pension business	7.2%	5.8%

Movestic's primary target market is that of unit-linked pension business and, within that, company-paid contribution business. The steady general growth in share of the total market is encouraging, especially in the last quarter when our service was compromised by some issues arising from an IT system migration. This is a strong testament to our product offering and the effectiveness of the sales and marketing teams.

New Business Premium Income

New Business Premiums	2011	2010
	£m	£m
Pensions and Savings	46.9	52.3
Risk and Health	1.9	8.0
Total	48.8	60.3

New business markets have been difficult during the year and the gradual reduction in new Pensions and Savings volumes reflects a general decline in total market size. As stated above we have gained market share and hence are well positioned to take advantage of any future market recovery. The 2010 Risk and Health comparison included one-off transfers associated with the acquisition of Aspis.

Fund Performance

Fund Performance	2011	2010
Outperformed against the relevant index	17	18
Underperformed against the relevant index	30	12
No relevant index	9	6

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

The funds selected are, in general, actively managed funds with a value approach. The performance of all funds is closely monitored and regular contact is undertaken with managers to ensure that the underlying reason for the performance, whether positive or negative, is fully understood. Funds that do not perform favourably compared to the relevant index are wholly replaced if there are no acceptable strategies for improvement in the returns. During the year further funds were added to fill perceived gaps in the range. However, the general weighting towards Swedish equities, value and emerging markets together with the historically low bond yields affected general performance. The natural corollary of this is that funds would be expected to perform strongly as markets recover.

Annual Policy Attrition Rate

The longer that insurance and investment contracts remain in force, the more profit accrues to the business. Different policy product types will be subject to surrender, transfer or lapse to varying extents.

Policy Attrition	2011	2010
Surrenders (Endowments)	14.7%	13.4%
Transfers (Pensions)	5.3%	4.6%
Lapses (Pensions and Endowments)	16.2%	19.8%

The above percentages are, for surrenders and transfers, based on the capital amount surrendered or transferred, divided by the amount of capital potentially transferable. For lapses, it is the annual premium of lapsed policies, divided by the total annual premium in force at the start of the year.

We have continued with relatively high rates of attrition to which negative investment markets and sentiment in 2011 have contributed. In order to counter the rate of attrition a team was established to research and review the reasons behind policy attrition. Acting on their findings we have introduced transfer penalties on pensions, which are in line with the market norm and we have also instigated procedures that require a policyholder to confirm their desire to transfer and advising them of the consequences of transfer before processing the request. This was introduced in September 2011 and the early results are encouraging although they will have had little effect on the reported figures.

In addition to this the team are reviewing individual IFA accounts for levels of activity in this area which the sales team follow up, again, with a view to understanding and curtailing such activity.

Financial Review

Key Financial Performance Indicators

The Group's key financial performance indicators as at 31 December 2011 and for the year ended on that date demonstrate the financial performance and strength of the Group as a whole. A summary of these is shown below and further analysis is provided in the following sections

Profit before tax £22.4m (2010: £15.9m) <i>The presentation of the results in accordance with International Finance Reporting Standards (IFRS) aims to smooth the recognition of profit arising from written business over the life of insurance and investment contracts. For businesses in run-off the reported profit is closely aligned with, and a strong indicator of, the emergence of surpluses arising within the long-term insurance funds of those businesses.</i> Highlights - IFRS pre-tax profit of £22.4m, shows a decline from the prior year. The prior year comparison includes one-off profits arising on business combinations of £15.9m - Profits from the core CA closed book have remained relatively resilient to book run-off and adverse investment market conditions (2011: £25.7m, 2010: £29.4m) - The 2011 result includes a £7.5m profit from the recently acquired S&P business for which benefits from the Part VII Transfer, including the recognition of a £12.4m profit arising from the alignment of actuarial assumptions, more than offset the adverse impact of a reduction in bond yields - There was a £3m improvement in the Movestic result which has moved from loss to a small profit	Cash generation £21.8m (2010: £26.6m) <i>Cash generation is a key measure, because it is the net cash flows to the Chesnara Parent Company from its Life and Pensions businesses which support Chesnara's dividend capacity. The dominating aspect of cash generation is the change in amounts freely transferable from the operating businesses, taking into account target statutory solvency requirements which are determined by the boards of the respective businesses. It follows that cash generation is not only influenced by the level of surplus arising but also by the level of target solvency capital</i> Highlights - At £21.8m cash generation in CA continues to be robust and shelters a net depletion in S&P of £2.6m - Significant favourable synergistic effects of £12.4m arising from the Part VII Transfer
Value added £25.7m (2010: £29.4m) <i>(excluding amortisation of acquired intangible assets)</i> <i>In recognition of the longer-term nature of the Group's insurance and investment contracts, supplementary information is presented in accordance with European Embedded Value 'EEV' principles. By recognising the net present value of expected future cash flows arising from the contracts (in-force value), a different perspective is provided in the performance of the Group and on the valuation of the business.</i> <i>The principal underlying components of the EEV result are:</i> - The expected return from existing business (being the effect of the unwind of the rates used to discount the value in force) - value added by the writing of new business - variations in actual experience from that assumed in the opening valuation - the impact of restating assumptions underlying the determination of expected cash flows. Highlights - The marked reduction in EEV profits is dominated by two factors. Firstly, the 2010 result included an exceptional business combinations profit of £41m. Secondly, investment market conditions had an adverse impact during 2011 of £49.5m compared with a positive impact of £22.5m in 2010 - The underlying operating profit has improved by £12.2m	Value added £24.5m (2010: £34.5m) <i>As it takes into account expected future earnings streams on a discounted basis, EEV is an important reference point by which to assess Chesnara's market capitalisation. A life and pensions group may typically be characterised as trading at a discount or premium to its embedded value. Analysis of EEV, distinguishing value in force by segment and by product type, provides additional insight into the development of the business over time</i> Highlights - EEV reduction follows from decline in investment markets over the year - Good balance of EEV across the operating segments - Good product diversification within value in-force

IFRS pre-tax Earnings £22.4m (2010:£34.2m)

Executive summary

IFRS earnings arising from CA have historically proved to be relatively stable and resilient to external economic market movements. This has continued to be the case during 2011 with a CA IFRS pre-tax result of £25.7m (2010: £29.4m). The acquisition of S&P in late 2010 has added a more volatile component to the Group IFRS result due to the cost of with-profit guarantees being sensitive to movements in equity values and interest rates. The operating IFRS pre-tax result for Movestic has moved into profit during 2011.

The Group IFRS result is analysed by operating segment as follows:

	2011	2010
	£m	£m
CA	25.7	29.4
S&P	7.5	0.2
Movestic	0.4	(2.6)
Chesnara	(5.5)	(4.0)
Profit arising on acquisition of S&P and Aspis	-	15.9
Adjustments arising on consolidation	(5.7)	(4.7)
Total profit before tax	22.4	34.2
Tax	3.3	(4.4)
Total profit after tax	25.7	29.8

S&P was acquired by Chesnara plc late in 2010 and therefore the 2010 figures reflect an 11 day trading period only.

The increase in losses in the Chesnara parent company component relates to the setting up of a £1.5m provision to cover future vacant property costs associated with the head office building in Preston.

The adjustments arising on consolidation are analysed below:

	2011	2010
	£m	£m
CA - Amortisation of AVIF	(3.6)	(3.6)
S&P - Amortisation of AVIF	(1.0)	-
Movestic - Amortisation of AVIF	(4.4)	(4.4)
Movestic - Write back of DAC	3.3	3.3
Movestic - Other	-	-
Total Movestic	(1.1)	(1.1)
Total	(5.7)	(4.7)

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

CA

Despite continued run off of the CA in force book and a general decline in investment market conditions during 2011, the CA pre-tax IFRS result has held up well. There are many complex aspects to the IFRS result but the primary drivers of the decline in profit from 2010 to 2011 are illustrated as follows:

	£m
2010 IFRS pre-tax profit	29.4
Claims provision release in 2010	(3.2)
Run off of product based surpluses	(2.4)
Increase in expense assumption	(1.1)
Reserve changes and mismatch items	3.0
2011 IFRS pre-tax profit	25.7

The key components of the 2011 IFRS result are summarised as follows:

	£m	Note
Pre-tax IFRS profit		
Product deductions	26.6	1
Gains and interest on retained surplus	5.9	1
Administration expenses	(8.3)	
Other effects due to investment markets	4.3	2
Expense assumption changes	(2.1)	3
Other	(0.7)	
25.7		

Note 1 – Product-based deductions and returns on retained surplus remain significantly in excess of recurring administration expenses.

Note 2 – The impact of investment market conditions is generally muted for the CA book. That said, during 2011, the surplus generated from non-linked income exceeded associated actuarial and tax reserve movements.

Note 3 – During the year we have agreed, in principle, commercial terms for extending the outsourcing contract with HCL. The new terms result in a general increase in servicing charges. The majority of the potential impact of the increased costs was recognised in the 2010 closing valuations and hence the 2011 IFRS charge is less marked than the total contract charge increase might suggest.

S&P

S&P posted a pre-tax IFRS profit of £7.5m for 2011, the key components of the result being

	£m	Note
S & P – Pre-tax IFRS result		
Product deductions	12.2	
Income on with-profits shareholder capital	2.5	
Administration expenses	(6.1)	
Losses due to market conditions	(10.2)	1
Expense assumption changes	(4.4)	2
Alignment of actuarial assumptions	12.4	3
Other	1.1	
Total profit before tax	7.5	

Note 1 - The S&P IFRS result is sensitive to equity values and bond yields, both of which have declined during 2011. This has resulted in a total loss of £10.2m, largely arising from the strain in the with profits funds due to the increased cost of guarantees.

Note 2 - During the year we agreed, in principle, commercial terms for extending the outsourcing contract with HCL. This has resulted in an increase in actuarial reserves of £3.5m. This together with other expense related assumption changes leads to a total expense assumption change loss of £4.4m.

Note 3 - The alignment of actuarial assumptions, to be consistent with those adopted for the CA fund, as a result of the Part VII Transfer has resulted in the recognition of profit of £12.4m. The pre-existing S&P methodology was to artificially reduce valuation interest rates to remove the need for a resilience capital reserve. Changing this approach results in an increase in effective valuation interest rates and a corresponding reduction in the strain of with-profits guarantees.

Furthermore, the S&P Insurance component of with-profits reserves has reduced by £5m primarily as a result of improving mortality assumptions. This does not result in a corresponding IFRS profit due to the fact that an "Unallocated Divisible Surplus (UDS)" reserve is set up to reflect the future potential policyholder liabilities regarding this value. (The UDS is analysed in more detail in Note 33 - Insurance Contract Provisions).

Movestic

	2011 £m	2010 £m	Note
Pensions & Savings	(1.5)	(1.3)	1
Risk & Health	2.4	-	2
Other	(0.5)	(0.8)	
Writedown of assets of subsidiary	-	(0.5)	
Total profit before tax	0.4	(2.6)	
Tax	0.3	0.2	
Total profit after tax	0.7	(2.4)	

Note 1 - The Pensions and Savings business model is directly dependent upon fees and rebates earned on assets under management (AUM). Average AUM during the year were higher than in 2010 (despite the closing position being lower than the prior year equivalent). The resultant increase in fee and rebate income of £1.4m is broadly offset by an increase in internal costs. The internal costs were higher in 2011 due to significant investment in the policy administration systems. In addition, some employees joined part way through 2010 and hence the cost impact in 2011 is more marked.

Note 2 - The Risk and Health result has improved as a direct result of a 20% increase in retained earned premiums. This is the combined impact of gross premiums increasing by 2.5% and premiums ceded to reinsurers falling by 7%. This is due to a reduction in levels of reinsurance for certain lines of business. In addition the product mix within the old Aspis business (ceded to Swiss Re) differs somewhat between the two years and as the reinsurance programme is different for different products, the result is that the reinsurer is attributed with a lower share in 2011.

Cash Generation

£25.4m (2010:£42.6m)

The Group's cash flows are generated principally from the interest earned on capital, the release of excess capital as the life funds run down, policyholder charges and management fees earned on assets under management. The Group's closed life funds provide predictable fund maturity and liability profiles, creating stable long-term cash flows for distribution to shareholders and for repayment of outstanding debt. Cash flow generation will naturally decline over time as the UK businesses run off.

Although investment returns are less predictable, a significant portion of the investment risk is borne by policyholders. However, the acquisition of S&P, while extending the longevity of cash generation within the Group, has introduced an element of volatility over shorter periods. This arises from the impact of investment market movements and the cost to shareholders of guarantees within the S&P with profits funds. Although the short-term measure of this cost follows the fortunes of investment markets, we proactively manage the risk taking a longer-term perspective.

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

Cash generated from/(utilised by)		Year ended 31 December	
		2011 £m	2010 £m
CA			
	Surplus and profits arising in the year	21.8	26.5
	Change in target capital requirement	1.2	-
S & P			
	Surplus arising in the year	9.1	0.2
	Change in target capital requirement	(11.7)	-
	Excess of solvency capital resources over target solvency capital arising on acquisition	-	23.8
Synergistic effects of Part VII transfer		12.4	-
Movestic			
	Additional capital contributions	(5.3)	(3.9)
Chesnara			
	Cash utilised by operations	(2.1)	(4.0)
Net cash generation		25.4	42.6

This information illustrates that in spite of a challenging environment in 2011 net cash generation within the Group remains robust. Key aspects underpinning the outcome are:

- Continuing strong emergence of surplus in CA which offsets net adverse impacts in S&P
- S&P surplus arising in the year of £9.1m includes £12.4m surplus arising from the alignment of actuarial assumptions following the Part VII Transfer. This gave rise to a consequential significant increase in S&P target capital requirement.
- Significant beneficial effects arising from the Part VII Transfer, reflected through significant solvency capital synergies.
- Movestic capital contributions, which support the ongoing development of the Swedish business and which are in line with expectations.

In addition to the above a further cash generation of £7m is expected to arise in 2012 on the winding up of the S&P companies subsequent to the Part VII Transfer.

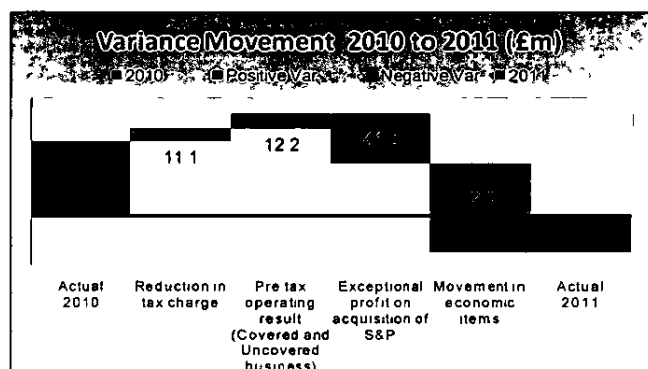
EEV Earnings (excluding modelling adjustments)

£(29.8)m loss (2010:£59.9m profit)

EEV Result

Summary

The headline EEV result for the year deteriorated significantly in 2011. The following chart shows the major components of the year on year decline.



EEV results presented above exclude the impact of Movestic and S&P modelling adjustments. The 2010 EEV result benefited by £13.2m from modelling adjustments whereas similar items identified during 2011 have resulted in a reduction in EEV of £10.3m (the adjustments are explained further in Note 6 of the EEV Supplementary Information).

The year-on-year movement is dominated by two aspects:

- i) Investment markets in 2010 generally performed better than assumed resulting in a significant EEV profit, whereas in 2011, falls in both equity markets and bond yields have resulted in a large corresponding loss. This 2011 investment market driven loss is the primary reason for the absolute EEV loss in the year.
- ii) The 2010 result benefited from the one-off impact of the acquisition of S&P.

The operating result, upon which management have the most direct and immediate influence, has improved by £12.1m from the prior year. This is primarily due to Movestic year-on-year improvements. Movestic strengthened operating assumptions in 2010 resulting in a £10.1m operating assumption loss. The Risk and Health result has also improved year on year.

The following tables analyse the Group EEV result by operating segment and by profit category.

Analysis of the EEV result in the year by business segment		
	2011	2010
	£m	£m
CA	2.7	23.6
S&P	(22.0)	(1.3)
Movestic	(14.5)	2.9
Chesnara	(3.1)	(2.4)
Exceptional items	-	41.0
Total pre-tax (loss)/profit	(36.9)	63.8
Tax	7.1	(4.0)
Minority interest	-	0.1
(Loss)/profit after tax	(29.8)	59.9

Analysis of the EEV result in the year by earnings type		
	2011	2010
	£m	£m
New business contribution	3.5	2.7
Return from in-force business		
Expected return	10.2	11.4
Experience variances	0.1	3.5
Operating assumption changes	(2.6)	(12.1)
Return on Shareholder net worth	4.1	0.9
Operating profit of covered business	15.3	6.4
Variation from longer term investment	(16.9)	26.9
Effect of economic assumption changes	(32.5)	(4.4)
(Loss)/profit on covered business before tax	(34.1)	28.9
Tax thereon	5.6	(4.4)
(Loss)/profit on covered business after tax	(28.5)	24.5
Uncovered business and other Group activities	(2.8)	(6.1)
Exceptional profits on business combinations	-	41.0
Tax on uncovered business	1.5	0.4
Minority interest	-	0.1
(Loss)/profit after tax	(29.8)	59.9

Economic conditions

As referred to in the earlier movements analysis, the EEV result is heavily influenced by economic conditions. Economic experience and assumption variances contribute a loss in 2011 of £49.5m as compared to a profit in 2010 of £22.4m. During 2011 there has been a general decline in equity markets and bond yields and the Chesnara result is sensitive to both these factors (further sensitivity analysis is provided in Note 7 of EEV Supplementary Information). The impact of such economic effects on each operating segment is illustrated below.

	2011	2010
	£m	£m
CA	(5.7)	7.6
S&P	(25.5)	(1.5)
Movestic	(18.3)	16.4
	(49.5)	22.5

The Movestic business is adversely impacted by any reduction in equity markets due to its core income stream being dependent upon management charges levied primarily on equity based funds under management. S&P is also adversely affected by any falls in equity markets but, in addition, the strain of guarantees on with-profit contracts is more prominent when bond yields and hence discount rates decline. The CA result is less volatile.

New business contribution

The new business contribution relates to the Movestic Pensions and Savings business. Movestic also writes Risk and Health policies but due to their more short term nature the Risk and Health business is reported as uncovered business and hence does not contribute to the new business result.

Experience variances

	2011	2010
	£m	£m
CA	5.2	11.3
S&P	(0.2)	0.1
Movestic	(4.9)	(7.9)
	0.1	3.5

The CA 2011 experience variance relates to policy persistency and mortality experience being better than assumed. The level of persistency variance has fallen from the prior year figure, primarily due to assumption changes at the end of 2010. In addition, the 2010 comparison benefits from a one off claims provision release of £3.2m.

Operating assumption changes

	2011	2010
	£m	£m
CA	(2.4)	(2.0)
S&P	0.4	-
Movestic	(0.6)	(10.1)
	(2.6)	(12.1)

The UK 2011 figures include £2.8m relating to an increase in expense assumptions as a direct result of the ongoing renegotiation of the HCL outsource arrangements during the year. Other operating assumption changes, including persistency, partially compensate such that the UK components are broadly in line with 2010.

During 2010 Movestic strengthened its persistency and expense assumptions. Despite continued adverse experience variances in 2011 no corresponding assumption changes were considered appropriate in 2011 due to the introduction of new retention initiatives.

Tax

The significant movement in tax includes the positive impact of tax synergies arising on the Part VII transfer of S&P into CA.

Uncovered business and other Group activities

	2011	2010
	£m	£m
Chesnara Parent	(3.1)	(2.4)
Movestic	0.3	(3.7)
	(2.8)	(6.1)

The uncovered result includes an element of Chesnara parent company costs relating to corporate governance and business development, and as such not attributable to the covered life fund results.

The Movestic result relates primarily to its Risk and Health business which is less long term in nature and hence not modelled as covered business. The Risk and Health result has improved due to a 20% increase in retained earned premiums.

Exceptional items

The 2010 result included the one off impact of profit of £40.7m arising on the acquisition of S&P together with a profit of £0.3m arising on the acquisition of Aspis.

European Embedded Value (EEV)

£294.5m (2010:£354.6m)

Movement in EEV

The following summarises the movement in EEV

Statement of changes in equity

	Year ended 31 December		Year ended 31 December	
	2011	2011	2010	2010
	£m	£m	£m	£m
Shareholders' equity at beginning of the year		354.6		262.6
(Loss)/profit for the period attributable to shareholders before modelling adjustments	(29.8)		59.9	
Effect of modelling adjustments	(10.3)		13.2	
(Loss)/profit for the year		(40.1)		73.1
Issue of new shares				
Share capital		-		0.5
Share premium		-		22.1
Sale of treasury shares		-		3.1
Foreign exchange reserve movement		(1.0)		9.5
Dividends paid		(19.0)		(16.3)
Shareholders' equity at end of the year		294.5		354.6

EEV at end of year is stated before recognition of the final proposed dividend of £12.5m (2010: £12.2m). The net-of-tax results for 2010 and 2011 are commented on in detail in the preceding section.

The effect of modelling adjustments arises from the introduction in 2010 by Movestic of a new system for modelling the value of its in-force policies. This provided the capacity to project cash flows at a greater level of granularity. In 2010 this led to a significant accretion to embedded value arising from the capability to more accurately model (i) the impact on commission outflows of policies becoming paid-up and of (ii) future fee income on a case-by-case basis, whereas previously it was necessary to adopt high-level estimates, particularly as regards investment mix. In 2011 a further improvement in respect of projected fee income from investment contracts where the fee is premium-based, rather than investment-asset based, was introduced, giving rise to a further accretion to embedded value of £2.7m. However as previously reported, during 2011 errors were detected relating to certain parameters and discounting periods utilised in the new model, which gave rise to a diminution in embedded value of £12.4m and are the major constituents of the 2011 modelling adjustments of £10.3m reduction in EEV presented above.

The significant foreign exchange reserve movements arise from the impact of a 1% depreciation of the Swedish Krona against Sterling during 2011, following its appreciation of 9% during 2010.

The amounts relating to the issue of share capital and to the disposal of Treasury Shares in 2010 arose in connection with the acquisition of S&P.

Composition of EEV

The tables below show the composition of EEV by operating segment.

	31 December 2011				
	CA	S&P	Movestic	Other Group Activities	Total
	£000	£000	£000	£000	£000
Value of in-force business	50,941	20,816	127,803	-	199,560
Other net assets	66,156	41,763	(26,815)	13,825	94,929
	117,097	62,579	100,988	13,825	294,489
Represented by					
Embedded value of regulated entities	117,097	98,065	99,656	-	314,818
Less: amount financed by borrowings	-	(35,486)	-	-	(35,486)
EEV of regulated entities attributable to shareholders	117,097	62,579	99,656	-	279,332
Net equity of other Group companies	-	-	1,332	13,825	15,157
EEV	117,097	62,579	100,988	13,825	294,489

31 December 2010

	CA	S&P	Movestic	Other Group Activities	Total
	£000	£000	£000	£000	£000
Value of in-force business	79,360	41,307	144,748	-	265,415
Other net assets	70,348	22,673	(24,111)	20,311	89,221
	149,708	63,980	120,637	20,311	354,636
Represented by					
Embedded value of regulated entities	149,708	103,267	119,330	-	372,305
Less amount financed by borrowings	-	(39,287)	-	-	(39,287)
EEV of regulated entities attributable to shareholders	149,708	63,980	119,330	-	333,018
Net equity of other Group companies	-	-	1,307	20,311	21,618
EEV	149,708	63,980	120,637	20,311	354,636

The tables below set out the components of the value of in-force business by major product line at each period end

	31 December 2011				31 December 2010			
	CA	S&P	Movestic	Total	CA	S&P	Movestic	Total
	000's	000's	000's	000's	000's	000's	000's	000's
Number of policies								
Endowment	44	6	14	64	50	8	15	73
Protection	48	6	-	54	52	6	-	58
Annuities	6	-	-	6	5	1	-	6
Pensions	49	136	77	262	48	143	75	266
Other	4	14	-	18	7	14	-	21
Total	151	162	91	404	162	172	90	424

	31 December 2011				31 December 2010			
	CA	S&P	Movestic	Total	CA	S&P	Movestic	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Value of in-force business								
Endowment	29.7	4.3	9.7	43.7	34.1	8.3	14.0	56.4
Protection	46.2	3.9	-	50.1	49.1	2.6	-	51.7
Annuities	(0.8)	1.0	-	0.2	0.5	1.5	-	2.0
Pensions	30.7	52.4	118.2	201.3	31.1	68.1	131.0	230.2
Other	2.2	4.1	-	6.3	1.7	0.7	-	2.4
Total at product level	108.0	65.7	127.9	301.6	116.5	81.2	145.0	342.7
Valuation adjustments	-	-	-	-	-	-	-	-
Holding company expenses	(15.1)	-	-	(15.1)	(8.6)	-	-	(8.6)
Other	(27.8)	(41.7)	-	(69.5)	(23.4)	(22.0)	-	(45.4)
Cost of capital/frictional costs	(1.2)	(3.2)	(0.1)	(4.5)	(1.0)	(3.7)	(0.3)	(5.0)
Value in-force pre-tax	63.9	20.8	127.8	212.5	83.5	55.5	144.7	283.7
Taxation	(13.0)	-	-	(13.0)	(4.1)	(14.2)	-	(18.3)
Value in-force post-tax	50.9	20.8	127.8	199.5	79.4	41.3	144.7	265.4

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

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

As at 31 December 2011, following the Part VII Transfer, taxation in the value in force is modelled on a combined CA and S&P basis and, in the analysis above, is attributed wholly to the CA segment. As at 31 December 2010 taxation in the value in-force was modelled for CA and S&P separately.

Financial Management

Objectives

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

- i) safeguards policyholders' interests by meeting regulatory requirements established by the regulators of the insurance markets in which the Group's regulated companies operate, while not retaining unnecessary excess capital,
- ii) seeks to meet the dividend expectations of shareholders and to optimise the gearing ratio to ensure an efficient capital base,
- iii) ensures there is sufficient liquidity to meet obligations to policyholders, debt financiers and creditors as they fall due, and
- iv) maintains the Group as a going concern so that it continues to provide returns and to meet obligations to all shareholders

Capital Structure and Cash Flows

The Group's UK operations are ordinarily financed through retained earnings and through the current emergence of surplus in the UK life businesses. Movestic is financed by a combination of external financial reinsurance arrangements and capital contributions from Chesnara. With respect to acquisitions the Group seeks to finance these through a suitable mix of debt and equity, within the constraints imposed by the operation of regulatory rules over the level of debt finance which may be borne by Insurance Groups without breaching solvency requirements. The acquisition of S&P in December 2010 for £63.5m was accomplished by way of debt equity financing broadly in a ratio of 2:1. This introduced a modest level of gearing to the structure of Group financing.

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

The Group's longer-term cash flow cycle continues to be characterised by the strong inflow to shareholders' funds of transfers from the long-term insurance funds of CA, which is supported by the emergence of surplus within those funds.

These flows are used (i) to repay our debt obligations as set out in Note 36 of the IFRS of these financial statements, (ii) to support dividend distributions to shareholders, and (iii) to support the medium-term requirements of Movestic to meet regulatory solvency capital requirements as it expands.

Methods

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

- i) regulatory solvency capital resource and capital requirements analysis, where the relevant Boards set minimum targets for solvency capital resources,
- ii) longer-term projections of key financial variables, including the regulatory solvency calculations set out in (i), and
- iii) the setting of policies and investment manager guidelines for the investment of policyholder and shareholder funds.

Regulatory solvency capital resources and requirements

The operation of the UK, Swedish and EU regulatory regimes with respect to solvency capital requirements at the individual regulated company and Group level together with details of minimum target solvency ratios are set out in Note 32 of the IFRS financial statements ('Capital Management'). Targets are established at a level which aims to balance policyholder and shareholder interests. A higher target affords a greater degree of protection to policyholders, but constrains the level of cash generated and transferable by the UK businesses which are in run-off and absorbed by Movestic which is in a development phase. In respect of the UK businesses, statutory regulations require

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

These calculations are updated quarterly (at least on a high level).

Longer-term projections

On a six monthly basis, longer-term projections are prepared on a Group basis embracing

- (i) Segmental earnings and surplus arising in the long-term insurance funds,
- (ii) Chesnara company cash flows,
- (iii) Regulatory solvency and capital resources and requirements on a regulated individual entity basis and on a consolidated Group basis, and
- (iv) European embedded value

The projections are prepared for a base case and for various sensitivities, the base case follows the latest assumptions approved by the respective boards, regarding

- i) the calculation of actuarial liabilities for longer-term insurance contracts, and
- ii) cash flows within the embedded value calculation

The sensitivities which are prepared include the impact of adverse movements in,

- (i) the equity, property and bond markets,
- (ii) variations in anticipated new business volumes in the Swedish business, and
- (iii) adverse movements in the Sterling Swedish Krona exchange rate

In addition,

- For the UK businesses, financial condition reports are prepared on an annual basis which include assessments of the ability of the business to withstand key adverse events, including increased rates of policy lapse, expense overruns and unfavourable market conditions
- Reverse stress testing techniques are employed which identify the circumstances in which Chesnara would become incapable of paying a dividend and the probability of those circumstances arising

Investment management

An element of meeting policyholders' expectations and thereby, promoting customer retention is the pursuit of good relative investment performance in the policyholder funds,

The CA funds are primarily managed by Schroder Investment Management Limited while the CWA funds continue to be managed by Irish Life Investment Managers Limited and the S&P funds continue to be managed by JPMorgan

We meet formally with fund managers on a quarterly basis to assess past performance and future strategy. Investment guidelines for investment fund managers are established for each fund having regard to the nature of the fund and to contractual obligations to policyholders. For the with profits funds these are also in accordance with the published Principles and Practice of Financial Management.

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

The CA Board continues to have a conservative approach to the investment of shareholders' funds in the UK life businesses, which underpins our strong solvency position. For the UK businesses, where the greater part of shareholders' funds subsist, this approach targets the investment of 100% of available funds in cash and fixed interest securities. In the light of recent volatility in financial markets, particular attention is given to the mix and spread of these investments to ensure that we are not unduly exposed to particular sectors and that our counterparty limits are strictly adhered to.

Outcomes

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

Solvency and Regulatory Capital

For the whole of the periods presented below the Pillar 1 calculation for the UK business, as described above, gave rise to the lower measure of excess capital. The statutory solvency position of the individual businesses may accordingly be summarised as

	31 December 2011		31 December 2010	
	Solvency ratio	Excess Capital	Solvency ratio	Excess Capital
	%	£m's	%	£m's
CA				
Pre proposed dividend to Chesnara	259	91.4	338	49.4
Post proposed dividend to Chesnara	183	47.4	213	23.4
S&P	115	0.9	268	43.7
Movestic	245	17.5	188	10.9
Group (Consolidated EU Insurance Groups Directive basis post proposed dividend)	198	75.4	200	60.6

- (i) The position as at 31 December 2011 reflects the impact of the Part VII Transfer, as a result of which CA includes the transfer of all the long-term business funds and certain of the shareholder funds of S&P
- (ii) The amounts reported as S&P as at 31 December 2011 accordingly represent residual S&P shareholder funds which have been retained to cover the minimum EU regulatory capital resource requirements for regulated entities
- (iii) Excess capital is determined by the minimum regulatory capital resource targets set by the respective boards, except for the Group solvency ratio for which no target is set above the regulatory minimum of 100%. Reliance is placed instead on the efficacy of targets set at the subsidiary level
- (iv) The information provided in respect of CA and the Group illustrates
 - (a) A robust protection for policyholders, and
 - (b) a favourable position from which Chesnara, which relies on dividend distributions from CA, continues to service its loan commitments and to pursue a progressive dividend policy
- (v) The information in respect of Movestic also illustrates robust policyholder protection and provides the context in which Chesnara makes further capital contributions as the business expands

Returns to Shareholders

The Board's primary aim is to continue to provide a reliable and progressive dividend flow to shareholders within the context of the emergence of surplus in the UK businesses. Returns to shareholders are underpinned by the emergence of surpluses in, and transfer of surpluses from long-term insurance funds to shareholder funds and by the return on shareholder net assets representing shareholder net equity. These realisations are utilised in the first instance for the repayment and servicing of debt. The surpluses arise from the realisation of in-force value of UK businesses, which are in run-off. The return on shareholder net assets is determined by the Group's investment policy. Shareholder funds bear central corporate governance costs which cannot be fairly attributed to the long-term insurance funds and which arise largely in connection with Chesnara's obligations as a listed company.

Between early March 2010 and the end of November 2010 the share price averaged 220p per share. During that period it generally traded within a range of 200p to 250p per share and was subject to sharp fluctuations within the range, generally reflecting wider market conditions.

Following the announcement of the acquisition of S&P on 20 December 2010 up to mid-March 2011, the share price steadily strengthened so that it was consistently trading within a range of 240p to 260p per share. Based on total proposed dividends for 2010 of 16.4p per share, this implied a yield of between 6.3% and 6.8%, with the shares trading at a discount of between 13% to 19% to the latest published embedded value of £354.6m at 31 December 2010.

Over the period from mid-March 2011 to mid-November 2011 the share price declined steadily from a high in the range of 255p to 260p per share to a low in the range of 160p to 165p per share. This fall was largely driven by the decline in global investment markets and followed the fortunes of the life insurance sector as a whole. However, the share price has, from mid-November 2011 to mid-March 2012, fluctuated within a range of 165p to 186p and this has not reflected the upturn in the sector as a whole. Based on total proposed dividends for 2011 of 16.85p per share this implies a yield of between 9.1% and 10.2% with the shares trading at a discount of between 29% and 36% to EEV as at 31 December 2011.

Returns to Policyholders

Key aspects of policyholder fund performance in respect of the UK Business are set out on page 14 and in respect of the Swedish Business on page 17 of the Chief Executive's Review.

Liquidity

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

Going Concern

The Group's cash flow position described on page 26, together with the return on financial assets in the parent company, supports the ability to trade in the short term. Accordingly, the underlying solvency position of the UK life businesses and their ongoing ability to generate surpluses which support cash transfers to shareholders' funds is critical to the ongoing ability of the Group to continue trading and to meet its obligations as they fall due.

The information set out in 'Solvency and Regulatory Capital' above indicates a strong solvency position as at 31 December 2011 as measured at both the individual regulated life company levels in both the UK and Sweden and at the Group level. In addition, in respect of CA and S&P the financial condition report and reverse stress testing assessments indicate that the CA and S&P businesses are able to withstand the impact of adverse scenarios, including the effect of significant investment market falls, while the business's outsourcing arrangements protect it from significant expense overruns.

Notwithstanding that the Group is well capitalised, the current financial and economic environment continues to present specific threats to its short-term cash flow position and it is appropriate to assess other relevant factors. In the first instance, the Group does not rely on the renewal or extension of bank facilities to continue trading – indeed, as indicated, its normal operations are cash generative. The Group does, however, rely on cash flow from the maturity or sale of fixed interest securities which match certain obligations to policyholders. In the current economic environment there remains a continuing higher risk of bond default, particularly in respect of financial institutions. In order to manage this risk we ensure that our bond portfolio is actively monitored and well diversified. Other significant counterparty default risk relates to our principal reinsurers. We monitor their financial position and are satisfied that any associated credit default risk is low. It is noteworthy that we have negligible exposure to Euro-denominated sovereign debt.

Our expectation is that, notwithstanding the risks set out above, the Group will continue to generate surplus in its UK long-term businesses sufficient to meet its debt obligations as they fall due, to continue to pursue a reliable and progressive dividend policy and to meet the short-term financing requirements of Movestic, which is expected to become cash-generative within one to two years.

Risk Management

Risk management processes

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

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

At the subsidiary level in the UK businesses we maintain, in accordance with the regulatory requirements of the FSA, a risk and responsibility regime. Accordingly, the identification, assessment and control of risk are firmly embedded within the organisation and the procedures for the monitoring and updating of risk are robust. As part of this we established a Risk Committee in CA, which comprises solely of Non-executive Directors. This committee receives quarterly updates of the key risk registers, as maintained by the senior management, for review and challenge. The committee reports directly to the CA Board which also reviews reports from the compliance and internal audit functions. The Risk Committee reports are also reviewed by the Chesnara Audit & Risk Committee on a quarterly basis. The key risk registers have been designed to complement the production of Individual Capital Assessments, which we are required to submit to the FSA on request and maintain on an ongoing basis. We categorise all risks against the following relevant categories – insurance, market, credit, liquidity, operational and group – and identify potential exposures and the necessary capital requirements accordingly. Risk management processes relating to S&P during 2011 were similar to those relating to CA.

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

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

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

In accordance with the need to comply with the requirements of Solvency II on an EU-wide basis, we are currently reviewing and upgrading our risk management processes, so that Group-wide they will be enhanced in a uniform and consistent manner, embracing

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

These developments continued through 2011 and are planned to be completed during 2013.

Principal risks and uncertainties

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

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

- (i) the Group's core operations centre on the run-off of closed life and pensions businesses in the UK,
- (ii) notwithstanding this, the Group has a material segment, which comprises an open life and pensions business operating in a foreign jurisdiction, and
- (iii) these businesses are subject to local regulation, which significantly influences the amount of capital which they are required to retain and which may otherwise constrain the conduct of business.

The following identifies the principal risks and uncertainties, together with a description of their actual or potential impact and of the way in which the Group seeks to control the specific insurance and financial risks which are set out in Notes 5 and 6 to the IFRS financial statements. The analysis below includes a re-presentation of the more significant risks identified therein.

Principal risks and uncertainties		
Risk	Impact	Control
Adverse mortality /morbidity /longevity experience	To the extent that actual mortality or morbidity rates vary from the assumptions underlying product pricing, so more or less profit will accrue to the Group	- Effective underwriting techniques and reinsurance programmes - Option on certain contracts to vary premium rates in the light of actual experience - Partial risk diversification in that the Group has a portfolio of annuity contracts where the benefits cease on death
Adverse persistency experience	Persistency rates significantly lower than those assumed will lead to reduced Group profitability in the medium to long term	- In closed life and pensions books, persistency rates tend to improve over time due to policyholder/investor inertia - Active investment management to ensure competitive policyholder investment funds - Outsourcer service levels ensure strong customer service standards - Proactive customer retention processes
Expense overruns and unsustainable unit cost growth	For the closed UK life and pensions businesses, the Group is exposed to the impact of fixed and semi-fixed expenses, in conjunction with a diminishing policy base, on profitability. For the Swedish open life and pensions business, the Group is exposed to the impact of expense levels varying adversely from those assumed in product pricing.	- For the UK businesses, the Group pursues a strategy of outsourcing functions with charging structures such that the cost is sensitive to book run off to the fullest extent possible - The Swedish operations assume growth through new business such that the general unit cost trend is positive - For both the UK and Swedish businesses, the Group maintains a strict regime of budgetary control
Significant and prolonged equity and property market falls	A significant part of the Group's income and, therefore, overall profitability derives from fees received in respect of the management of policyholder and investor funds. Fee levels are generally related to the value of funds under management and, as the managed investment funds overall comprise a significant equity and property content, the Group is particularly exposed to the impact of significant and prolonged equity market falls.	- Individual fund mandates may give rise to a degree of diversification of risk and within those funds, hedging techniques are used where appropriate - Investment management costs fall in line with market falls and hence cost savings partially hedge the impact on income - There is a wide range of investment funds and managers so that there is no significant concentration of risk
Adverse movements in yields on fixed interest securities	The Group maintains portfolios of fixed interest securities (i) in order to match its insurance contract liabilities, in terms of yield and cash flow characteristics, and (ii) as an integral part of the investment funds it manages on behalf of policyholders and investors. It is exposed to mismatch losses arising from a failure to match its insurance contract liabilities or from the fact that sharp and discrete fixed interest yield movements may not be associated fully and immediately with corresponding changes in actuarial valuation interest rates.	- The Group maintains rigorous matching programmes to ensure that exposure to mismatching is minimised - Active investment management such that, where appropriate, asset mixes will be changed to mitigate the potential adverse impact on declines in bond yields
Adverse sterling/Swedish Krona exchange rate movements	Exposure to adverse sterling/Swedish Krona exchange rate movements arises from actual planned cash flows between the Swedish subsidiary and its UK parent company and from the impact on reported IFRS and EEV results which are expressed in sterling.	The Group monitors exchange rate movements and the cost of hedging the currency risk on cash flows when appropriate

Principal risks and uncertainties continued

Risk	Impact	Control
Counterparty failure	The Group carries significant inherent risk of counterparty failure in respect of, - its fixed interest security portfolio, - cash deposits, and - amounts due from reinsurers	▪ Operation of guidelines which limit the level of exposure to any one counterparty and which impose limits on exposure to credit ratings ▪ In respect of exposure to one major reinsurer, Guardian Assurance Limited ('Guardian'), the Group has a floating charge over the reinsurer's related investment assets, which ranks the Group equally with Guardian's policyholders
Failure of outsourced service providers to fulfill contractual obligations	The Group's UK life and pensions businesses are heavily dependent on outsourced service providers to fulfill a significant number of their core functions. In the event of failure by either or both service providers to fulfill their contractual obligations, in whole or in part, to the requisite standards specified in the contracts, the Group may suffer loss as its functions degrade	▪ Rigorous service level measures and management information flows under its contractual arrangements ▪ Continuing and close oversight of the performance of both service providers ▪ The supplier relationship management approach is conducive to ensuring the outsource arrangements deliver obligations ▪ Under the terms of the contractual arrangements the Group may impose penalties and/ or exercise step-in rights in the event of specified adverse circumstances
Key Man dependency	The nature of the Group is such that, for both its Group-level functions and for its UK life and pensions operations, it relies on a small, professional team. There is, therefore, inevitably a concentration of experience and knowhow within particular key individuals and the Group is, accordingly, exposed to the sudden loss of the services of these individuals	▪ The Group promotes the sharing of knowhow and expertise to the fullest extent possible ▪ It periodically reviews and assesses staffing levels, and, where the circumstances of the Group justify and permit, will enhance resource to ensure that knowhow and expertise is more widely embedded ▪ The Group maintains succession plans and remuneration structures which comprise a retention element ▪ The Group complements its internal expertise with established relationships with external specialist partners
Adverse regulatory and legal changes	The Group operates in jurisdictions which are currently subject to significant change arising from regulatory and legal requirements. These may either be of a local nature, or of a wider nature, following from EU-based regulation and law. Significant issues which have arisen and where there is currently uncertainty as to their full impact on the Group include: - review of the UK tax regime in respect of life assurance business, and - the implementation of Solvency II requirements	Tax specialist advice is taken regarding the review of the changes in the tax regime. Initial indications are that the financial impact is not material. The current opinion is that the implementation of Solvency II will strengthen the long-term risk management environment of Chesnara (as is its intention). The Solvency II programme is covered in more detail on the following page. The key risks are mitigated as follows: ▪ Proposed appointment of external specialist Quality Assurance partner, ▪ Dedicated internal team, and ▪ Robust programme governance framework

Focus On Solvency II

Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry. It aims to establish a revised set of EU-wide capital requirements and risk management standards that will replace the current solvency requirements. Solvency II's primary objective is to strengthen policyholder protection by aligning capital requirements more closely with the risk profile of the company. The regime has a three pillar structure, with each pillar governing a different aspect of the Solvency II requirements and approach. As well as requiring firms to disclose their capital and risk frameworks, the Directive also asks firms to demonstrate how and where the requirements are embedded in their wider activities. Implementation is currently scheduled for 1 January 2014.

Chesnara's Approach

Pillar 1

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

Pillar 2

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

Pillar 3

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

Progress Update

For Pillar 1, work to develop the models underpinning the Standard Formula calculations is under way and our target date for completing and reviewing the outputs from the initial dry run of the models, at both an individual business and a consolidated Group level, is Q1 2013. Further runs will be completed during 2013 leading up to the current go-live date of 1 January 2014.

For Pillar 2, risk appetites have been defined for the respective businesses as have the risk types relevant to the business. Work is under way to define the risk tolerances applying to each of our risk types with a view to then aligning all of these aspects with the underlying processes for risk identification, mitigation and management. From this work we will develop both our approach to the ORSA and to our assessment of capital requirements using our own risk profile. We are targeting mid-2013 to complete this work.

For Pillar 3, the proposed format of the reporting was issued in November 2011 and work is under way to identify the underlying data for producing the reports. We anticipate being in a position to carry out a dry run to produce these reports in the latter half of 2013.

GOVERNANCE

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Governance Overview from the Chairman

This section of the Annual Report and Accounts provides me with the opportunity to comment on aspects of the management of the Company through 2011, with particular focus on how we are developing, or propose to develop, our Corporate Governance framework

Pages 6 to 10 provide an overview of the Company's strategic objectives and of the risks to fulfillment of those objectives and our Business Model is outlined on page 11. 2011 has presented significant challenges to the management of the business. Besides the backdrop of dull global economic activity and of poor global investment market performance we have, in order to protect shareholder value for the longer term, addressed the need to secure effective operational and fiscal integration of Save & Prosper, our recently acquired Life and Pensions business, and worked towards securing more enduring and stable outsourced service arrangements.

We employ various techniques in promoting fulfillment of our strategic objectives and in providing a suitable context for operational decision-making, including longer-term profit, cash flow and solvency projections for base case assumptions and for various stress scenarios. These lie at the heart of our management of the Company and are underpinned by sound Corporate Governance practices.

We judge the effectiveness of our Corporate Governance practices and procedures, and assess the need for specific enhancement, according to the extent to which they provide assurance as to our ability to meet our strategic objectives and to manage operational challenges such as those set out above. The Board makes decisions on whether changes to current practices are required based on guidance, best practice in the industry and the particular circumstances of the Company. In forming our judgements we consider the intention behind recommended practices. Although Chesnara is not a FTSE 350 Company, we also explicitly consider the requirements for FTSE 350 Companies, such as annual re-election of directors.

The specific areas of development of our Corporate Governance practices and procedures during 2011 were

- **Board Diversity** – This matter was discussed at some length at the Nomination Committee and the Board and it was agreed that a formal policy should be developed. Work on this is ongoing. Set out on page 36 is a summary of the skills and experience of current Board members. The aim of our Board Diversity policy will be directed towards enhancing the mix and depth of these specific skills while maintaining overall experience.
- **Board Effectiveness** – The guidance on board effectiveness issued in March 2011 by the Financial Reporting Council was reviewed and the principles in that guidance were incorporated into the questionnaires which form part of the annual process of Board evaluation by Board members. We do not currently arrange for external assessment of the effectiveness of the Board as we do not believe this would add value in excess of the costs involved. Should the circumstances of the Company change, or should external evaluation become the accepted practice for smaller companies, then this will be re-considered.
- **Annual Re-election of Directors** – Although this is not a formal requirement for the Company, in view of its size, consideration is being given to providing for the annual re-election of Non-executive Directors with effect from 2013. We would not intend to extend this requirement to Executive Directors.
- **Remuneration Practices** – We take note of the ongoing discussions regarding remuneration practices and the need to ensure that failure is not rewarded and that awards reflect value added by individuals both quantitative and qualitative. Further, we have received specific input from shareholders regarding LTIP structure. Accordingly, we have made changes to the LTIP relating to Executive Directors and these are set out in detail in the Directors' Remuneration Report on pages 43 to 47.
- **UK Stewardship Code** – We believe that this code issued by the Financial Reporting Council, together with subsequent clarificatory changes are an important aspect of governance and we regularly discuss, with our fund managers, their approach to active management with the companies in which our portfolios are invested.

The following sections set out in more detail our Corporate Governance arrangements and the extent of our compliance with the provisions of the UK Corporate Governance Code. An overview of the activities of the Remuneration Committee is set out on page 43 and of the Audit & Risk Committee on page 48.

Peter Mason, Chairman

29 March 2012

Board of Directors

Peter Mason was appointed as Chairman of Chesnara plc and Chairman of the Nomination Committee on 1 January 2009. He was re-appointed as a member of the Remuneration and Audit & Risk Committees with effect from 22 December 2009 and was appointed as Chairman of Movestic Livförsäkring AB with effect from 23 July 2009. He was also appointed as Chairman of the Boards of the S&P companies with effect from 20 December 2010. He is currently a Non-executive Director of Homeowners Friendly Society and is the Investment Director and Actuary of Neville James Group, an investment management company. He was admitted as a Fellow of the Institute of Actuaries in 1979.

Graham Kettleborough is the Chief Executive of Chesnara plc. He joined Countrywide Assured plc in July 2000 with responsibility for marketing and business development and was appointed as Managing Director and to the Board in July 2002. He was appointed as a Non-executive Director of Movestic Livförsäkring AB and as Chairman of Movestic Kapitalförvaltning AB with effect from 23 July 2009. He was also appointed as Managing Director of the S&P companies with effect from 20 December 2010. Prior to joining Countrywide Assured plc, he was Head of Servicing and a Director of the Pension Trustee Company at Scottish Provident. He has lifetime experience in the financial services industry, primarily in customer service, marketing, product and business development, gained with Scottish Provident, Prolific Life, City of Westminster Assurance and Target Life.

Ken Romney is the Finance Director of Chesnara plc. He joined Countrywide Assured plc in 1989 and became a member of the Board in 1997. He was also appointed as Finance Director of the S&P companies with effect from 20 December 2010. He has worked in the life assurance industry for the last 28 years. He was Chief Accountant at Laurentian Life (formerly Imperial Trident) up to 1987 and was Financial Controller at Sentinel Life between 1987 and 1989. He worked for Price Waterhouse in their audit division until 1983 in both the UK and South Africa. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Frank Hughes is the Business Services Director of Chesnara plc. He joined Countrywide Assured plc in November 1992 as an IT Project Manager and was appointed to the Board as IT Director in May 2002. He has 26 years' experience in the life assurance industry gained with Royal Life, Norwich Union and CMG.

Mike Gordon is an Independent Non-executive Director of Chesnara plc and is Chairman of the Remuneration Committee. He was appointed as Senior Independent Non-executive Director of Chesnara plc on 1 January 2009. He also serves on the Audit & Risk Committee and the Nomination Committee and was appointed as a Non-executive Director of Movestic Livförsäkring AB with effect from 23 July 2009. He spent 12 years as Group Sales Director of Skandia Life Assurance Holdings.

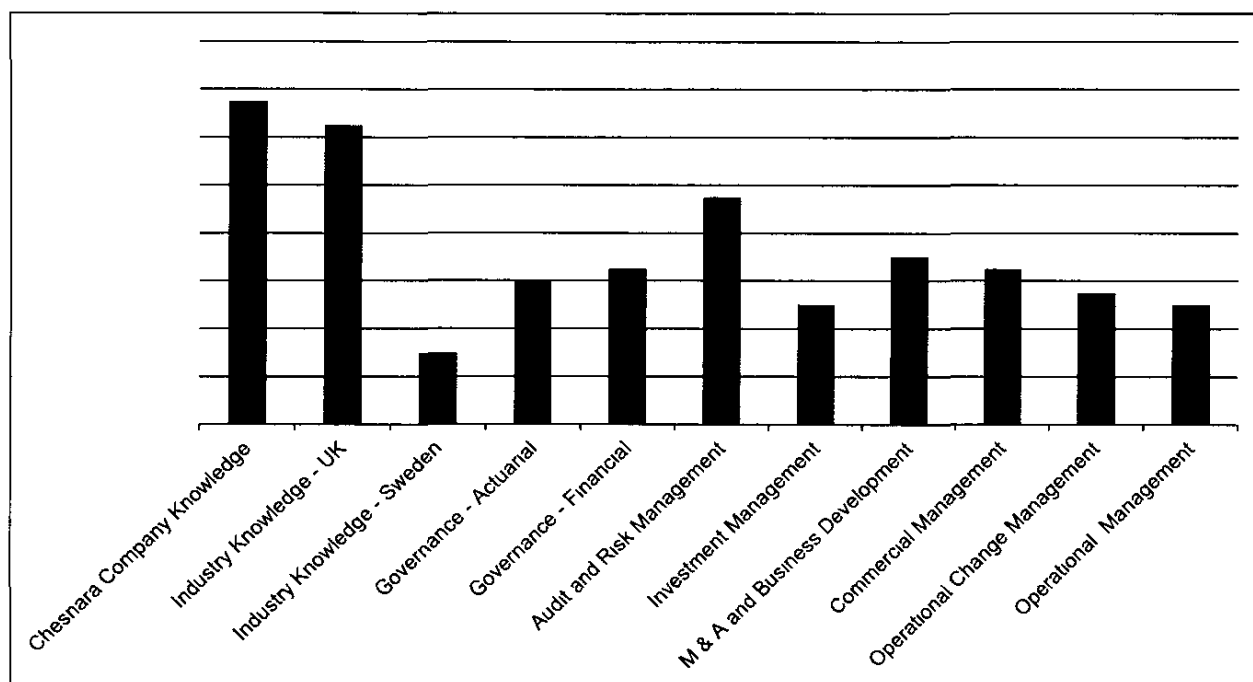
Terry Marris is an Independent Non-executive Director of Chesnara plc and serves on the Audit & Risk Committee, the Remuneration Committee and the Nomination Committee. He was also appointed as a Non-executive Director of the S&P companies with effect from 21 January 2011. He joined Countrywide Assured Group plc in 1992 and was Managing Director of Countrywide Assured plc until July 2002. Previous roles included senior management positions at Lloyds Bank and General Accident.

Peter Wright is an Independent Non-Executive Director who was appointed to the Chesnara plc Board on 1 January 2009. At the same date he was appointed as Chairman of the Audit & Risk Committee and as a member of the Remuneration Committee. He was appointed as a member of the Nomination Committee with effect from 9 July 2009. He was also appointed as a Non-executive Director of the S&P companies with effect from 20 December 2010 and as Chairman of the Risk Committees and With-profits Committees of those companies. He retired as a Principal of Towers Perrin on 1 January 2008 and is a former Vice President of the Institute of Actuaries, having been admitted as a Fellow in 1979.

Board Profile

In its assessment of the effectiveness of the Board Chesnara includes consideration of the core competencies required to govern the Group and deliver strategic objectives. This part of the assessment focuses on ensuring the appropriate breadth and depth of competencies and experience.

A competency matrix is defined for the Board which is aligned to the strategic objectives set out on pages 7-9. Each Board member is assessed and scored against the core competencies and cumulative scores provide a competency profile for the Board as a whole, as set out below.



The profile is used to ensure that the Board as a whole possesses an appropriate skills and experience base for effective governance of the Group. Any future changes to the composition of the Board will have regard to the impact on the competency profile. The Board recognises that enhancement of its diversity is an important factor and this will be promoted provided that it also enhances the competency profile. Highlights of the current profile are:

- Given the specialist niche nature of the business the Board regards the strong assessment of **Chesnara Company Knowledge** as a key strength which outweighs any perceived risk arising from the non-independence of certain members of the Board.
- Four competencies are worthy of comment and on further assessment the Board consider there to be no unacceptable gaps as explained below.

Industry Knowledge Sweden - The level of knowledge of the Swedish Insurance market is adequate to enable effective Board oversight of the Swedish business, for which the deeper specialist knowledge is devolved to the local Board and executive management team.

Investment Management, Operational Management and Operational Change Management - Whilst there are good levels of Investment Management and Operational Management knowledge these are not assessed as dominating strengths of the Board. Any concerns associated with this are mitigated by the fact that the Chesnara Business model is to outsource investment management and operational functions to specialist third parties. The Board possess sufficient skills to confidently provide governance oversight of the outsourced operations.

Corporate Governance Report

The Directors are committed to achieving a high standard of corporate governance including compliance with the principles and practices of the UK Corporate Governance Code (the 'Code'), as published by the Financial Reporting Council in June 2010 and as appended to the Listing Rules

The following statement, together with the Directors' Remuneration Report on pages 43 to 47 and the Audit & Risk Committee Report on pages 48 to 49 describes how the principles set out in the Code have been applied by the Company and details the Company's compliance with the Code's provisions for the year ended 31 December 2011

During the year under review the UK life and pensions businesses of the Group subsisted in three UK subsidiary companies being Countrywide Assured plc, identified in this report as 'CA' and Save and Prosper Insurance Company Limited and Save and Prosper Pensions Limited, the latter collectively referred to as S&P. This report refers to governance aspects of CA into which the S&P businesses were transferred as at 31 December 2011. Governance practices and procedures relating to S&P during 2011 were similar to those relating to CA.

Compliance with the Code

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

The Board

The Board comprises a Non-executive Chairman, three other Non-executive Directors and three Executive Directors, each of whom served throughout the period under review.

Biographical details of all Directors are given on page 36 and a Board Profile, which assesses the core competencies required to meet strategic objectives, is provided on page 37. The Board, which plans to meet eight times during the year, has a schedule, which it reviews annually, of matters reserved for its consideration and approval. These matters include

- Setting corporate strategy,
- Approving the annual budget and medium-term projections,
- Reviewing operational and financial performance,
- Approving acquisitions, investments and capital expenditure,
- Reviewing the Group's system of financial and business controls and risk management,
- Approving appointments to the Board and to its Committees,
- Appointment of the Company Secretary, and
- Approval of policies relating to Directors' remuneration

In addition

- (i) the Directors of the Company are also the Directors of Countrywide Assured plc ('CA'), in which the UK-based life and pensions business of the Group subsists. Under FSA Prudential Regulation the Directors of CA have responsibility for maintenance and projections of solvency and for assessment of capital requirements, based on risk assessments, and for establishing the level of long-term business provisions, including the adoption of appropriate assumptions,

- (ii) three Directors of the Company, being Messrs Mason, Kettleborough and Gordon, are also Directors of Movestic Livförsäkring AB ('Movestic'), the principal subsidiary company in which the Swedish-based life and pensions business of the Group subsists. Under regulation by Finansinspektionen, the Directors of Movestic have responsibility for ensuring that Movestic complies with regulatory solvency requirements.

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

The Roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board, Peter Mason, and the Chief Executive, Graham Kettleborough, is clearly defined and has been approved by the Board. The Chairman leads the Board in the determination of its strategy and in the achievement of its objectives and is responsible for organising the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman has no day-to-day involvement in the management of the Group. The Chief Executive has direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.

Senior Independent Director

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

Directors and Directors' Independence

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

The Board considers that Mike Gordon, Terry Marris and Peter Wright are independent Non-executive Directors. In making this determination, the Board has carefully considered the following matters:

- (i) Terry Marris had, within five years of his appointment, been an employee of a subsidiary company within the Group, which was acquired by the Company on 24 May 2004. He also held the position of Managing Director of Countrywide Assured plc, the principal operating life assurance subsidiary of the group prior to the acquisition of CA by the Company. He resigned these positions in July 2002, and
- (ii) Peter Wright had, within the last three years prior to his appointment, held regulatory actuarial roles at Countrywide Assured plc and had otherwise provided actuarially-based consultancy advice, the relevant services being provided under an agreement with his employer at the time, Tillinghast Towers Perrin.

There were no comparable matters to consider in respect of Mike Gordon.

With regard to Peter Mason and Terry Marris, the Board considers that the characteristics, aims and mode of operation of the relevant activities of the Company are sufficiently different from those prevailing when they held the relevant positions, that the judgement and independence of mind exercised on behalf of the Company are not adversely affected or circumscribed. The Board is of the view that their considerable specific experience and knowledge in the business of the Group outweighs any residual risk in the historical relationships described above. With regard to Peter Wright, the nature of the services he provided, being subject either to FSA regulation or to professional standards and guidance prescribed or issued variously by the Institute of Actuaries or by the Financial Reporting Council Board of Actuarial Standards, was such that he was required to maintain a vigorous independence of mind and to prepare recommendations in accordance with the highest professional standards.

The Board is satisfied that the overall balance of the Board continues to provide significant independence of mind and judgement and further considers that, taking the Board as a

whole, the Independent Directors are of sufficient calibre and number that their views carry significant weight in the Company's decision making.

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

Details of the Chairman's professional commitments are included in his biography on page 36. The Board is satisfied that these are not such as to interfere with his performance, which is based around a commitment of between fifty and sixty hours in any three-month period.

Professional Development

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

Information

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

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

For CA:

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

CA monitors risk management procedures, including the identification, measurement and control of risk through the offices of a Risk Management Committee. This committee is accountable to and reports to its Board on a quarterly basis.

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

For Movestic

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

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

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

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

Performance Evaluation

During the period under review the Chairman undertook a formal performance evaluation of the Board, of individual Directors and of the Audit & Risk, Remuneration and Nomination Committees. To that end he devised a series of questionnaires to provide a framework for the evaluation process and to provide a means of making year-on-year comparisons. Individual Director assessments were

supplemented by discussions between the Chairman and each Director on a one-to-one basis

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

The Company Secretariat facilitated the process to ensure that the performance evaluations were conducted in a timely and objective manner while the Head of Internal Audit, reporting to the Senior Independent Director, monitors the assessment and follow through of the issues arising in the evaluation process

Company Secretary

The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. For the period under review, Ken Romney held the position of Company Secretary until 21 October 2010 when Mary Fishwick was appointed to that role. The Directors have access to the advice and services of the Company Secretary

Board Committees

The Board has established the committees set out below to assist in the execution of its duties. Each of these committees operates according to written terms of reference and the Chairman of each committee reports to the Board. The constitution and terms of reference of each committee are reviewed annually to ensure that the committees are operating effectively and that any changes considered necessary are recommended to the Board for approval. During the year the terms of reference of all the committees were reviewed and changes made, where required, to reflect updated guidance on corporate governance. In addition, the Audit Committee was re-designated as the Audit & Risk Committee to ensure that additional focus was placed on risk management at the parent company level and specific responsibilities were included in the terms of reference to that end. The terms of reference of each committee are available on the Company's website at www.chesnara.co.uk or, upon request, from the Company Secretary

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

	Scheduled Board	Nomination Committee	Remuneration Committee	Audit & Risk Committee
Peter Mason - Non-executive Chairman	8 (8)	2 (2)	2 (2)	5 (5)
Terry Marris - Non-executive Director	8 (8)	2 (2)	2 (2)	5 (5)
Mike Gordon - Non-executive Director	7 (8)	2 (2)	2 (2)	4 (5)
Peter Wright - Non-executive Director	8 (8)	2 (2)	2 (2)	5 (5)
Graham Kettleborough - Executive Director	8 (8)	n/a	n/a	n/a
Ken Romney - Executive Director	8 (8)	n/a	n/a	n/a
Frank Hughes - Executive Director	8 (8)	n/a	n/a	n/a

The figures in brackets indicate the maximum number of meetings in the period during which the individual was a Board or Committee member. The information above relates to the period from 1 February 2011 to 31 January 2012

Nomination Committee

During the whole of the period under review, the Nomination Committee comprised Peter Mason who also served as Chairman of the Committee, Terry Marris, Mike Gordon and Peter Wright

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

During the period, the Committee met twice and considered the continuing mix of skills and experience of the Directors

Remuneration Committee

Full details of the composition and work of the Remuneration Committee are provided in the Directors' Remuneration Report on pages 43 to 47

Audit & Risk Committee

Full details of the composition and work of the Audit & Risk Committee are provided in the Audit & Risk Committee Report on pages 48 to 49

Auditor Independence and Objectivity

The external Auditor, Deloitte LLP and its associates, provide some non-audit services primarily in the provision of taxation and regulatory advice and in relation to corporate transactions that may arise from time to time. In order to ensure that auditor objectivity and independence are safeguarded, the following procedures have been put in place

Audit-related services

These relate to formalities such as shareholder and other circulars, regulatory reports and work on acquisitions. This is work that the external Auditor performs in its capacity as Auditor, where the nature of the work is closely allied to that on the audit of the annual financial statements. Accordingly, this work will be undertaken by the external Auditor unless unusual circumstances apply

Tax advice

The external Auditor will be used when particularly relevant and all other significant tax advice will be put out to tender

General advice

The external Auditor will be invited to tender, provided that both parties are satisfied that the nature of the contract will not present a threat to the independence of the Auditor

These safeguards have been approved by the Audit & Risk Committee and it is intended that they will be reviewed when required in the light of internal developments or of changes in the external circumstances of the Company. The Auditor reports to both the Directors and the Audit & Risk Committee with regard to compliance with professional and regulatory requirements and best practice

Details of the fees paid to the external Auditor, and its associates, for both audit and non-audit services during the year are provided in Note 15 to the financial statements

Relations with Shareholders

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

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

Regular meetings are also held with industry analysts and commentators so that they are better informed in formulating opinions and making judgements on the Group's performance. Private investors are encouraged to attend the Annual General Meeting ('AGM') at which the opportunity is provided to ask questions on each proposed resolution. The Chairmen of the Board Committees will be available to answer such questions as appropriate. Details of the resolutions to be proposed at the AGM on 18 May 2012 can be found in the notice of the meeting on pages 166 to 169.

Internal Control

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

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

In accordance with the regulatory requirements of the FSA, CA has established and maintained a risk and responsibility regime. This ensures that the identification, assessment and control of risk are firmly embedded within the organisation and that there are procedures for monitoring and update of the same. The CA Risk Management function reviews and reports quarterly on this regime to the CA Board. This process is supplemented by the establishment and maintenance of key risk registers for both CA and for the Company, which ensure that, against various appropriate classes of risk, there is identification, assessment and control of the significant risks subsisting within these organisations. The maintenance of the key risk registers is the responsibility of executive management, who respectively report on them quarterly to the CA Risk Committee and to each Chesnara Audit & Risk Committee meeting. In accordance with the requirements of the Swedish regulator, Finansinspektionen, Movestic has also established and maintained a risk and responsibility regime, which requires inter alia that

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

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

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

In addition, the Chesnara Board confirms that it has undertaken a formal annual review of the effectiveness of the system of internal control for the year ended 31 December 2011 and that it has taken account of material developments between that date and the date of approval of the Annual Financial Statements. The Board confirms that these reviews took account of reports by the internal audit functions on the operation of controls, internal financial controls, and management assurance on the maintenance of controls and reports from the external Auditor on matters identified in the course of statutory audit work.

The Board also confirms the continuing appropriateness of the maintenance of a Group Internal Audit Function, which reports to the Chairman of the Audit & Risk Committee.

Going Concern

The Directors' Statement on Going Concern is included in the Directors' Report on page 52.

Directors' Remuneration Report

The Remuneration Committee

The Remuneration Committee (the 'Committee') determines the overall pay policy and the remuneration packages and service contracts of the Executive Directors of the Company, including the operation of bonus schemes. It also monitors the remuneration of other senior employees within the Chesnara Group.

During the period under review the Committee comprised of the Non-executive Directors Mike Gordon (who also acted as Chairman), Peter Wright, Terry Marris and Peter Mason, who is Chairman of the Group. The Company Secretary, Mary Fishwick, acts as Secretary to the Committee, and provides advice on legal and regulatory issues relating to remuneration policy. At the request of the Committee, Graham Kettleborough, the Chief Executive, also attends and makes recommendations to the Committee regarding changes to the remuneration packages of individual Directors (excluding himself) or to policy generally. Such recommendations are discussed by the Committee and adopted or amended as it sees fit. No Executive Director is present at any part of the Committee meeting at which his own remuneration or contractual terms are being discussed. The membership and terms of reference of the Committee are reviewed annually and the terms of reference are available on the Company's website at www.chesnara.co.uk or, upon request, from the Company Secretary. Details of the number of meetings held and the attendance can be found in the Corporate Governance Report on page 40.

Remuneration Policy

The Committee aims to set remuneration at an appropriate level to attract, retain and motivate executives of the necessary calibre. An annual review of remuneration is undertaken to ensure reward levels are appropriate to the duties and responsibilities of the roles with a suitable balance between the fixed and variable elements of overall reward. In determining salary levels due regard is given to external market data relating to both financial services sector companies and listed companies of similar size.

The Committee also receives updates on pay and employment conditions applying to other Group employees; these are taken into consideration when setting Executive Directors' remuneration, consistent with the Group's general aim of seeking to reward all employees fairly according to the nature of their role, their performance and market forces.

The Company has in place the Annual Bonus Scheme and the 2011 Long-Term Incentive Plan, which are designed to incentivise and retain the Executive Directors. These bonus schemes, which are cash-based, reward the achievement of corporate targets set for the year and are therefore aligned with the delivery of value to shareholders. Neither the benefits under the Annual Bonus Scheme nor those under the 2011 Long-Term Incentive Plan are pensionable. The Committee may award other discretionary bonuses to the Executive Directors where it considers extraordinary value has been created or significant achievement has occurred.

In addition, the Company has established frameworks for approved and unapproved discretionary Share Option Plans, neither of which have been utilised to date. A Sharesave Plan was launched to all UK employees of the Group, including Executive Directors, in October 2011.

Remuneration Policy Change for 2012

Following the significant changes made last year the Committee has proposed only one change for 2012. The 2011 Long-Term Incentive Plan was approved by shareholders last year, however feedback has been received of a level of dissatisfaction with the one-year initial base bonus award setting period. The Remuneration Committee has therefore, following consultation with major shareholders, introduced a scheme which dispenses with this element of the plan and the 2012 Long-Term Incentive Plan has an effective period of three years. It is based on a target share price derived from a target embedded value on the third anniversary of the year end and the relationship of the share price to the base year Embedded Value and that same relationship at the end of the relevant period. The Committee believes that this further aligns Executive reward with shareholder return and removes the most significant concern regarding the 2011 scheme.

The Committee has, as can be seen above, listened to feedback from shareholders regarding the structure of the Long-Term Incentive Plan and believes that the overall level of reward from the scheme – which, importantly, in an on target year is no different from that currently received – is appropriate for the type and nature of the Group. A resolution will be tabled at the Annual General Meeting seeking approval for the introduction of the 2012 Long-Term Incentive Plan and the Committee unanimously recommends this to shareholders. The resolution is numbered 10 and can be found on page 167. The Committee's intention is that the 2012 Long-Term Incentive Plan will replace the 2011 Long-Term Incentive Plan.

Bonus Schemes

Annual Bonus Scheme

The Annual Bonus Scheme was designed to incentivise the Executive Directors. The overall maximum award is linked to that under the Long-Term Incentive Plan and, together, the reward was limited to 100% of basic salary.

The Annual Bonus Scheme is based on Group performance and was designed to ensure that Executive Directors' awards were closely aligned to shareholders' interests on this element of the scheme. It was, therefore, based upon the level of achievement of budgeted IFRS pre-tax profit.

These arrangements can be summarised as follows:

Element	Award
Group performance	
IFRS pre-tax profit	
- less than 75% of budget	Nil (increasing on a straight-line basis up to 100%)
- at 100% of budget	15.79% of basic salary
- at or greater than 100% of budget	Increases on a straight-line basis

The table below sets out the details of the awards made to the Executive Directors under the scheme in 2011.

Annual Bonus Scheme – awards made in respect of year ended 31 December 2011

	£'s
Graham Kettleborough	49,021
Ken Romney	33,385
Frank Hughes	30,047
Total	112,453

2011 Long-Term Incentive Plan

The 2011 Long-Term Incentive Plan was designed as a long-term cash-based incentive for Executive Directors. As the business was a run-off proposition prior to its acquisition of Movestic, the Remuneration Committee believed that a cash-based plan would be the most appropriate form of reward. Following the acquisition of S&P in December 2010, a further UK run-off company, the Committee remains of the opinion that a cash-based scheme is the most appropriate form of reward.

The 2011 Long-Term Incentive Plan for Executive Directors was designed to align Executive Director reward with shareholder value and dividend experience. The scheme:

- (i) was based on achievement of Group Embedded Value target,
- (ii) wholly deferred for three years from the end of the performance year,
- (iii) awarded a notional cash bonus amount, which at on target rate, was equivalent to 21.05% of basic annual salary, which would be converted to 'notional' shares,
- (iv) would be revalued after three years to reflect share price performance and dividend payment in respect of the 'notional shares' over the three years,
- (v) together with the annual bonus, be normally capped, on award, at 100% of salary with reward pro-rated if the total outcome exceeds that amount.

The table below summarises the awards made to the Executive Directors under the above scheme for each of the relevant periods covered by this report.

Long-Term Incentive Plan – awards made in 2010 and 2011

	Amount awarded in respect of the year ended 31 December	Amount awarded in respect of the year ended 31 December
	2011	2010
Graham Kettleborough	£nil	£233,015
Ken Romney	£nil	£139,726
Frank Hughes	£nil	£112,441

Movestic

A scheme based on the increase in Movestic's Embedded Value (excluding any capital contributions from the Group) was implemented for a limited number of senior managers within Movestic. The total pool was 1.75% of the increase and, if other managers are added, the total pool will not exceed 2.5% of the increase in Embedded Value. Forty per cent of the award is paid at the end of the year in which it is earned with the remaining 60% being deferred for three years.

No awards were made under this scheme in respect of 2011.

Revised Long-Term Incentive Plan

The revised Long-Term Incentive Plan for Executive Directors which is being recommended by the Committee has been designed to align Executive Director reward with shareholder value and dividend experience. It will

- (i) be based on achievement of Group Embedded Value target at the end of 2014,
- (ii) reflect the share price performance, as related to the Group Embedded Value, during the three year period after allowing for dividend payments,
- (iii) reward on a sliding scale from 0% of basic annual salary on achievement of 75% of target to 21.05% of basic annual salary on achievement of target, continuing on a straight-line basis if target is exceeded, and
- (iv) together with the annual bonus, generated in respect of 2011, be normally capped, on award, at 100% of 2011 basic salary.

Further details of the revised Long-Term Incentive Plan are set out in the Notice of Annual General meeting on pages 161 to 171. A resolution will be tabled at the Annual General Meeting seeking approval for the introduction of the revised Long Term Incentive Plan. The resolution is numbered 10 and can be found on page 167.

Share Options

The Board has established frameworks for approved and unapproved discretionary Share Option Plans which may, at the discretion of the Committee, be utilised for granting options to Executive Directors and other employees. During 2011 no such options were granted. The Group made an offering under a Sharesave Plan to all UK employees of the Group in October 2011 following approval of the scheme by shareholders at the last Annual General Meeting.

Service Contracts

The Executive Directors, who were all appointed on 1 March 2004, have service contracts with a rolling twelve-month notice period. Compensation on termination of service contracts will be decided on a case-by-case basis having regard to the particular circumstances.

Pension Policy

The Executive Directors are members of the Chesnara plc Stakeholder Scheme to which employer contributions are made at rates agreed by the Remuneration Committee. Employer contributions to the respective schemes are detailed on page 47.

Other Benefits

Executive Directors' remuneration also includes non-pensionable benefits in kind by way of a fully-expensed company car, life assurance and private medical insurance.

Non-executive Directors

The remuneration of the Non-executive Directors is determined by the Board as a whole in accordance with the Articles of Association. Non-executive Directors do not have service contracts with the Company, neither are they eligible for bonuses, pensions or participation in Company share option schemes. The dates of expiry of their terms of appointment are

	Date of expiry of term of appointment
Peter Mason	31 October 2014
Mike Gordon	30 April 2014
Terry Marris	1 March 2013
Peter Wright	31 December 2014

Peter Mason, Graham Kettleborough and Peter Wright retire by rotation at the end of the forthcoming AGM, at which a resolution proposing their re-election will be tabled.

Directorate

The Directors who served during the period were

Chairman

Peter Mason

Non-executive Directors

Terry Marris

Mike Gordon

Peter Wright

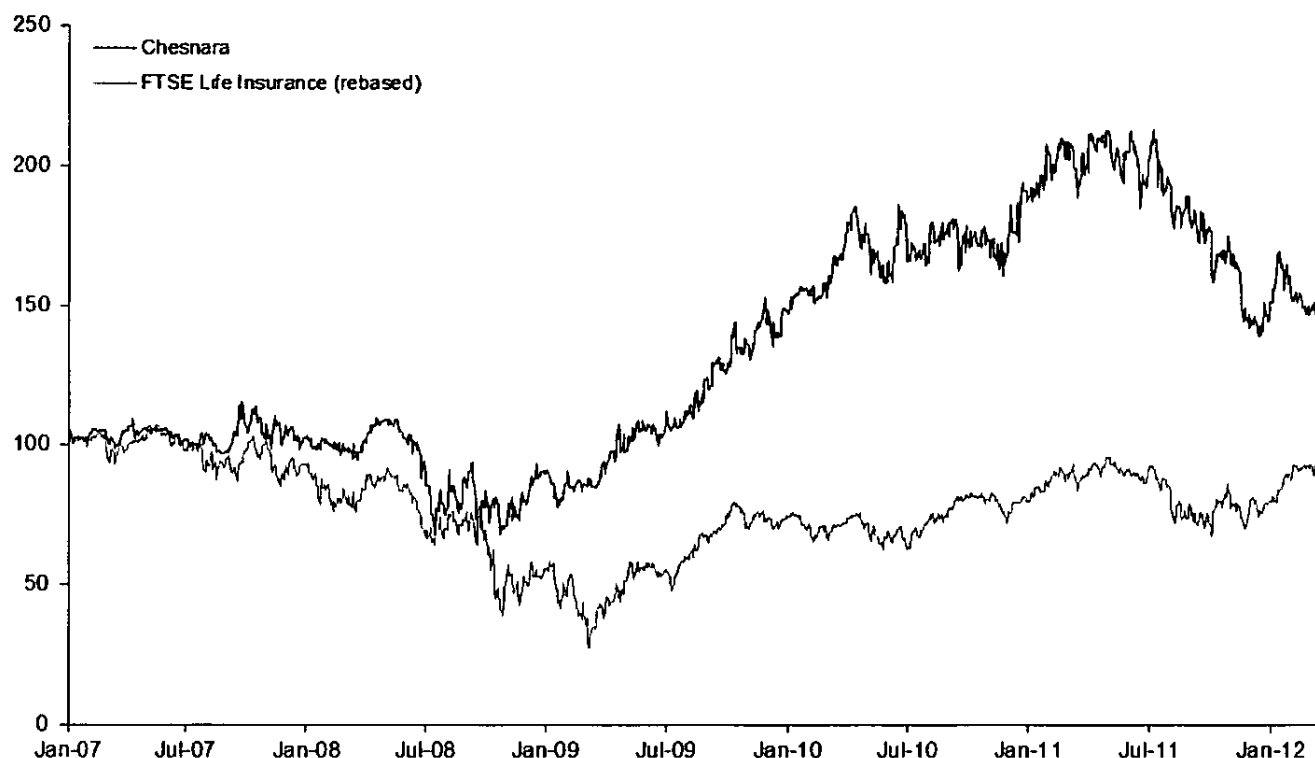
Executive Directors

Graham Kettleborough

Ken Romney

Frank Hughes

Performance Graph



The above graph shows a comparison of the Company's total shareholder return ('TSR') performance against the FTSE Life Insurance sector index. The Company considers this to be the most appropriate index, given that its activities are centered on life insurance. The graph has been prepared in accordance with section 421(2) of the Companies Act 2006.

Directors' Interests in Shares

Directors' interests in the ordinary shares of Chesnara plc were as set out below (number of shares)

	31 December 2011		31 December 2010	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
Peter Mason	19,768	—	19,768	—
Terry Marris	57,615	—	57,708	—
Mike Gordon	—	—	—	—
Peter Wright	70,000	—	70,000	—
Graham Kettleborough	58,100	—	58,100	—
Ken Romney	70,476	—	70,476	—
Frank Hughes	5,832	—	5,832	—

There were no changes in the Directors' shareholdings in Chesnara plc between 31 December 2011 and 30 March 2012.

Directors' Remuneration

The Auditors are required to report on this and the remaining sections of the Remuneration Report

Total Directors' remuneration for the year ended 31 December 2011 is shown below with comparative figures for the year ended 31 December 2010

	Year ended 31 December	
	2011	2010
	£000	£000
Aggregate emoluments		
Fees to Non-executive Directors	225	183
Emoluments to Executive Directors	745	1,256
Company contributions to pension schemes	132	132
Total	1,102	1,571

The following table, which has been prepared in accordance with regulatory requirements, sets out the constituents of Directors' emoluments for the year ended 31 December 2011

	Salaries and fees	Bonuses	Deferred Bonuses	Benefits	Total 2011	Total 2010
	£000	£000	£000	£000	£000	£000
Executive Directors						
Graham Kettleborough	263	49	-	17	329	577
Ken Romney	185	33	-	11	229	389
Frank Hughes	145	30	-	12	187	290
Total	593	112	-	40	745	1,256
Non-executive Directors						
Peter Mason	90	-	-	-	90	75
Terry Marris	40	-	-	-	40	30
Mike Gordon	45	-	-	-	45	45
Peter Wright	50	-	-	-	50	33
Total	225	-	-	-	225	183
Total	818	112	-	40	970	1,439

The following table sets out each Executive Director's pension benefits for the years ended 31 December 2011 and 31 December 2010

	Company contributions to money purchase scheme	
	2011	2010
	£000	£000
Graham Kettleborough	47	47
Ken Romney	41	41
Frank Hughes	44	44
Total	132	132

A Salary Sacrifice scheme was introduced in July 2007. As a result, contributions formerly made by Executive Directors are now made by the Group and deducted from Directors' salaries

The pension arrangements for the Executive Directors are set out on page 45

No pension contributions were made by companies within the Chesnara plc Group from 1 January 2010 to 31 December 2011 in respect of any of the Non-executive Directors

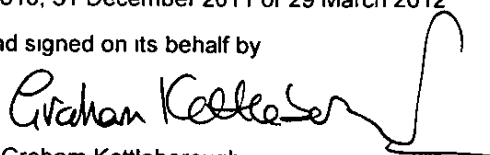
Directors' Share Options

No options were granted in respect of any Chesnara plc Share Option Scheme between 1 January 2011 and 29 March 2011, nor were there any options outstanding as at 31 December 2010, 31 December 2011 or 29 March 2012

Approved by the Board of Directors on 29 March 2012 and signed on its behalf by



Peter Mason



Graham Kettleborough

Audit & Risk Committee Report

The Audit & Risk Committee continues to bring to bear its knowledge and expertise in fulfilling its obligations and in exercising judgement in critical areas

Role and Composition

During the period under review, the Audit & Risk Committee comprised Peter Wright (Chairman), Mike Gordon and Terry Marris, as independent Non-executive Directors and Peter Mason (Group Chairman). On invitation, the Chief Executive, the Finance Director, the Business Services Director (whose role includes risk reporting), the Head of UK Internal Audit, the consulting firm which provides internal audit services to Movestic and the external Auditors attend meetings to assist the Committee in the fulfilment of its duties. The Committee met 5 times during the period under review.

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

Activity

During the period under review, the Audit & Risk Committee discharged its responsibilities by

- reviewing the Group's draft Financial Statements prior to Board approval and reviewing the external Auditor detailed reports thereon, in respect of the half year ended 30 June 2011 and the year ended 31 December 2011,
- reviewing the appropriateness of the Group's accounting policies,
- reviewing the provision of supplementary reporting of financial information in accordance with European Embedded Value principles, including the methodology undertaken and the assumptions adopted,
- reviewing and approving the audit fee estimates and reviewing and approving the audit and non-audit fees,
- reviewing the external Auditor plan for the audit of the Group's financial statements which included an assessment of key risks and confirmation of Auditor independence,
- reviewing and approving internal audit plans for the internal audit of the Group's internal controls, embracing operating, financial and business controls,
- reviewing an annual report on the Group's systems of risk management and internal control and their effectiveness and reporting to the Board on the results of the review,
- reviewing regular reports from the internal audit functions,
- meeting the Head of UK Internal Audit without an Executive Director or a member of the Company's senior management being present,
- reviewing the report on key risks by Executive Management,
- meeting the external Auditor without an Executive Director or a member of the Company's senior management being present,
- reviewing the nature and volume of non-audit services provided by the external Auditor to ensure that a balance is maintained between objectivity and value added, and
- reviewing the Group's anti-fraud and whistle-blowing policies and procedures

Key Issues

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

- **The allowance for persistency in the EEV results**

This should be the expected long-term mean level over the run-off of the existing portfolios and have regard to current experience. In respect of the UK, businesses current experience may be unduly favourable as a long-term average because some deterioration might be expected as the Government's austerity measures bite deeper. Conversely, in respect of the Swedish business, recent changes in product design combined with internal re-organisation and hiring to give greater emphasis to retention of business could be expected to improve persistency. Some allowance has been made for these factors when setting the persistency rates but clearly this has involved judgement. It is expected that greater clarity on the impact of these factors will emerge over the next two years.

- **The determination long-term of projections of expenses in the EEV results**

In respect of the UK businesses some of the outsourcing agreements have been subject to renegotiation and the prospective impact of this has had to be anticipated when setting the EEV assumptions. In respect of the Swedish business, new business is currently at a level below that supported by the business infrastructure and this has resulted in judgements having to be made regarding the allocation of expenses between those related to acquisition and those related to ongoing maintenance.

- **Excess yield on corporate and other non-governmental bonds**

For IFRS reporting for the UK businesses it is necessary to allocate the excess yield on corporate and other non-governmental bonds over that on equivalent government securities between an element related to the risk of default (including a resultant uncertainty premium) and an element related to liquidity. As the spread on corporate bonds has widened over the year, determining this allocation has entailed considerable judgement.

- **Alignment of assumptions**

Following the acquisition of the S&P business, the Committee has overseen the alignment of the formulation of key statutory valuation and EEV reporting assumptions, in order to ensure that there is consistency in the approach and methods used by the UK businesses.

- **Going concern assumptions**

The Committee continues to review the periodic reports relating to the continuing appropriateness of preparing Group financial statements on a going concern basis, and gives particular attention to the integrity of the underlying assumptions and to the appropriateness of the different stress scenarios which test the assumptions.

Corporate and Social Responsibility Statement

Chesnara takes its responsibilities for social and environmental issues seriously and recognises the importance of developing and maintaining high standards. We do not, however, consider that these aspects are critical to the achievement of our strategic aims or that they should form any significant element of remuneration or reward.

Equal opportunities

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

Disabled employees

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

Health, safety and welfare at work

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

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

Social, environmental and ethical issues

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

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

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

Directors' Report

Chesnara plc - Company No 4947166

The Directors present their report and the audited consolidated accounts of Chesnara plc ('Chesnara') for the year ended 31 December 2011. The Corporate Governance Report on pages 38 to 42 forms part of the Directors' Report.

Business Review

The information which fulfills the Companies Act requirements for a Business Review can be found in the following sections:

Requirements	Reference
• Strategic aims and how we achieve our strategic aims	➤ The Our Vision and Strategy section on pages 6 to 10
• Principal risks and uncertainties	➤ The Risk Management section on pages 30 to 32
• Performance and development during the year and position at the end of the year	➤ The Chief Executive's Review on pages 13 to 17, the Financial Review on pages 18 to 25 and the Financial Management section on pages 26 to 29
• Likely future developments	
• Financial and non-financial KPIs	
• Environmental, employee and social community matters	➤ The Corporate and Social Responsibility Statement on page 50

Results and Dividends

The Group consolidated statement of comprehensive income for the year ended 31 December 2011, prepared in accordance with International Financial Reporting Standards and set out on page 58, shows:

	2011	2010
	£000	£000
Profit for the year attributable to shareholders	25,665	29,819

An interim dividend of 5.95p per ordinary share was paid by Chesnara on 14 October 2011. The Board recommends payment of a final dividend of 10.9p per ordinary share on 22 May 2012 to shareholders on the register at the close of business on 13 April 2012.

Directors

The present Directors of the Company and their biographical details are set out on page 36. All of those Directors served for the period from 1 January 2011 to 31 December 2011. There have been no changes in the Directorate between 31 December 2011 and 29 March 2012.

The Non-executive Directors who served as Chairmen and members of the Nominations and Audit & Risk Committees of the Board are set out in the Corporate Governance Report and Audit & Risk Committee reports respectively on pages 38 to 42. Information in respect of the Chairman and members of the Remuneration Committee and in respect of Directors' service contracts is included in the Remuneration Report on pages 43 to 47, which also includes details of Directors' interests in shares and share options.

Pursuant to the Articles of Association, Peter Mason, Graham Kettleborough and Peter Wright will retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. No Director seeking re-election has a service contract with the Company of more than one year's duration. In addition, no Director had any material interest in any significant contract with the Company or with any of the subsidiary companies during the year.

The Directors benefited from qualifying third party indemnity provisions in place during the years ended 31 December 2010 and 31 December 2011 and the period to 29 March 2012.

Substantial shareholdings

The following substantial interests in the Company's ordinary share capital at 31 December 2011 have been notified to the Company

Name of substantial shareholder	Total number of ordinary shares held	Percentage of the issued share capital
		As at 31 December 2011
Amerprise Financial, Inc (Threadneedle Asset Management)	12,741,529	11.09
Artemis Investment Management LLP	11,669,033	10.16
Henderson Global Investors Limited	6,525,771	5.68
Legal and General Group	4,130,698	3.60
Standard Life Investments Limited	4,032,118	3.51
Norges Bank	3,893,220	3.38

There have been changes to the position since 31 December 2011 and the revised holding is shown below. No other person holds a notifiable interest in the issued share capital of the Company.

Name of substantial shareholder	Total number of ordinary shares held	Percentage of the issued share capital
		As at 29 March 2012
Artemis Investment Management LLP	12,845,608	11.18
Standard Life Investments Limited	4,172,345	3.63
Hermes Equity Ownership Services Limited	3,401,096	2.96

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

Charitable donations and political contributions

Charitable donations made by Group companies during the year ended 31 December 2011 were £nil (2010: £nil). No political contributions were made during the year ended 31 December 2011 (2010: £nil).

Employees

The average number of employees during the year was 156 (2010: 150).

Creditors payment policy

It is Chesnara's policy to pay creditors in accordance with the CBI Better Practice Payment Code (available at www.payontime.co.uk) on supplier payments. The number of creditor days outstanding at 31 December 2011, based on the consolidated financial statements, was 6 for the Group (2010: 22) and for the Company 28 (2010: 67).

Going concern statement

After making appropriate enquiries, the Directors confirm that they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements as stated in Note 2(c) to the financial statements. Detailed analysis of relevant risks and other factors is included within the Risk Management section in pages 30 to 32, within the Financial Management Section in pages 26 to 29 and within Notes 5 and 6 to the IFRS financial statements.

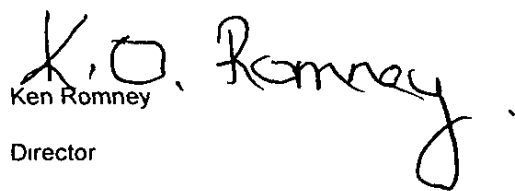
Disclosure of information to Auditor

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

Auditor

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

Approved by the Board on 29 March 2012 and signed on its behalf by


Ken Romney
Director

IFRS FINANCIAL STATEMENTS

IN THIS SECTION

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Page 58	Consolidated Statement of Comprehensive Income
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Page 60	Company Balance Sheet
Page 61	Consolidated Statement of Cash Flows
Page 62	Company Statement of Cash Flows
Page 63	Consolidated Statement of Changes in Equity
Page 64	Company Statement of Changes in Equity
Page 65	Notes to the Consolidated Financial Statements

Directors' responsibility statement in respect of the Financial Statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

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

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

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

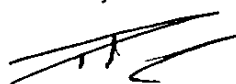
The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole, and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

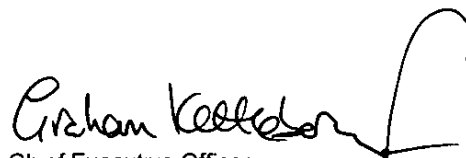
By order of the Board



Chairman

Peter Mason

29 March 2012



Chief Executive Officer

Graham Kettleborough

29 March 2012

Independent Auditor's Report

We have audited the financial statements of Chesnara plc for the year ended 31 December 2011 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Cash Flows, the Consolidated and Company Statements of Changes in Equity and the related Notes 1 to 54. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

- the directors' statement, contained within the Directors' Report, in relation to going concern,
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the Board on directors' remuneration



David Heaton (Senior Statutory Auditor)

29 March 2012

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Manchester

United Kingdom

Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

	Note	Year ended 31 December	
		2011 £000	2010 £000
Insurance premium revenue		121,976	114,950
Insurance premium ceded to reinsurers		(34,970)	(35,695)
Net insurance premium revenue		87,006	79,255
Fee and commission income	9	67,863	63,410
Net investment return	10	(192,402)	303,850
Total revenue net of reinsurance payable		(37,533)	446,515
Other operating income	11	21,782	9,216
Total income net of investment return		(15,751)	455,731
Insurance contract claims and benefits incurred			
Claims and benefits paid to insurance contract holders	12	(267,691)	(139,424)
Net decrease/(increase) in insurance contract provisions	12	204,864	(106,618)
Reinsurers' share of claims and benefits	12	17,401	45,635
Net insurance contract claims and benefits		(45,426)	(200,407)
Change in investment contract liabilities	13	164,166	(180,021)
Reinsurers' share of investment contract liabilities	13	(1,500)	3,904
Net change in investment contract liabilities		162,666	(176,117)
Fees, commission and other acquisition costs	14	(17,276)	(14,688)
Administrative expenses	15	(38,798)	(29,375)
Other operating expenses			
Charge for amortisation of acquired value of in-force business	16	(9,032)	(8,145)
Charge for amortisation of acquired value of customer relationships	16	(758)	(952)
Other	16	(9,664)	(7,060)
Total expenses net of change in insurance contract provisions and investment contract liabilities		41,712	(436,744)
Total income less expenses		25,961	18,987
Share of (loss)/profit of associate	24	(152)	597
Profit recognised on business combinations	7	-	15,864
Operating profit		25,809	35,448
Financing costs	17	(3,388)	(1,280)
Profit before income taxes		22,421	34,168
Income tax credit/(expense)	18	3,244	(4,467)
Profit for the period		25,665	29,701
Attributable to			
Shareholders	8	25,665	29,819
Non-controlling interest		-	(118)
		25,665	29,701
Foreign exchange translation differences arising on the revaluation of foreign operations		(738)	4,285
Total comprehensive income for the year		24,927	33,986
Attributable to			
Shareholders		24,927	34,104
Non-controlling interest		-	(118)
		24,927	33,986
Basic earnings per share (based on profit for the year attributable to shareholders)	49	22 35p	29 05p
Diluted earnings per share (based on profit for the year attributable to shareholders)	49	22 35p	29 05p

The notes and information on pages 65 to 138 form part of these financial statements

IFRS Financial Statements
Consolidated Balance Sheet

Consolidated Balance Sheet at 31 December 2011

	Note	31 December	
		2011	2010
		£000	£000
Assets			
Intangible assets			
Deferred acquisition costs	19	19,720	14,659
Acquired value of in-force business	20	83,346	93,046
Acquired value of customer relationships	21	2,255	3,032
Software assets	22	6,744	6,829
Property and equipment	23	385	671
Investment in associates	24	1,613	1,783
Investment properties	25	132,128	120,820
Reinsurers' share of insurance contract provisions	33	263,792	280,743
Amounts deposited with reinsurers	34	28,031	30,264
Financial assets			
Equity securities at fair value through income	26	404,431	492,321
Holdings in collective investment schemes at fair value through income	26	2,917,935	3,177,265
Debt securities at fair value through income	26	330,610	319,516
Policyholders' funds held by the Group	26	49,080	52,337
Insurance and other receivables	26/27	30,799	33,225
Prepayments	26/27	3,234	3,908
Derivative financial instruments	26/28	10,308	9,707
Total financial assets		3,746,397	4,088,279
Reinsurers' share of accrued policyholder claims	40	4,667	3,678
Income taxes	29	6,956	5,486
Cash and cash equivalents	30	195,920	194,134
Assets held for sale	31	-	380
Total assets		4,491,954	4,843,804
Liabilities			
Liabilities held for sale	31	-	380
Bank overdrafts	30	834	2,154
Insurance contract provisions	33	2,184,685	2,404,079
Unallocated divisible surplus	33	6,254	83
Financial liabilities			
Investment contracts at fair value through income	34	1,876,463	2,002,712
Liabilities relating to policyholders' funds held by the Group	35	49,080	52,337
Borrowings	36	54,753	62,694
Derivative financial instruments	28	144	137
Total financial liabilities		1,980,440	2,117,880
Provisions	37	2,811	1,822
Deferred tax liabilities	38	15,390	20,526
Reinsurance payables	39	16,336	22,310
Payables related to direct insurance and investment contracts	40	40,651	35,808
Deferred income	41	10,000	11,647
Income taxes	42	947	6,923
Other payables	43	24,417	16,923
Total liabilities		4,282,765	4,640,535
Net assets	8	209,189	203,269
Shareholders' equity			
Share capital	44	42,024	42,024
Share premium	44	42,523	42,523
Treasury shares	45	(217)	(217)
Other reserves	46	6,978	7,716
Retained earnings	47	117,881	111,223
Total shareholders' equity		209,189	203,269

The notes and information on pages 65 to 138 form part of these financial statements

Approved by the Board of Directors on 29 March 2012 and signed on its behalf by

Peter Mason

Graham Kettleborough

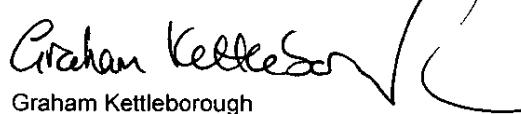
Company Balance Sheet at 31 December 2011

	Note	31 December	
		2011 £000	2010 £000
Assets			
Non-current assets			
Financial assets			
Investment in subsidiaries	26	146,699	141,434
Current assets			
Receivables and prepayments	27	296	243
Income taxes	29	1,197	543
Cash and cash equivalents	30	15,637	21,198
Total current assets		17,130	21,984
Total assets		163,829	163,418
Current liabilities			
Borrowings	36	5,819	3,807
Provisions	37	176	-
Other payables	43	2,087	2,002
Total current liabilities		8,082	5,809
Non-current liabilities			
Borrowings	36	29,667	35,480
Provisions	37	1,324	-
Total non-current liabilities		30,991	35,480
Total liabilities		39,073	41,289
Net assets		124,756	122,129
Shareholders' equity			
Share capital	44	5,752	5,752
Share premium	44	42,523	42,523
Treasury shares	45	(217)	(217)
Other reserves	46	50	50
Retained earnings	47	76,648	74,021
Total shareholders' equity		124,756	122,129

The notes and information on pages 65 to 138 form part of these financial statements

The financial statements of Chesnara plc (registered number 4947166) were approved by the Board of Directors on 29 March 2012 and signed on its behalf by


Peter Mason


Graham Kettleborough

IFRS Financial Statements
Consolidated Statement of Cash Flows

Consolidated Statement of Cash Flows for the year ended 31 December 2011

	Year ended 31 December	
	2011	2010
	£000	£000
Profit for the year	25,665	29,819
Adjustments for		
Depreciation of property and equipment	219	294
Amortisation of deferred acquisition costs	7,339	5,737
Amortisation of acquired value of in-force business	9,032	8,148
Amortisation of acquired value of customer relationships	758	1,182
Amortisation of software assets	1,968	1,176
Tax (recovery) / expense	(3,244)	4,467
Interest receivable	(28,632)	(16,913)
Dividends receivable	(40,261)	(31,090)
Interest expense	3,388	1,280
Change in fair value of investment properties	(4,233)	(113)
Fair value losses/(gains) on financial assets	272,517	(252,456)
Loss on sale of property and equipment	-	2
Profit arising on business combinations	-	(15,864)
Share of loss/(profit) of associate net of impairment	152	(597)
Interest received	27,874	16,370
Dividends received	40,350	30,792
Increase in intangible assets related to insurance and investment contracts	(12,642)	(10,343)
Changes in operating assets and liabilities		
Decrease/(increase) in financial assets	44,697	(78,785)
Decrease/(increase) in reinsurers share of insurance contract provisions	15,442	(31,471)
Decrease/(increase) in amounts deposited with reinsurers	2,233	(3,208)
Decrease in insurance and other receivables	2,967	1,305
Decrease in prepayments	659	80
Decrease/(increase) in assets held for sale	380	(380)
(Decrease)/increase in liabilities held for sale	(380)	380
(Decrease)/Increase in insurance contract provisions	(212,424)	121,382
(Decrease)/Increase in investment contract liabilities	(115,100)	270,801
Increase in provisions	989	370
(Decrease)/Increase in reinsurance payables	(5,859)	5,677
Increase/(decrease) in payables related to direct insurance and investment contracts	4,981	(6,050)
Increase/(decrease) in other payables	5,719	(422)
Cash generated from operations	44,554	51,570
Income tax paid	(9,119)	(4,537)
Net cash generated from operating activities	35,435	47,033
Cash flows from investing activities		
Business combinations, net of cash acquired	-	(46,483)
Investment in associates	-	(38)
Development of software	(1,968)	(2,541)
Disposals/(purchases) of property and equipment	63	(296)
Net cash utilised by investing activities	(1,905)	(49,358)
Cash flows from financing activities		
Proceeds from the issue of share capital	-	22,588
Repayment of borrowings	(7,510)	(7,236)
Proceeds from borrowings	-	40,000
Sale of treasury shares	-	3,162
Dividends paid	(19,007)	(16,340)
Interest paid	(3,625)	(2,365)
Net cash (utilised by)/generated from financing activities	(30,142)	39,809
Net increase in cash and cash equivalents	3,388	37,484
Cash and cash equivalents at beginning of period	191,980	152,929
Effect of exchange rate changes on cash and cash equivalents	(282)	1,567
Cash and cash equivalents at end of the year	195,086	191,980

The notes and information on pages 65 to 138 form part of these financial statements

Company Statement of Cash Flows for the year ended 31 December 2011

	Year ended 31 December	
	2011	2010
	£000	£000
Profit for the year	21,634	24,806
Adjustments for		
Tax recovery	(1,197)	(150)
Interest expense	1,419	70
Dividends received from subsidiary company	(26,002)	(28,500)
Changes in operating assets and liabilities		
(Increase)/decrease in loans and receivables	(41)	15
(Increase)/decrease in prepayments	(12)	4
Increase in provisions	1,500	-
Increase/(decrease) in other payables	87	(238)
Tax received	543	-
Cash utilised by operations	(2,069)	(3,993)
Cash flows from investing activities		
Acquisition of subsidiary company	-	(63,524)
Capital contributions paid to subsidiary	(5,265)	(3,881)
Dividends received from subsidiary company	26,002	28,500
Net cash generated from/(utilised by) investing activities	20,737	(38,905)
Cash flows from financing activities		
Net proceeds from the issue of share capital	-	22,588
Repayment of borrowings	(4,000)	(4,200)
Proceeds from borrowings	-	40,000
Dividends paid	(19,007)	(16,340)
Interest paid	(1,222)	(749)
Sale of treasury shares	-	3,162
Net cash (utilised by)/generated from financing activities	(24,229)	44,461
Net (decrease)/increase in cash and cash equivalents	(5,561)	1,563
Cash and cash equivalents at beginning of period	21,198	19,635
Cash and cash equivalents at end of period	15,637	21,198

The notes and information on pages 65 to 138 form part of these financial statements

IFRS Financial Statements
Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity for the year ended 31 December 2011

Year ended 31 December 2011

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2011	42,024	42,523	7,716	(217)	111,223	203,269
Profit for the period representing total recognised income and expenses	-	-	-	-	25,665	25,665
Dividends paid	-	-	-	-	(19,007)	(19,007)
Foreign exchange translation reserve	-	-	(738)	-	-	(738)
Equity shareholders' funds at 31 December 2011	42,024	42,523	6,978	(217)	117,881	209,189

Year ended 31 December 2010

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2010	41,501	20,458	3,431	(3,379)	97,744	159,755
Profit for the period representing total recognised income and expenses	-	-	-	-	29,819	29,819
Dividends paid	-	-	-	-	(16,340)	(16,340)
Issue of new shares	523	22,065	-	-	-	22,588
Sale of treasury shares	-	-	-	3,162	-	3,162
Foreign exchange translation reserve	-	-	4,285	-	-	4,285
Equity shareholders' funds at 31 December 2010	42,024	42,523	7,716	(217)	111,223	203,269

The notes and information on pages 65 to 138 form part of these financial statements

Company Statement of Changes in Equity for the year ended 31 December 2011

Year ended 31 December 2011

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2011	5,752	42,523	50	(217)	74,021	122,129
Profit for the year representing total recognised income and expenses	-	-	-	-	21,634	21,634
Dividends paid	-	-	-	-	(19,007)	(19,007)
Equity shareholders' funds at 31 December 2011	5,752	42,523	50	(217)	76,648	124,756

Year ended 31 December 2010

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2010	5,229	20,458	50	(3,379)	65,555	87,913
Profit for the year representing total recognised income and expenses	-	-	-	-	24,806	24,806
Dividends paid	-	-	-	-	(16,340)	(16,340)
Issue of new shares	523	22,065	-	-	-	22,588
Sale of treasury shares	-	-	-	3,162	-	3,162
Equity shareholders' funds at 31 December 2010	5,752	42,523	50	(217)	74,021	122,129

The notes and information on pages 65 to 138 form part of these financial statements

Notes to the consolidated financial statements

1 General information

Chesnara plc (Registered Number 4947166) (the Company) is a limited liability company incorporated and domiciled in England and Wales and has a primary listing on the London Stock Exchange. The address of the registered office is Harbour House, Portway, Preston, PR2 2PR, UK.

The Company and its subsidiaries, together forming the Group, comprise UK and Swedish life and pensions businesses.

The UK businesses, which comprise the CA and S&P segments described in Note 8 and the activities of which are performed entirely in the UK, underwrite life risks such as those associated with death, disability and health and provide a portfolio of investment contracts for the savings and retirement needs of customers through asset management. They are substantially closed to new business, such that new insurance contracts are only issued to existing customers, dependent on their changing needs. New investment contracts relate to the sale of Guaranteed Growth and Guaranteed Income Bonds by CA.

The Swedish business, which comprises the Movestic segment, described in Note 8, and the activities of which are performed predominantly in Sweden, underwrites life, accident and health risks and provides a portfolio of investment contracts. It is open to new business, securing distribution of its products principally through independent financial advisers.

These financial statements are presented in pounds sterling, which is the functional currency of the Parent Company. Foreign operations are included in accordance with the policies set out in Note 2. The financial statements were authorised for issue by the Directors on 29 March 2012.

2 Significant accounting policies

In the information which follows distinction is made, where necessary, in respect of the applicability of certain policies, or as to their clarification:

- (i) as between the UK businesses and the Swedish business, which comprises the Movestic segment, and
- (ii) as between the CA and S&P segments of the UK businesses.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (Adopted IFRSs) and therefore comply with Article 4 of the EU IAS Regulation. Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with Adopted IFRSs.

The Group has applied, for the first time, IAS24 (revised) Related Party Disclosures, effective for accounting periods beginning on or after January 1 2011. Its application has not led to any changes in Group accounting policies.

At the date of authorisation of these financial statements, the following Standards, which are applicable to the Group and which have not been applied in these financial statements, were in issue, but were not yet effective, and in some cases had not yet been adopted by the EU:

- IAS1 (revised) Presentation of Items of Other Comprehensive Income
- IFRS7 (revised) Disclosures – Offsetting Financial Assets and Financial Liabilities

- IFRS9 Financial Instruments
- IFRS13 Fair Value Measurement
- IAS19 (revised) Employee Benefits
- IAS32 (revised) Offsetting Financial Assets and Financial Liabilities

The Directors anticipate that the application of these Standards in future periods will have no material impact on the financial statements of the Group.

In publishing the Parent Company financial statements together with the Group financial statements the Company has taken advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and of entities controlled by the Company (its subsidiaries), made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The Parent Company financial statements present information about the Company as a separate entity and not about its group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination.

Profit or loss and each component of other comprehensive income are attributed to the Company and to the non-controlling interests. Total comprehensive income is attributed to the Company shareholders and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Basis of preparation

The Consolidated and Parent Company financial statements have been prepared on a going concern basis. The Directors believe that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. In making this assessment, the Directors have taken into consideration the points as set out in the Financial Management section under the heading 'Going Concern'.

The financial statements are presented in pounds sterling, rounded to the nearest thousand and are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments at fair value through income, assets and liabilities held for sale, unallocated divisible surplus, investment property and investment contract liabilities at fair value through income.

Assets and liabilities are presented on a current and non-current basis in the notes to the financial statements. If assets are expected to be recovered and liabilities expected to be settled within a year, they are classified as current. If they are expected to be recovered or settled in more than one year, they are classified as non-current.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is

revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. Judgements made by management in the process of applying the Group's accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are set out in Note 3.

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

These financial statements have also been prepared in accordance with the disclosure provisions of FRS 27 'Life Assurance', which was issued by the UK's Accounting Standards Board (ASB) in December 2004. FRS 27 adds to the requirements of IFRS but does not vary them in any way.

(d) Business combinations

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Expenses directly attributable to the acquisition are expensed as incurred. The acquiree's identifiable assets, liabilities, and contingent liabilities, which meet the conditions for recognition under IFRS 3, are measured initially at their fair values at the acquisition date. Gains arising on a bargain purchase, where the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree exceeds the cost of acquisition, is recognised in profit or loss at the acquisition date.

The non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Where a Group company transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the associate. Losses may provide evidence of an impairment of assets transferred, in which case appropriate provision is made for impairment.

(f) Foreign currencies

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates, being its functional currency. For the purpose of these consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Parent Company and the presentation currency of the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency, being foreign currencies, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities which are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value, which are denominated in foreign currencies, are translated at the rates prevailing when the fair value was determined. Exchange differences are recognised in profit or loss in the period in which they arise, except when they relate to items for which gains and losses are recognised in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising are classified as equity and are recognised in the Group's foreign currency translation reserve. Such translation differences are recognised as income or as expense in the period in which the operation is disposed of.

Transactions relating to business combinations denominated in foreign currencies are translated into sterling at the exchange rates prevailing on the transaction date.

(g) Product classification

The Group's products are classified at inception as either insurance or investment contracts for accounting purposes. Insurance contracts are contracts which transfer significant insurance risk and remain as insurance contracts until all rights and obligations are extinguished or expire. They may also transfer financial risk. Investment contracts are contracts which carry financial risk, with no significant insurance risk. Where contracts contain both insurance and investment components and the investment components can be measured reliably, the contracts are unbundled and the components are separately accounted for as insurance contracts and investment contracts respectively.

In some insurance contracts and investment contracts the financial risk is borne by the policyholders. Such contracts are usually unit-linked contracts.

With-profits contracts, which subsist only within the UK businesses, all contain a discretionary participation feature ("DPF") which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses, which may be a significant portion of the total contractual benefits.

In respect of S&P the amount and timing of such contractual benefits are at the discretion of the Group and are contractually based on realised and/or unrealised investment returns on a specified pool of assets held by the Group. The terms and conditions of these contracts, together with UK regulations, set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders.

In respect of CA all such contracts are wholly reinsured with Guardian Assurance Limited ('Guardian'), and the amount or timing of the additional payments are contractually at the discretion of the reinsurer and are contractually based on:

- (i) the performance of a specified pool of contracts or a specified type of contract,
- (ii) realised and/or unrealised investment returns on a specified pool of assets held by the reinsurer, or
- (iii) the profit or loss of the reinsurer.

All contracts with discretionary participation features are classified as insurance contracts.

(h) Insurance contracts

There are fundamental differences between the nature of the insurance contracts subsisting in the UK and Swedish businesses, including inter alia contract longevity. The related product characteristics are set out for the separate UK and Swedish businesses in Note 5. As a consequence, the alignment of income and expense recognition with the underlying assumption of risk leads to the adoption of separate accounting policies appropriate to each business, as follows:

UK Businesses**(i) Premiums**

Premiums are accounted for when due, or in the case of unit-linked insurance contracts, when the liability is recognised, and exclude any taxes or duties based on premiums. Outward reinsurance premiums are accounted for when due.

(ii) Claims and benefits

Claims are accounted for in the accounting period in which they are due or notified. Surrenders are accounted for in the accounting period in which they are paid. Claims include policyholder bonuses allocated in anticipation of a bonus declaration. Reinsurance recoveries are accounted for in the same period as the related claim.

(iii) Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. They are initial fees amortised at a rate based on the pattern of anticipated margins in respect of the related policies. An explicit deferred acquisition cost asset is established in the balance sheet to the extent that acquisition costs exceed initial fees deducted. At 31 December each year, such costs that are deferred to future years are reviewed to ensure they do not exceed available future margins.

Renewal commission and other direct and indirect acquisition costs arising on enhancements to existing contracts are expensed as incurred.

(iv) Measurement of insurance contract provisions

Insurance contract provisions are measured using accounting policies having regard to the principles laid down in Council Directive 2002/83/EC.

Insurance contract provisions are determined following an annual actuarial investigation of the long-term funds and are calculated initially on a statutory solvency basis in order to comply with the reporting requirements of the Prudential Sourcebook for Insurers. This valuation is then adjusted to remove certain contingency and other reserves. In accordance with this, the provisions are calculated on the basis of current information, using the specific valuation methods set out below.

Unit-linked provisions are measured by reference to the value of the underlying net asset value of the Group's unitised investment funds, determined on a bid value basis, at the balance sheet date.

For immediate annuities in payment the provision is calculated as the discounted value of the expected future annuity payments under the policies, allowing for mortality, including projected improvements in future mortality, interest rates and expenses. For certain temporary annuities in payment no allowance for mortality has been made.

In respect of S&P, for those classes of non-linked business with a discretionary participation feature, a gross premium method has been used to value the liability, whereby expected income and costs have been projected, allowing for mortality, interest rates and expenses.

For the other classes of non-linked business the provision is calculated on a net premium basis, being the level of premium consistent with a premium stream, the

discounted value of which, at the outset of the policy, would be sufficient to cover exactly the discounted value of the original guaranteed benefits at maturity, or at death if earlier, on the valuation basis. The provision is then calculated by subtracting the present value of future net premiums from the present value of the benefits guaranteed at maturity, or death if earlier, as a result of events up to the balance sheet date. Negative provisions do not arise under the net premium method, which makes no allowances for voluntary discontinuances by policyholders, and which only implicitly allows for future policy maintenance costs.

In respect of CA for those classes of non-linked and unit-linked business where policyholders participate in profits the liability is wholly reassured to Guardian. The liability is calculated on a net premium basis, but is then increased to the realistic liability as a result of the liability adequacy test.

Insurance contract provisions are tested for adequacy by discounting current estimates of all contractual cash flows and comparing this amount to the carrying value of the provision and any related assets. This is known as the liability adequacy test. Where a shortfall is identified, an additional provision is made and the Group recognises the deficiency in income for the year.

Insurance contract provisions can never be definitive as to their timing or the amount of claims and are therefore subject to subsequent reassessment on a regular basis.

Swedish Business – Life

(i) Premiums

Premiums are accounted for when received, and exclude any taxes or duties based on premiums. Outward reinsurance premiums are accounted for when due.

(ii) Claims and benefits

Claims are accounted for in the accounting period in which they are due or notified. Reinsurance recoveries are accounted for in the same period as the related claim.

(iii) Acquisition costs

Acquisition costs comprise expenditure incurred arising from the completion of insurance contracts. They are initial fees amortised at a rate based on the pattern of anticipated margins in respect of the related policies. An explicit deferred acquisition cost asset is established in the balance sheet to the extent that acquisition costs exceed initial fees deducted. At the end of each year, such costs that are deferred to future years are reviewed to ensure they do not exceed available future margins.

Renewal commission and other direct and indirect acquisition costs arising on enhancements to existing contracts are expensed as incurred.

(iv) Measurement of insurance contract provisions

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses to be incurred in settling claims. Outstanding claim provisions are not discounted other than for income protection and waiver of premium benefits, where payments may be made for a considerable period of time.

All reasonable steps are taken to ensure that there is appropriate information regarding claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Insurance contract provisions are tested for adequacy by discounting current estimates of all contractual cash flows and comparing this amount to the carrying value of the provision and any related assets. This is known as the liability adequacy test. Where a shortfall is identified, an additional provision is made and the deficiency in income for the year is recognised.

Swedish Business – Non-life**(i) Premiums**

Written premiums for non-life (general) insurance business comprise the premiums on contracts incepting in the financial year. Written premiums are stated gross of commission payable to intermediaries and exclusive of taxes and duties paid on premiums.

Unearned premiums are those proportions of the premium which relate to periods of risk after the balance sheet date. Unearned premiums are calculated on a straight-line basis according to the duration of the policy underwritten.

(ii) Acquisition costs

Acquisition costs, which represent commission payable, incurred in writing written premiums, are deferred and amortised over the period in which the related premiums are earned.

(iii) Claims***Claims incurred***

Claims incurred comprise claims and related expenses paid in the year and changes in provisions for outstanding claims, including provisions for claims incurred but not yet reported and related expenses, together with any adjustments to claims from previous years.

Outstanding claims provisions

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported. The estimated cost of claims includes expenses

to be incurred in settling claims. Outstanding claims provisions are not discounted. Provisions are calculated gross of any reinsurance recoveries.

All reasonable steps are taken to ensure that there is appropriate information regarding claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

The estimation of outstanding claims provisions is described in Note 33.

(i) Investment contracts**(i) Amounts collected**

Amounts collected on investment contracts, which primarily involve the transfer of financial risk such as long-term savings contracts, are accounted for using deposit accounting, under which the amounts collected, less any initial fees deducted, are credited directly to the balance sheet as an adjustment to the liability to the investor.

(ii) Amounts deposited with reinsurers

Amounts deposited with reinsurers under reinsurance arrangements, which primarily involve the transfer of financial risk, are entered directly to the balance sheet as amounts deposited with reinsurers. These assets are designated on initial recognition as at fair value through income.

(iii) Benefits

For investment contracts, benefits paid are not included in the income statement but are instead deducted from investment contract liabilities in the accounting period in which they are paid.

(iv) Acquisition costs

Acquisition costs relating to investment contracts comprise directly attributable incremental acquisition costs, which vary with, and are related to, securing new contracts, and are recognised as an asset to the extent that they represent the contractual right to benefit from the provision of investment management services. The asset is presented as a deferred acquisition cost asset and is amortised over the expected term of the contract, as the fees relating to the provision of the services are recognised. All other costs are recognised as expenses when incurred.

(v) Liabilities

All investment contract liabilities are designated on initial recognition as held at fair value through income. The Group has designated investment contract liabilities at fair value through income as this more closely reflects the basis on which the businesses are managed.

The financial liability in respect of unit-linked contracts is measured by reference to the value of the underlying net asset value of the unitised investment funds, determined on a bid value, at the balance sheet date. For the UK

businesses, deferred tax on unrealised capital gains and for the Swedish business a yield tax in respect of an estimate of the investment return on the underlying investments in the unitised funds are also reflected in the measurement of the respective unit-linked liabilities

In respect of the UK businesses guaranteed income and guaranteed growth bond liabilities and other investment contract liabilities are managed together with related investment assets on a fair value basis as part of the documented risk management strategy

The fair value of other investment contracts is measured by discounting current estimates of all contractual cash flows that are expected to arise under contracts

(j) Unallocated divisible surplus

The unallocated divisible surplus represents the excess of policyholder assets over policyholder liabilities in respect of the S&P with-profits funds. As permitted under IFRS 4, the Group has opted to continue to record an unallocated surplus of such with-profits funds wholly as a liability. The annual excess or shortfall of income over expenditure of the with-profits funds, after declaration and attribution of the cost of bonuses to policyholders is transferred to or from the unallocated divisible surplus each year through a charge or credit to the income statement. The balance retained in the unallocated divisible surplus represents cumulative income arising on the with-profits business that has not been allocated to policyholders or shareholders. The balance of the unallocated divisible surplus is determined after full provision for deferred tax on unrealised appreciation on investments. In the event of the estimated liability attributable to policyholders exceeding available funds, the balance is transferred to shareholder funds.

(k) Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of avoiding the retention of undue concentration of risk on any one life, policyholder or loss event (for example multiple losses under a Group Life contract). Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expenses from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets, which comprise amounts due from insurance companies for paid and unpaid losses and ceded life policy benefits. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments and are presented as amounts deposited with reinsurers.

The net premiums payable to a reinsurer may be more or less than the reinsurance assets recognised by the

Group in respect of the reinsurance cover purchased. Any gain or loss is recognised in the income statement in the period in which the reinsurance premiums are payable.

Rights under reinsurance contracts comprising the reinsurers' share of insurance contract provisions and accrued policyholder claims are estimated in a manner that is consistent with the measurement of the provisions held in respect of the related insurance contracts and in accordance with the terms of the reinsurance contract. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses reduce the carrying value of the related reinsurance assets to their recoverable amount and are recognised as an expense in the income statement.

The Group enters into certain financing arrangements, which are established in the form of a reinsurance contract, but which are substantively in the form of a financial instrument. Such arrangements are classified and presented as borrowings within financial liabilities.

(l) Fee and commission income

Fees charged for investment management services provided in connection with investment contracts are recognised as revenue as the services are provided. Initial fees which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which services will be provided.

Initial fees charged for investment management services provided in connection with insurance contracts are recognised as revenue when earned.

For both insurance and investment contracts, initial fees, annual management charges and contract administration charges are recognised as revenue on an accruals basis. Surrender charges are recognised as a reduction to policyholder claims and benefits incurred when the surrender benefits are paid.

Benefit-based fees comprising charges made to unit-linked insurance and investment funds for mortality and morbidity benefits are recognised as revenue on an accruals basis.

For insurance and investment contracts, commissions received or receivable which do not require the Group to render further services are recognised as revenue by the Group on the effective commencement or renewal dates of the related contract. However, when it is probable that the Group will be required to render further services during the life of the contract, the commission, or part thereof, is deferred and recognised as revenue over the period in which services are rendered.

(m) Investment income

Investment income comprises income from financial assets and rental income from investment properties

Income from financial assets comprises dividend and interest income, net fair value gains and losses (both unrealised and realised) in respect of financial assets classified as fair value through income, and realised gains on financial assets classified as loans and receivables

Dividends are accrued on an ex-dividend basis. Interest received and receivable in respect of interest-bearing financial assets classified as at fair value through income is included in net fair value gains and losses. For loans and receivables and cash and cash equivalents interest income is calculated using the effective interest method.

Rental income from investment properties under operating leases is recognised in the income statement on a straight-line basis over the term of each lease. Lease incentives are recognised in the income statement as an integral part of the total lease income.

(n) Expenses**(i) Operating lease payments**

Leases where a significant proportion of the risks and rewards of ownership is retained by the lessor are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

(ii) Financing costs

Financing costs comprise interest payable on borrowings and on reinsurance claims deposits included within reinsurance payables, calculated using the effective interest rate method.

(o) Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax and is recognised in the income statement. Tax that relates directly to transactions reflected within equity is also presented within equity.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax

rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(iii) Policyholders' fund yield tax

Certain of the Group's policyholders within the Swedish business are subject to a Swedish yield tax which is calculated based on an estimate of the investment return on underlying investments within their unitised funds. The Group is under an obligation to deduct the yield tax from the policyholders' unitised funds and to remit these deductions to the tax authorities. The remittance of this tax payment is included in other operating expenses as it does not comprise a tax charge on Group profits.

(p) Acquired value of in-force business

Acquired in-force insurance and investment contracts arising from business combinations are measured at fair value at the time of acquisition.

The difference between the fair value of insurance contracts and the liability measured in accordance with the Group's accounting policies for the contracts is recorded as acquired present value of in-force business. Present value of in-force business is carried gross of tax and is amortised against income on a time profile which, it is intended, will broadly match the profile of the underlying emergence of surplus as anticipated at the time of acquisition. The present value of in-force insurance contracts is tested for recoverability/impairment as part of the liability adequacy test.

The present value of in-force investment contracts is stated at cost less accumulated amortisation and impairment losses. The initial cost is deemed to be the fair value of the contractual customer relationships acquired. The acquired present value of the in-force investment contracts is carried gross of tax and is amortised against income on a time profile which, it is intended, will broadly match the profile of the underlying emergence of profit from the contracts. The recoverable amount is estimated at each balance sheet date. If the recoverable amount is less than the carrying amount, an impairment loss is recognised in the income statement and the carrying amount is reduced to its recoverable amount.

(q) Acquired value of customer relationships

The acquired value of customer relationships arising from business combinations is measured at fair value at the time of acquisition. This comprises the discounted cash flows relating to new insurance and investment contracts which are expected to arise from existing customer relationships. These are carried gross of tax, are amortised in accordance with the expected emergence of profit from the new contracts and are tested periodically for recoverability.

(r) Software assets

An intangible asset in respect of internal development software costs is only recognised if all of the following conditions are met

- (i) an asset is created that can be identified,
- (ii) it is probable that the asset created will generate future economic benefits, and
- (iii) the development costs of the asset can be measured reliably

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Software assets, including internally developed software, are amortised on a straight-line basis over their estimated useful life, which typically varies between 3 and 5 years

(s) Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and impairment losses

Depreciation is charged to the income statement on a straight-line basis over the estimated useful economic lives of the property and equipment on the following basis

Computers and similar equipment	3 years
Fixtures and other equipment	5 years

Assets held under finance leases are depreciated over their useful economic lives on the same basis as owned assets, or where shorter, over the term of the relevant lease

(t) Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. On initial recognition investment properties are measured at cost including attributable transaction costs, and are subsequently measured at fair value. Independent external valuers, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, value the portfolio every twelve months.

The fair values reflect market values at the balance sheet date, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in accounting policy (m).

(u) Financial assets

Investments in subsidiaries are carried in the Company balance sheet at cost less impairment.

Financial assets are classified into different categories depending on the type of asset and the purpose for which it is acquired. Currently two different categories of financial assets are used: 'financial assets at fair value through income' and 'loans and receivables'. Financial assets classified as 'at fair value through income' comprise financial assets designated as such on initial recognition and derivative financial instruments.

All financial assets held for investment purposes other than derivative financial instruments are designated as 'at fair value through income' on initial recognition since they are managed, and their performance is evaluated, on a fair value basis in accordance with documented investment and risk management strategies. This designation is also applied to the Group's investment contracts, since the investment contract liabilities are managed together with the investment assets on a fair value basis as part of the documented risk management strategy.

Purchases and sales of 'regular way' financial assets are recognised on the trade date, which is when the Group commits to purchase, or sell, the assets.

All financial assets are initially measured at fair value plus, in the case of financial assets not classified as 'at fair value through income', transaction costs that are directly attributable to their acquisition.

Subsequent to initial recognition, financial assets classified as 'at fair value through income' are measured at their fair value without any deduction for transaction costs that may be incurred on their disposal.

The fair values of financial assets quoted in an active market are their bid prices at the balance sheet date.

Financial assets classified as 'loans and receivables' are stated at amortised cost less impairment losses. A provision for the impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original contract terms after the date of the initial recognition of the asset and when the impact on the estimated cash flows of the financial asset can be reliably measured.

Financial assets classified as 'prepayments' are held at cost and are amortised over the relevant time period.

Financial assets not recognised as 'at fair value through income' are regularly reviewed for objective evidence of impairment. In determining whether objective evidence exists, the Group considers, among other factors, the financial stability of the counterparty, current market conditions and fair value volatility.

Financial assets are derecognised when contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred together with substantially all the risks and rewards of ownership.

(v) Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. Hedge accounting has not been applied.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Embedded derivatives which are not closely related to their host contracts and which meet the definition of a derivative are separated and fair valued through income.

(w) Policyholders' funds held by the group and liabilities relating to policyholders' funds held by the group

Policyholders' funds held by the Group and liabilities relating to policyholders' funds held by the Group are recognised at fair value.

Policyholders' funds held by the Group

The policyholders' funds held by the Group represent the assets associated with an Investment product in the Swedish business, where the assets are held on behalf of the policyholder and where all the risks and rewards associated with the assets are the policyholders' not the Group's.

The policyholders' funds held by the Group are held for investment purposes on behalf of the policyholders and are designated as at fair value through income. The fair values of the policyholders' funds held by the Group are the accumulation of the bid prices of the underlying assets at the balance sheet date. Transactions in these financial assets are recognised on the trade date, which is when the Group commits (on behalf of the policyholder) to purchase, or sell the assets.

Liabilities relating to policyholders' funds held by the Group

The liability relating to policyholders' funds held by the Group represents the liability that matches the asset policyholders' funds held by the Group. As stated previously, the risk and rewards associated with the investment product (and its underlying assets and matching liability) lie with the policyholders, not the Group.

(x) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments. Highly liquid is defined as having a short maturity of three months or less at their acquisition.

(y) Assets held for sale and liabilities held for sale

Assets and liabilities are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction that is highly likely to complete within one year from the date of classification, rather than through continuing use. Such assets are measured at the lower of carrying amount and fair value and are classified separately from other assets in the balance sheet. Assets and liabilities are not netted. In the period where a non-current asset or disposal group is recognised for the first time, the balance sheet for the comparative prior period is not restated.

(z) Impairment

The carrying amounts of the Group's assets other than reinsurance assets (refer to (k) above) and assets which are carried at fair value are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets' recoverable amount is estimated in order to determine the extent of the impairment loss, if any. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount and impairment losses are recognised in the income statement. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Impairment losses are reversed through the income statement if there is a change in the estimates used to determine the recoverable amount. Such losses are reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation where applicable, if no impairment loss had been recognised.

(aa) Provisions

Provisions are recognised when the Group has a present, legal or constructive obligation as a result of past events such that it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. The Group recognises provisions for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

(bb) Borrowings

Borrowings are recognised initially at fair value, less transaction costs, and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised in the income statement on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts future cash payments through the expected life of the financial liability.

(cc) Employee benefits

(i) Pension obligations

UK Businesses

Group companies operate defined contribution pension schemes, which are funded through payments to insurance companies, to which Group companies pay fixed contributions. There are no legal or constructive obligations on Group companies to pay further contributions if the fund does not hold sufficient assets to pay employee benefits relating to service in current and prior periods. Accordingly, Group companies have no further payment obligations once the contributions have been paid. Contributions to defined contribution pension schemes are recognised in the income statement when due.

Swedish Business

The Group participates in a combined defined benefit and defined contribution scheme for the benefit of its employees. However, the scheme is a multi-employer scheme, with the associated assets and liabilities maintained on a pooled basis. There is limited information available to the Group to allow it to account for the scheme as a defined benefit scheme and, in accordance with IAS19 Employee Benefits, it is, therefore, accounted for as a defined contribution scheme. Contributions paid to the scheme are recognised in the income statement when due.

(ii) Bonus plans

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The expense is recognised in the income statement on an accruals basis.

(dd) Share capital and shares held in treasury

(i) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments, as consideration for the acquisition of a business, are included in the cost of acquisition.

(ii) Shares held in treasury

Where the Company purchases its own equity share capital, the consideration paid, including directly attributable costs, is deducted from total shareholders' equity and shown separately as 'treasury shares' until they are cancelled. Where such shares are subsequently sold, any consideration received is credited to the share premium account.

(ee) Dividends

Dividend distributions to the Company's shareholders are recognised in the period in which the dividends are paid, and, for the final dividend, when approved by the Company's shareholders at the annual general meeting.

(ff) Other payables and payables related to direct insurance and investment contracts

Insurance and investment contract payables and other payables are recognised when due and are measured on initial recognition at the fair value of the consideration paid. Subsequent to initial recognition, payables are measured at amortised cost using the effective interest rate method.

3 Accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities and also makes critical accounting judgements in applying the Group's accounting policies. Such estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable. The more critical areas, where accounting estimates and judgements are made, are set out below. Each item identifies the business segments, as described in Note 8, to which it is relevant.

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

The Group has exercised judgement in its classification of long-term business as between insurance and investment contracts, which fall to be accounted for differently in accordance with the policies set out in Note 2 Significant Accounting Policies. Insurance contracts are those where significant risk is transferred to the Group under the contract and judgement is applied in assessing whether the risk so transferred is significant, especially with regard to pensions contracts, which are predominantly, but not exclusively, created for investment purposes.

(b) Acquired value of in-force business (CA, S&P and Movestic)

The Group applies accounting estimates and judgements 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. No amendments are made for any changes that may arise as a result of changes in operational procedures or customer interaction as a result of ownership by Chesnara.

The acquired value of in-force business has been amortised on a basis that reflects the expected profit stream arising from the business acquired at the date of acquisition. Acquired value of in-force business is tested for recoverability by reference to expected future income and expense levels. Such impairment testing requires a degree of estimation and judgement. In particular the value is sensitive to the rate at which future cashflows are discounted and to the rates of return on invested assets. Analysis shows that no impairment adjustments are required for a realistic range of discount rates ranging

from those used in the EEV models to a higher and more onerous estimate based on the Weighted Average Cost of Capital (WACC) for Chesnara.

As at 31 December 2011, the carrying value of acquired in-force business, net of amortisation, was £17.5m in respect of CA (as at 31 December 2010 £21.1m), £8.1m in respect of S&P (as at 31 December 2010 £9.1m) and £57.8m in respect of Movestic (as at 31 December 2010 £62.9m).

(c) Deferred acquisition costs and deferred income - investment contracts (CA and Movestic)

The Group applies judgement in deciding the amount of direct costs that are incurred in acquiring the rights to provide investment management services in connection with the issue of investment contracts. Judgement is also applied in establishing the amortisation of the assets representing these contractual rights and the recognition of initial fees received in respect of these contracts. The assets are amortised over the expected lifetime of the investment management service contracts and deferred income, where applicable, is amortised over the expected period over which it is earned. Estimates are applied in determining the lifetime of the investment management service contracts and in determining the recoverability of the contractual rights assets by reference to expected future income and expense levels. This test for recoverability is performed using best estimates of future cash flows, using a market consistent estimate of future investment returns.

As at 31 December 2011, the carrying values of deferred acquisition costs, net of amortisation, and of deferred income, in respect of CA, were £5.7m and £10.0m respectively (as at 31 December 2010 £6.7m and £11.6m respectively). The impact on the above numbers of a one year movement in the estimated lifetime of the management services contract or amortisation period is not material.

As at 31 December 2011, the carrying values of deferred acquisition costs, net of amortisation, in respect of Movestic, was £14.0m (as at 31 December 2010 £7.9m). An increase in the length of the amortisation period by one year would have increased profit before tax for the year ended 31 December 2011 by £0.5m and shareholders' equity as at 31 December 2011 by £0.5m.

(d) Fair value of financial assets and unit-linked investments (CA, S&P and Movestic)

Fair value measurement has been adopted to reduce volatility in reported earnings in the income statement as the liabilities so determined are measured in a way which is consistent with the fair value of the underlying invested financial assets.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between willing, knowledgeable parties in an arm's length transaction. Fair

values are determined by reference to observable market prices where available and reliable

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

The Group makes estimates of the expected number of deaths for each of the years that it is exposed to risk. These estimates are based on either standard mortality tables or reinsurers' rate tables as appropriate, adjusted to reflect the Group's own experience. For contracts without fixed terms the Group has assumed that it will be able to increase charges to policyholders in future years, in line with emerging mortality experience.

The Group has offered guaranteed annuity options within certain contracts. Estimates have been made of the number of contract holders who will exercise these options, in order to measure their value. Changes in investment conditions could result in significantly more contract holders exercising their options than the Group has assumed in determining the liabilities arising from these contracts.

The Group makes estimates of future deaths, voluntary contract terminations, investment returns and administration expenses at the inception of long-term insurance contracts with fixed and guaranteed terms. These estimates, which are reconsidered annually, form the assumptions used to calculate the liabilities arising from these contracts.

When assessing assumptions relating to future investment returns the Group makes estimates of the impact of defaults on the related financial assets. The estimates are reassessed annually.

The assumptions used to establish insurance contract liabilities and appropriate sensitivities relating to variations in critical assumptions are disclosed in Note 33.

(f) Contracts which contain discretionary participation features (S&P)

All S&P with-profits contracts contain a discretionary participation feature ('DPF') which entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses

- that may be a significant portion of the total contractual benefits,
- whose amount or timing is contractually at the discretion of the Group, and
- that are contractually based on realised and/or unrealised investment returns on a specified pool of assets held by the Group.

The terms and conditions of these contracts, together with UK regulations, set out the bases for the determination of the amounts on which the additional discretionary benefits are based and within which the Group may exercise its discretion as to the quantum and timing of their payment to contract holders.

As at 31 December 2011, the carrying value of insurance contract liabilities which contain S&P discretionary

participation features was £340.9m (31 December 2010 £359.2m).

(g) Insurance claim reserves (Movestic)

Provisions are determined by management based on experience of claims settled and on statistical models which require certain assumptions to be made regarding the timing, incidence and amount of claims. In order to calculate the total provision required, the historical development of claims is analysed using statistical methodology to extrapolate, within acceptable parameters, the value of outstanding claims.

For more recent underwriting years the provisions will make more use of techniques that incorporate expected loss ratios. As underwriting years mature, the reserves are increasingly driven by methods based on actual claims experience. The data used for statistical modelling is internally generated. Actual claims experience may differ from the historical pattern on which the estimate is based and the cost of individual claims may exceed that assumed.

Liabilities carried in respect of waiver of premium and income protection policies are sensitive to the Group's assessment of the length of period in which benefits will be paid to policyholders (which can be significant). Estimates are made based on the sex, age and occupation of the claimant as well as the length of time the claimant has been claiming on the policy.

As at 31 December 2011, the carrying value of the insurance claim reserves, gross of reinsurance, was £63.8m (as at 31 December 2010 £63.7m). The key sensitivities in respect of insurance claim reserves are considered in Note 33.

(h) Insurance claim reserves – reinsurance recoverable (Movestic)

A significant proportion of the insurance claims arising within Movestic are ceded to reinsurers. In preparing the financial statements the Directors have made an assessment as to whether claims ceded to reinsurers are recoverable. As at 31 December 2011, such claims ceded to reinsurers and reflected on the balance sheet were £43.1m (31 December 2010 £44.8m). The application of a 10 per cent bad debt provision on the reinsurance balance would reduce 2011 profit before tax by £4.3m and shareholders' equity by £3.2m.

(i) Accounting for pension plans (Movestic)

The Group participates in a defined benefit pension scheme on behalf of its Swedish employees. The scheme is a multi-employer plan to which a number of third party employers also contribute. The underlying assets and liabilities of the scheme are pooled and are not allocated between the contributing employers. As a result, information is not available to account for the scheme as a defined benefit scheme and the Group has accounted for the scheme as a defined contribution scheme.

4 Exchange rates

The Group's principal overseas operations during the year were located within Sweden

The results and cash flows of these operations have been translated into sterling at an average rate for the year of £1 = SEK 10 4104

Assets and liabilities have been translated at the year end rate of £1 = SEK10 6553

Total foreign currency exchange rate movements for the year-ended 31 December 2011 resulted in a loss recognised in the Consolidated Statement of Comprehensive Income of £738,000 (year ended 31 December 2010 £4,285,000 gain)

5 Management of insurance risk

The Group's management of insurance risk is a critical aspect of its business. The primary insurance activity carried out by the Group comprises the assumption of the risk of loss from persons that are directly subject to the risk. Such risks in general relate to life, accident, health and financial perils that may arise from an insurable event. As such, the Group is exposed to the uncertainty surrounding the timing and severity of claims under the related contracts. The principal risk is that the frequency and severity of claims is adverse to that expected. The theory of probability is applied to the pricing and provisioning for a portfolio of insurance contracts. Insured events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. The risk under assurance policies is partly naturally hedged by risks under annuity policies where the exposure is to the risk of longevity.

The Group manages its insurance risk through adoption of underwriting strategies, the aim of which is to avoid the assumption of undue concentration of risk, approval procedures for new products, pricing guidelines and adoption of reinsurance strategies, the aim of which is to reinforce the underwriting strategy by avoiding the retention of undue concentration of risk on any one life.

Notwithstanding that the Group pursues common overarching objectives and employs similar techniques in managing these risks, the disparate characteristics of the products and of the market and regulatory environments of the UK and Swedish businesses are such that insurance risk is managed separately for the separate businesses. Accordingly, the information which follows differentiates these businesses. The UK businesses, which are substantially closed to new business, comprise the CA and S&P segments and these are further differentiated in the information provided below, where necessary. The Swedish business, which is open to new business, comprises the Movestic segment.

Certain of the information includes amounts and balances relating to pre-acquisition periods and is provided for illustrative purposes, where it is deemed useful to do so.

UK Businesses

Terms and conditions of insurance contracts

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out in the product analyses below, which give an assessment of the main products of the UK businesses and of the ways in which the associated risks are managed.

Sums assured/benefits per annum – gross and net of reinsurance

	31 December 2011		31 December 2010	
	Gross £000	Net £000	Gross £000	Net £000
Long-term unit-linked without DPF (sums assured)	4,237,926	3,220,375	4,719,473	3,549,960
Long-term non-linked without DPF (sums assured)	154,062	137,227	174,194	155,491
Annuities – Immediate (benefits per annum)	6,007	5,856	5,956	5,783
Long-term with DPF – CA (sums assured)	59,855	120	64,358	144
Long-term with DPF- S&P (sums assured)	462,186	439,175	492,530	466,897

Long-term unit-linked and non-linked insurance contracts – without discretionary participation features

Product features

The UK businesses have written both unit-linked and non-linked contracts, which include death and morbidity benefits on a whole life, endowment and term assurance basis. In addition there are immediate annuities primarily written from vesting pensions.

For contracts where death is the insured risk, the most significant factors that could increase risk are epidemics (such as AIDS, SARS or a flu pandemic) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

Management of risks

Unit-linked insurance contracts are contracts where charges are made for insurance risk and administration charges and the primary purpose of which is to provide an investment return to policyholders. In addition, the policyholder is insured against death and serious injury. Unit-linked contracts operate by investing the policyholders' premiums into pooled investment funds of the UK businesses, the policyholders' share of the fund being represented by units. The benefit is payable on death, or maturity if earlier, the amount payable on death being subject to a guaranteed minimum amount. For these contracts, all of the investment risk is borne by the policyholder as investment performance directly affects the value of the unit fund and hence the benefits payable. Therefore, there is exposure to insurance risk only insofar as the value of the unit-linked fund is lower than the guaranteed minimum death benefit. For a material portion of the business, the charges taken for mortality and morbidity costs are reviewable, which allows the company to mitigate some of its insurance risk.

Non-linked business contains three distinct groups of products

- (i) A number of products representing approximately 2% of sums assured, provide fixed and guaranteed benefits and have fixed future premiums. For these there are no mitigating terms and conditions that reduce the insurance risk accepted.
- (ii) Immediate annuities provide regular income payments generally during the outstanding life of the policyholder, and in some cases that of a surviving spouse or partner. In certain cases payments may be guaranteed for a minimum period. These expose the business to longevity risk, though to some extent this provides a hedge to the mortality risk taken on other products.
- (iii) For the remainder of the business, which is operated on a quasi-linked basis, charges are made for mortality risk on a monthly basis and these charges may be altered based on mortality experience, thereby minimising the exposure to mortality risk. In the light of charges made for insurance risk and administration services and of the investment performance of the assets notionally backing these contracts, the premium payable may be altered at regular intervals. A number of these contracts also include Permanent Health Insurance (PHI) benefits which have reviewable charges, which may be altered based on morbidity experience, thereby minimising the exposure to morbidity risk. Delays in implementing increases in charges and market or regulatory restraints over the extent of the increases may reduce this mitigating effect.

Reinsurance is used extensively on the business described above to mitigate concentrations of insurance risk. The insurance risk is further managed through pricing, product design and, for non-linked and quasi-linked contracts, appropriate investment strategy.

Concentration of insurance risk

Through the use of reinsurance exposures to material insurance risks on individual cases are avoided, with 96% of the business having retained sums assured of less than £250,000.

Long-term insurance contracts – with discretionary participation features - CA

Product features

CA historically wrote with-profits business in the UK, where the policyholder benefits comprise a guaranteed sum assured payable on death or at maturity, to which may be added a discretionary annual bonus and a discretionary terminal bonus.

Management of risks

This business is wholly reassured to Guardian and hence the only risk retained by CA for this business is the risk of default by the reinsurer. This risk is detailed in the Credit Risk Management section of Note 6.

Long-term insurance contracts – with discretionary participation features – S&P

Product features

At retirement the with-profits deferred annuity contracts provide for guaranteed minimum pensions and the with-profits endowments provide for guaranteed minimum lump sums. With-profits whole of life policies guarantee a minimum amount payable on death. The guaranteed annuities or lump sums represent investment returns on contributions mainly at 5% p.a. A terminal bonus may be paid at maturity or retirement, and on death, depending on the investment performance of the with-profits policyholder assets when the policyholder receives the higher of the asset share and the minimum guaranteed amount. The asset share is based on the contributions invested plus an allocation of investment return less costs and expenses. In accordance with the Principles and Practices of Financial Management for its with-profits business S&P may make a deduction of up to 1.5% per annum from the asset shares of with-profits policyholders to meet the future cost of guarantees. The amount deducted remains part of the assets in the with-profits policyholder funds. The size of the deduction is reassessed at least annually. In the event of a policyholder choosing to transfer out, the amount payable is not guaranteed and is based on the asset share.

Management of risks

For life endowment and whole of life policies mortality risk is material. This risk is mitigated to some extent by the use of reinsurance. The risk is to increases in mortality rates, which are most likely to be from epidemics (such as AIDS, SARS or a flu pandemic) or widespread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected.

For deferred annuity contracts, the risk is to improving mortality. The risk is managed through the initial pricing, and technical provisions are assessed allowing for future mortality improvements based on industry available information on mortality experience.

Concentration of insurance risk

Through the use of reinsurance exposures to material insurance risks on individual cases are avoided, with 99.1% of the business having retained sums of less than £250,000.

Other risks on insurance contracts

Apart from financial risks relating to the financial assets, which support life assurance contracts, as set out in Note [6], there are other significant types of risk pertaining to life insurance contracts written by the UK businesses, as follows:

Expense risk

The strategy of the UK businesses is to outsource all operational activities to third party administrators in order to reduce the significant expense inefficiencies that would arise with fixed and semi-fixed costs on a diminishing policy base. There are, however, risks associated with the use of outsourcing. In particular, there will be a need in future to renegotiate the terms of the outsourcing arrangements as the existing agreements expire. There is also a risk that, at some point in the future, third party administrators could default on their obligations. The UK businesses monitor the financial soundness of third party administrators and have retained step-in rights on the more significant of these agreements. There are also contractual arrangements in place which provide for financial penalties in the event of default by the administration service provider.

Mortgage endowment misselling complaints

The UK businesses have experienced a significant level of complaints from mortgage endowment policyholders since their first regulatory mailing programme in 2000. In response to this, the UK businesses hold mortgage endowment complaints redress provisions. The UK businesses continue to monitor closely, among other factors, the volume of complaints and the value of compensation paid to policyholders in order to assess the continuing adequacy of the provisions.

There remains however a residual risk that at some point in future the levels of complaints received may prove to be higher than those anticipated within the provision.

Persistency risk

Persistency risk is the risk that the investor cancels the contract or discontinues paying new premiums into the contract, thereby exposing the UK businesses to a loss resulting from an adverse movement in the actual experience compared to that expected in the product pricing. Although changes in the levels of persistency would not adversely affect the result in the short term they would reduce future profits available from the contract.

Assumptions and sensitivities

The assumptions and sensitivities relating to insurance contract provisions for the UK businesses are set out in Note 33 Insurance Contract Provisions

Swedish Business

The terms and conditions of insurance contracts which have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out in the product analyses below, which give an assessment of the main products of Movestic and of the ways in which the associated risks are managed. The breakdown of the insurance products of Movestic, by gross and net premiums written and by claims outstanding, which reflects the scale of business written, is as follows

Premiums	Before reinsurance		After reinsurance	
	Year ended 31 December		Year ended 31 December	
	2011	2010	2011	2010
	£000	£000	£000	£000
Group				
Sweden	17,947	10,716	6,845	3,414
Norway	2,252	2,465	251	276
Individual				
Death	3,463	6,503	1,363	3,471
Waiver of premium	3,166	4,422	902	866
Income protection	11,557	10,315	7,645	5,261
	38,385	34,421	17,006	13,288
Claims outstanding				
	Before reinsurance		After reinsurance	
	As at 31 December		As at 31 December	
	2011	2010	2011	2010
	£000	£000	£000	£000
Group				
Sweden	21,360	15,649	5,194	2,512
Norway	4,760	6,396	743	1,054
Individual				
Death	1,350	4,294	820	2,857
Waiver of premium	4,965	5,241	1,304	1,047
Income protection	31,347	32,131	12,656	11,466
	63,782	63,711	20,717	18,936

Terms and conditions*Product features – Group Contracts*

Group Contracts insure policyholders in respect of death with the option to include additional accident and disability benefits. Policyholders may also include their spouse and children (up to the age of 25) on the policy.

Policies are sold in both Sweden and Norway and all sales are intermediated. Group Contracts sold in Sweden allow the policyholder to choose the sum assured level. Contracts sold in Norway have sum assured levels that are normally determined by the policyholders' employer and apply to all members of that company scheme.

The Swedish product provides a maximum coverage of insured benefits up to 40 times a base amount (as at 31 December 2011 SEK 42,800, being approximately £4,017) although most policies are between 7.5 to 20 times the base amount.

The Norwegian product provides a maximum coverage of insured benefits up to 80 times a base amount (as at 31 December 2011 NOK 79,216, being approximately £8,814) although most policies are around 40 times the base amount.

All contracts are for an annual period and premium payments are made usually on either an annual or quarterly basis.

Product features – Individual Contracts

In relation to Individual Contracts, Movestic writes contracts, which include death and morbidity benefits on term assurance with disability, waiver of premium and income protection options. Policies are sold in Sweden and all sales are intermediated.

In relation to the income protection and the waiver of premium benefits within the Individual Contracts, the monthly benefits upon a claim may be payable to the policyholders over a long period up to their retirement.

The contracts have been unbundled as between insurance and investment contracts. Risk in respect of investment contracts is described in Note 6. All insurance contracts are for an annual period and payments are made on a monthly basis.

Management of risk

The main risk associated with the Group and Individual Contracts is the frequency of claims (for either death or accident or sickness). Claims experience can be variable, with the main factors being the age, sex and occupation of the policyholder.

In addition, for the Group Contracts, Movestic is exposed to a single loss event that covers a number of employees of an organisation.

The key risks are managed through appropriate product design and pricing of the policies to ensure that the potential cost to Movestic of these events (and

associated expenses of underwriting and administration) are reflected in the price charged to the policyholder. Key controls implemented include a defined pricing structure based on the characteristics of the policyholder and the regular review of management information on the type and frequency of accidents.

Group Contracts are issued on an annual basis which means that Movestic's exposure runs for a period of 12 months, after which Movestic has the option to decline to renew or can increase the price on renewal.

Individual Contracts are long-term contracts but Movestic has the option to review the premiums on an annual basis.

For both the Group and Individual Contracts, between 25 to 90% of the premiums and claims relating to this product are ceded to a reinsurer which reduces the overall insurance risk exposure to Movestic. The policies and products from the Aspis acquisition are reinsured for approximately 80% of the claims amount.

In addition, for the majority of the Group Contracts, the loss arising from a single event to multiple employees is reinsured. The reinsurance provides indemnity for a single loss between SEK 5m (approximately £0.5m) and SEK 100m (approximately £9.4m).

Concentration of insurance risk

Concentration of insurance risk is determined by reference to benefits assured for Individual Contracts and by estimated maximum loss for Group Contracts.

Regarding benefits assured for individual contracts, the combined effect of reinsurance and the fact that the vast majority of the total benefit assured relates to numerous small value contracts, limit the level of concentration risk.

Through the use of reinsurance exposures to material insurance risks on individual cases are avoided, with 99.7% of the business having retained sums assured of less than £250,000.

In respect of Group Contracts, the business is exposed to multiple employees of the same organisation being involved in a single loss event. Movestic estimates that its largest such exposures arise in Norway, where the Group Contracts sold tend to cover all employees within that organisation (whereas in Sweden employees may opt in to the Group Contract). Movestic forecasts that its maximum loss would be approximately SEK 28m (approximately £2.6m) gross of reinsurance and SEK 5m (approximately £0.5m) after reinsurance.

Assumptions and sensitivities for Group Contract and Individual Contract insurance contract provisions

Information relating to insurance contract provisions assumptions and sensitivities for the Swedish business is set out in Note 33 Insurance Contract Provisions.

6 Management of financial risk

The Group is exposed to a range of financial risks, principally through its insurance contracts, financial assets, including assets representing shareholder assets, financial liabilities, including investment contracts and borrowings, and its reinsurance assets. In particular, the key financial risk is that, in the long-term, proceeds from financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts and borrowings. The most important components of this financial risk are market risk (interest rate risk, equity and property price risk, foreign currency exchange risk and liquidity risk), and credit risk, including the risk of reinsurer default. Further, the Group has significant foreign currency exchange rate risk in relation to movements between the Swedish Krona and Sterling arising from its ownership of Movestic.

The terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from insurance contracts are set out in Note 5. The terms and conditions of investment contracts that have a material effect on the amount, timing and uncertainty of future cash flows arising from investment contracts are as follows:

The Group provides three types of investment contract: unit-linked savings, unit-linked pensions predominantly written in the UK and Sweden and guaranteed income and growth bonds predominantly written in the UK.

(i) Unit-linked savings are single or regular premium contracts, with the premiums invested in a pooled investment fund, where the policyholder's investment is represented by units or trust accounts where the policyholder decides where to invest. On certain contracts there is a small additional benefit payable on death which is deemed not to transfer significant insurance risk to the business for these contracts. The benefits payable at maturity or surrender of the contracts are the underlying value of the investment in the unit-linked funds or trust accounts, less surrender penalties where applicable.

(ii) Unit-linked pensions are single or regular premium contracts with features similar to unit-linked savings contracts. Benefits are payable on transfer, retirement or death.

(iii) Guaranteed income bonds are mainly single premium contracts for a fixed term offering fixed-income payments plus a return of capital at maturity. A guaranteed growth bond offers no income, but a higher guaranteed payment at maturity date.

Market risk management

(i) General

The Group businesses manage their market risks within asset liability management (ALM) frameworks that have been developed to achieve long-term investment returns at least equal to their obligations under insurance and investment contracts, with minimal risk. Within the ALM frameworks the businesses periodically produce reports at legal entity and asset and liability class level, which are circulated to the businesses' key management. The principal technique of the ALM frameworks is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to policyholders, with separate portfolios of assets being maintained for each distinct class of liability.

For unit-linked contracts the Group's objective is to match the liabilities, both insurance and investment contract liabilities, with units in the assets of the funds to which the value of the liabilities is linked, such that the policyholder bears the market risk. This minimises the impact of market risks on these contracts, such that the remaining primary exposure to market risk is the risk of volatility in asset-related fees due to the impact of interest rate, equity price and foreign currency movements on the fair value of the unit-linked assets, on which asset-related fees are based.

For non unit-linked business, the Group's objective is to match the timing of cash flows from insurance and investment contract liabilities with the timing of cash flows from assets subject to identical or similar risks. By matching the cash flows of liabilities with those of suitable assets, market risk is managed effectively, whilst liquidity risk is minimised. These processes to manage the risks, which the Group has not changed from previous periods, ensure that the Group is able to meet its obligations under its contractual liabilities as they fall due.

With respect to S&P there is significant additional risk insofar as investment returns on policyholder with-profits assets supporting the with-profits business may result in insufficient policyholder assets to meet contractual obligations to with-profits policyholders, because of the impact of contract guarantees, as explained further below.

The notes below explain how market risks are managed using the categories utilised in the businesses' ALM frameworks. In particular, the ALM frameworks require the management of interest risk, equity price risk, and liquidity risk at the portfolio level, so that the appropriate risks for each portfolio may be managed in an effective way. The following tables reconcile the classes and portfolios used in the businesses' ALM frameworks to relevant items in the consolidated balance sheet and are followed by a portfolio-by-portfolio description of the nature of the related market risk and how that risk is managed.

31 December 2011

	Unit-linked contracts £000	Insurance contracts with DPF £000	Annuities in payment £000	Guaranteed bonds £000	Other non-linked contracts and shareholder funds £000	Total £000
Assets						
Investment in associates	-	-	-	-	1,613	1,613
Property and equipment	-	-	-	-	385	385
Reinsurers' share of insurance contract provisions	123,750	92,780	-	-	47,262	263,792
Amounts deposited with reinsurers	28,031	-	-	-	-	28,031
Investment properties	102,459	29,219	-	-	450	132,128
Financial assets						
Equity securities at fair value through income	404,423	2	-	-	6	404,431
Holdings in collective investment schemes at fair value through income	2,522,243	196,437	-	-	199,255	2,917,935
Debt securities at fair value through income	113,243	70,481	105,516	2,758	38,612	330,610
Insurance and other receivables	9,092	1,318	-	141	20,248	30,799
Prepayments	39	-	-	-	3,195	3,234
Derivative financial instruments	6,845	47	-	-	3,416	10,308
Total financial assets	3,055,885	268,285	105,516	2,899	264,732	3,697,317
Reinsurers' share of accrued policyholder claims	-	-	-	-	4,667	4,667
Income taxes	-	-	-	-	6,956	6,956
Cash and cash equivalents	73,498	1,235	587	664	119,936	195,920
Total assets	3,383,623	391,519	106,103	3,563	446,001	4,330,809
Liabilities						
Unallocated divisible surplus	-	(47,441)	-	-	53,695	6,254
Bank overdraft	115	-	-	-	719	834
Insurance contract provisions	1,510,734	437,892	106,103	-	129,956	2,184,685
Financial liabilities						
Investment contracts	1,865,860	-	-	3,020	7,583	1,876,463
Borrowings	-	-	-	-	54,753	54,753
Derivative financial instruments	92	52	-	-	-	144
Total financial liabilities	1,865,952	52	-	3,020	62,336	1,931,360
Provisions	-	-	-	-	2,811	2,811
Deferred tax liabilities	(686)	(322)	-	(11)	16,409	15,390
Reinsurance payables	-	-	-	-	16,336	16,336
Payables related to direct insurance and investment contracts	4,394	290	-	554	35,413	40,651
Income taxes	-	-	-	-	947	947
Other payables	3,114	1,048	-	-	20,255	24,417
Total liabilities	3,383,623	391,519	106,103	3,563	338,877	4,223,685

31 December 2010	Unit-linked contracts £000	Insurance contracts with DPF £000	Annuities in payment £000	Guaranteed bonds £000	Other non-linked contracts and shareholder funds £000	Total £000
Assets						
Investment in associates	-	-	-	-	1,783	1,783
Property and equipment	-	-	-	-	671	671
Reinsurers' share of insurance contract provisions	137,198	95,013	-	-	48,532	280,743
Amounts deposited with reinsurers	30,264	-	-	-	-	30,264
Investment properties	93,676	26,694	-	-	450	120,820
Financial assets						
Equity securities at fair value through income	492,311	2	-	-	8	492,321
Holdings in collective investment schemes at fair value through income	2,779,301	208,487	-	-	189,477	3,177,265
Debt securities at fair value through income	123,440	64,837	87,128	8,817	35,294	319,516
Insurance and other receivables	17,146	2,416	-	433	13,230	33,225
Prepayments	36	-	-	-	3,872	3,908
Derivative financial instruments	5,594	-	-	-	4,113	9,707
Total financial assets	3,417,828	275,742	87,128	9,250	245,994	4,035,942
Reinsurers' share of accrued policyholder claims	-	-	-	-	3,678	3,678
Income taxes	-	-	-	-	5,486	5,486
Cash and cash equivalents	43,329	2,601	329	378	147,497	194,134
Total assets	3,722,295	400,050	87,457	9,628	454,091	4,673,521
Liabilities						
Unallocated divisible surplus	-	(59,542)	-	-	59,625	83
Bank overdraft	404	-	-	-	1,750	2,154
Insurance contract provisions	1,732,271	458,278	87,457	-	126,073	2,404,079
Financial liabilities						
Investment contracts	1,984,892	-	-	9,265	8,555	2,002,712
Borrowings	-	-	-	-	62,694	62,694
Derivative financial instruments	137	-	-	-	-	137
Total financial liabilities	1,985,029	-	-	9,265	71,249	2,065,543
Provisions	-	-	-	-	1,822	1,822
Deferred tax liabilities	1,722	152	-	1	18,651	20,526
Reinsurance payables	-	-	-	-	22,310	22,310
Payables related to direct insurance and investment contracts	-	-	-	362	35,446	35,808
Income taxes	-	-	-	-	6,923	6,923
Other payables	2,869	1,162	-	-	12,892	16,923
Total liabilities	3,722,295	400,050	87,457	9,628	356,741	4,576,171

Unit-linked contracts

For unit-linked contracts, which may be insurance or investment contracts, the Group matches the financial liabilities, with units in the financial assets of the funds to which the value of the liabilities is linked, such that the policyholders bear the principal market risk (being interest rate, equity price and foreign currency risks) and credit risk. Accordingly, this approach results in the Group having no significant direct market or credit risk on these contracts. Its primary exposure to market risk is the risk of volatility in asset-related fees due to the impact of interest rate, equity price and foreign exchange rate movements on the fair value of the assets held in the linked funds, on which asset-related fees are based.

There is residual exposure to market risk on certain unit-linked contracts where the Group provides to policyholders guarantees as to fund performance or additional benefits which are not dependent on fund performance. This exposure is mitigated to the extent that the Group matches the obligations with suitable financial assets external to the unit-linked funds, such that the residual exposure is not considered to be material.

Insurance contracts with discretionary participation features

Insurance contracts with discretionary participation features subsist entirely within the UK businesses in the form of with-profits policies.

For the CA business, where the policyholder benefits comprise a discretionary annual bonus and a discretionary terminal bonus, the with-profits business is wholly reinsured to Guardian and hence there is no market risk for this class of business. Policyholders have the option, for a small element of the with-profits business, to invest a portion of their investment in unit-linked funds as an alternative to the with-profits fund. In this case, a portion of the business is retained, with the management of financial risks of this portion being the same as described under 'Unit-linked Contracts' above.

For the S&P business the primary investment objective of the with-profits policyholder funds is that the guaranteed minimum benefits of the with-profits policyholders should be met entirely from the policyholder funds. The secondary investment objective is, where possible, to provide a surplus in excess of the guaranteed minimum benefits. The entire surplus in the policyholder fund accrues to the with-profits policyholders. Any deficit in the policyholder fund is ultimately borne by shareholders. Therefore the Group has a significant exposure to market risk in relation to with-profits business should the with-profits policyholder assets be unable to fully meet the cost of guarantees. To achieve the investment objectives, the funds may invest in a range of asset classes including property, equities, fixed interest securities, convertibles, cash and derivatives, both in UK and overseas investments. Such exposure may be achieved by investment in collective investment schemes (including such schemes with total or absolute return objectives or which include investments in commodities). Investment guidelines restrict the level of exposure for certain asset categories. In respect of derivatives, these may only be used for the purposes of reduction of investment risks and efficient portfolio management.

Annuities in payment

These are contracts which pay guaranteed financial benefits, generally monthly, for the lifetime of the policyholder, and in some cases of their spouse. The financial component of these contracts is a guaranteed fixed interest rate. Accordingly the Group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the fixed interest debt securities backing the liabilities are insufficient to fund the benefits payable. The Group manages the interest rate risk by matching closely new contracts written with fixed interest debt securities of a suitable duration and quality. Regular monitoring of the interest rate risk is carried out by analysis of expected cash flows from the financial assets held with those for the liabilities, which are determined by means of projecting expected cash flows from the contracts using prudent estimates of mortality.

Guaranteed bonds

These contracts are for a fixed term with financial benefits that are fixed and guaranteed at the inception of the contract. The Group manages its market risk on these products, by closely matching contracts written with fixed interest debt securities of a suitable duration and quality. Accordingly, the Group's primary financial risk is the risk that interest income and capital redemptions from the financial assets backing the liabilities are insufficient to fund the guaranteed benefits payable. Regular monitoring of the interest rate risk is carried out by analysis of expected cash flows from the financial assets held with those for the liabilities, which are determined assuming all contracts continue until their expected maturity date. This analysis also enables the Group to control its liquidity risk for this portfolio.

Other non-linked contracts and shareholder funds

These categories, in which market risk is borne by shareholders, consist of non-linked insurance contracts without DPF and of net shareholder assets representing shareholders' equity. The Group manages market risks by setting investment guidelines which restrict market exposures.

Non-linked contracts without DPF include contracts which pay guaranteed benefits on death or other insured events, the terms being fixed at the inception of the contract. Exposure to market price risk is minimised by generally investing in fixed-interest debt securities, while interest rate risk is generally managed by closely matching contracts written with financial assets of suitable yield and duration. To the extent that the Group is unable to fully match its interest rate risk, it makes provision in respect of assumed shortfalls on guaranteed returns to policyholders.

Shareholder funds at both Group parent company and operating subsidiary level, in accordance with corporate objectives and, in some instances, in accordance with local statutory solvency requirements, are invested in order to protect capital and to minimise market and credit risk. Accordingly they are generally invested in assets of a shorter-term liquid nature, which gives rise to the risk of lower returns on these investments due to changes in short-term interest rates.

(ii) Liquidity risk

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due and is managed by forecasting cash requirements and by adjusting investment management strategies to meet those requirements. Liquidity risk is generally mitigated by holding sufficient investments which are readily marketable in sufficiently short timeframes to allow the settlement of liabilities as they fall due. Where liabilities are backed by less marketable assets, for example investment properties, there are provisions in contractual terms which allow deferral of redemptions in times of adverse market conditions. The Group's substantial holdings of money market assets also serve to reduce liquidity risk.

The tables below present a maturity analysis of the Group's liabilities, showing balance sheet carrying value and distinguishing between investment contracts and insurance contracts and other liabilities.

31 December 2011

Contractual cash flows (undiscounted)

Carrying values and cash flows arising from

	Carrying value	0-5 years	5-10 years	10-15 years	15-20 years	>20 years	Total
	£000	£000	£000	£000	£000	£000	£000
Insurance contract liabilities							
Unit-linked	1,510,734	1,510,734	-	-	-	-	1,510,734
With DPF							
CA	96,977	96,977	-	-	-	-	96,977
S&P	340,915	108,508	75,125	84,821	76,667	47,291	392,412
Annuities in payment	106,103	27,394	25,082	22,375	19,316	55,371	149,538
Other non-linked	129,956	48,683	41,309	6,842	6,232	13,899	116,965
Investment contract liabilities							
Unit-linked	1,865,860	1,865,860	-	-	-	-	1,865,860
Guaranteed bonds	3,020	3,020	-	-	-	-	3,020
Other	7,583	7,583	-	-	-	-	7,583
Other liabilities	162,537	159,129	3,409	-	-	-	162,538
	4,223,685	3,827,888	144,925	114,038	102,215	116,561	4,305,627

31 December 2010

Contractual cash flows (undiscounted)

Carrying values and cash flows
arising from

	Carrying value	0-5 years	5-10 years	10-15 years	15-20 years	>20 years	Total
	£000	£000	£000	£000	£000	£000	£000
Insurance contract liabilities							
Unit-linked	1,732,271	1,732,271	-	-	-	-	1,732,271
With DPF							
CA	99,069	99,069	-	-	-	-	99,069
S&P	359,209	105,502	78,823	86,042	87,649	58,482	416,498
Annuities in payment	87,457	25,996	23,973	21,568	18,790	55,094	145,421
Other non-linked	126,073	65,991	42,906	6,219	6,140	17,935	139,191
Investment contract liabilities							
Unit-linked	1,984,892	1,984,892	-	-	-	-	1,984,892
Guaranteed bonds	9,265	9,265	-	-	-	-	9,265
Other	8,555	8,555	-	-	-	-	8,555
Other liabilities	169,380	166,765	2,615	-	-	-	169,380
	4,576,171	4,198,306	148,317	113,829	112,579	131,511	4,704,542

The maturity analysis for unit-linked insurance and investment contracts presents all the liabilities as due in the earliest period in the table because they are repayable or transferable on demand

Insurance contracts with DPF (with profits business) can be surrendered before maturity for a cash amount specified in contractual terms and conditions. Accordingly, a maturity analysis based on the earliest contractual repayment date would present all the liabilities as due in the earliest period of the table because this option can be exercised immediately by all policyholders. As stated above, CA insurance contracts with DPF are wholly reinsured to Guardian and hence, in practice, there is no liquidity risk, the only risk retained for this business being the risk of default by the reinsurer, which is detailed under 'Credit Risk Management' below. The maturity analysis in respect of the S&P segment of the business, however, is presented on an estimated basis, in accordance with the anticipated maturity profile and on estimates of mortality.

(iii) Currency risk

Currency risk is the risk that the fair value or future cash flows of an asset or liability will change as a result of movements in foreign exchange rates. The Group's exposure to currency risk is minimised to the extent that the risk on investments denominated in foreign currencies which back unit-linked investment and insurance contracts is borne by policyholders. It is, however, exposed to currency risk through

- (i) its investment in Movestic, the assets and liabilities of which are principally denominated in Swedish Krona,
- (ii) the trading operations of Movestic, which include the underwriting of insurance contracts in Norway giving rise to some exposure to the Norwegian Krone as the Swedish business reinsures 90 per cent of the risk and has some assets denominated in the same currencies as the foreign insurance liabilities, most of the foreign currency exchange rate risk on these operations is eliminated, and
- (iii) Movestic's part ownership of Modernac SA, an associated company, the assets and liabilities of which are denominated in Euros

The Group's currency risk through its ownership of Movestic is reflected in,

- (i) foreign exchange translation differences arising on the translation into sterling and consolidation of Movestic's financial statements, and
- (ii) the impact of adverse exchange rate movements on cash flows between Chesnara plc and Movestic. In the short-term these relate to capital contributions made to Movestic to support its regulatory solvency capital resource requirements as it develops, while, in the medium-term there is the prospect of cash flows from Movestic to Chesnara by way of dividend payments. The risk on cash flows is managed by closely monitoring exchange rate movements and buying forward foreign exchange contracts, where deemed appropriate.

The following tables set out the Group's exposure to assets and liabilities denominated in foreign currencies, expressed in sterling, at the respective balance sheet date

	31 December	
	2011	2010
	£000	£000
Swedish Krona		
Assets	1,376,552	1,457,784
Liabilities	1,337,831	1,423,968
Net assets	38,721	33,816
Norwegian Krone		
Assets	4,690	6,173
Liabilities	4,762	6,147
Net (liabilities)/ assets	(72)	26
Euro		
Assets	896	680
Liabilities	-	-
Net assets	896	680

(iv) Sensitivities

The table below shows the impact of movements in market risk variables identified above on profit before tax for the year under review and on shareholder equity as at the balance sheet date

The variables are

- (i) a 10% increase and decrease in the value of assets backing unit-linked insurance and investment contract liabilities
- (ii) a 10% increase and decrease in equity and property values
- (iii) a 100 basis point increase and decrease in per annum market rates of interest
- (iv) a 10% favourable and adverse movement in foreign currency exchange rates

As explained above, market risks relating to assets backing unit-linked insurance and investment contract liabilities are borne by policyholders, while there is shareholder exposure to volatility in asset-related fees due to the impact of interest rate, equity price and foreign exchange rate movements on the fair value of the assets held in the linked funds, on which asset-related fees are based. Accordingly, the sensitivities to these risks are presented as generic sensitivities to unit-linked asset movements

Variation in/arising from	2011		2010	
	Profit before tax £m	Shareholders' equity £m	Profit before tax £m	Shareholders' equity £m
100 bp increase in market rates of interest	4.4	3.8	4.6	3.9
100 bp decrease in market rates of interest	(7.8)	(6.2)	(8.5)	(6.7)
10% increase in equity and property prices	15.9	12.1	12.8	9.6
10% decrease in equity and property prices	(15.9)	(12.1)	(12.8)	(9.6)
10% favourable movement in SEK sterling exchange rate	-*	4.3	(0.2)	3.7
10% adverse movement in SEK sterling exchange rate	-*	(3.5)	(0.3)	(3.0)

*Not material

Credit risk management

The Group has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are:

- Counterparty risk with respect to debt securities and cash deposits,
- Reinsurers' share of insurance liabilities,
- Amounts deposited with reinsurers in relation to investment contracts,
- Amounts due from reinsurers in respect of claims already paid, and
- Insurance and other receivables

In addition there will be some exposures to individual policyholders, on amounts due on insurance contracts. These are tightly controlled, with contracts being terminated or benefits amended if amounts owed are outstanding for more than a specified period of time, so that there is no significant risk to the results of the businesses.

The Group businesses structure the levels of credit risk they accept by placing limits on their exposure to a single counterparty, or group of counterparties. Such risks are subject to at least an annual review, while watch lists are maintained for exposures requiring additional review.

Although the businesses hold a significant proportion of their financial assets in debt securities and cash deposits the risk of default on these is mitigated to the extent that any losses arising in respect of unit-linked assets backing the insurance and investment contracts which the businesses issue, would effectively be passed on to policyholders and investors through the unit-linked funds backing the insurance and investment contracts.

Reinsurance is used to manage insurance risk in the businesses. This does not, however, discharge the businesses' liability as primary insurers. If a reinsurer fails to pay a claim for any reason, the businesses remain liable for the payment to the policyholder. In respect of Movestic, the current guidelines state that re-insurance should only be effected with counterparties with a credit rating from Standard & Poor's of A or higher, except for the reinsurer which is an associate of Movestic. This credit risk is managed by Movestic being represented on the Board of the reinsurer and, therefore, being able to influence its strategy and operational decisions.

The creditworthiness of major reinsurers is considered on an annual basis by reviewing their financial strength.

The following table presents the assets of the Group which are subject to credit risk and a reconciliation to the balance sheet carrying value of each item.

	31 December 2011			31 December 2010		
	Amount not subject to credit risk	Amount subject to credit risk	Balance sheet carrying value	Amount not subject to credit risk	Amount subject to credit risk	Balance sheet carrying value
	£000	£000	£000	£000	£000	£000
Holdings in collective investment schemes	2,792,748	125,187	2,917,935	3,053,409	123,856	3,177,265
Debt securities	110,342	220,268	330,610	123,440	196,076	319,516
Cash and cash equivalents	83,572	112,348	195,920	65,541	128,593	194,134
Derivative financial instruments	10,261	47	10,308	9,707	-	9,707
Reinsurers' share of insurance contract liabilities	-	263,792	263,792	-	280,743	280,743
Amounts deposited with reinsurers	-	28,031	28,031	-	30,264	30,264
Insurance and other receivables	15,121	15,678	30,799	17,276	15,949	33,225
Reinsurers' share of accrued claims	-	4,667	4,667	-	3,678	3,678
Income taxes	-	6,956	6,956	-	5,486	5,486
Total	3,012,044	776,974	3,789,018	3,269,373	784,645	4,054,018

Holdings in collective investment schemes are, in principle, not subject to credit risk, as, given the nature of the financial instruments, they do not directly expose the Group to credit risk. However, classified within holdings in collective investment schemes is an amount of £97,738,000 (31 December 2010: £102,192,000), as presented above, invested under an investment contract arrangement with JPMorgan Life Limited (JPML). This counterparty exposure to JPML is off-set by a counterparty exposure that JPML has to S&P of £13m (31 December 2010: £10m) under an investment contract arrangement held by JPML with S&P. Accordingly at 31 December 2011 the net exposure to JPML was £85m (31 December 2010: £92m).

Under these investment contract arrangements the respective amounts are onward invested in the collective investment schemes maintained by the respective counterparty

The remaining amounts presented above as not being subject to credit risk represent unit-linked assets where the risk is borne by the holders of unit-linked insurance and investment contracts, except for (i) reinsurers' share of insurers' contract provisions and (ii) amounts deposited with reinsurers in respect of investment contracts, where the risk of default is borne by shareholders

Assets held to cover Insurance contracts with DPF, held within a segregated with profits fund, are included as being subject to credit risk, as such risk will be borne by shareholders where default would result in there being insufficient with-profits policyholder assets to fund minimum guaranteed obligations. However, in normal circumstances (where the asset share is in excess of the minimum guaranteed amount) substantially all the credit risk remains with policyholders

The Group's exposure to credit risk is summarised as

	Credit rating					Total £000
	AAA £000	AA £000	A £000	Below A £000	Unrated £000	
As at 31 December 2011						
Reinsurers share of insurance contract liabilities	-	36,213	(3,762)	-	231,341	263,792
Holdings in collective investment schemes	-	-	97,738	-	27,449	125,187
Amounts deposited with reinsurers	-	-	-	-	28,031	28,031
Debt securities at fair value through income	216,878	1,044	1,129	-	1,217	220,268
Insurance and other receivables	-	-	-	-	15,678	15,678
Reinsurers share of accrued policyholder claims	-	1,482	496	-	2,689	4,667
Derivative financial instruments	-	-	47	-	-	47
Income taxes	-	-	-	-	6,956	6,956
Cash and cash equivalents	-	33,071	73,117	5,618	542	112,348
Total	216,878	71,810	168,765	5,618	313,903	776,974
As at 31 December 2010						
Reinsurers share of insurance contract liabilities	-	14,516	24,582	-	241,645	280,743
Holdings in collective investment schemes	-	-	102,192	-	21,664	123,856
Amounts deposited with reinsurers	-	-	-	-	30,264	30,264
Debt securities at fair value through income	187,550	4,115	3,213	-	1,198	196,076
Insurance and other receivables	-	-	-	-	15,949	15,949
Reinsurers share of accrued policyholder claims	-	99	3,429	-	150	3,678
Derivative financial instruments	-	-	-	-	-	-
Income taxes	-	-	-	-	5,486	5,486
Cash and cash equivalents	-	41,779	84,861	1,653	300	128,593
Total	187,550	60,509	218,277	1,653	316,656	784,645

Included within unrated reinsurers' share of insurance contract provisions and unrated amounts deposited with reinsurers, in respect of investment contracts is a total significant exposure of £237.4m as at 31 December 2011 (31 December 2010 £254.0m) to Guardian, which does not have a published credit rating. Of this amount £202.9m (31 December 2010 £218.8m) is in respect of currently guaranteed benefits. This counterparty exposure was mitigated during 2006 when Guardian granted to CA a floating charge over related investment assets, which ranks that company equally with Guardian policyholders. In order to monitor the ongoing creditworthiness of Guardian, CA reviews the financial statements and regulatory returns submitted by Guardian to the FSA on an annual basis.

No credit limits were exceeded during the year ended 31 December 2011

Financial assets that are past due or impaired

In 2008, a cash deposit with Kaupthing Singer & Friedlander ('KSF') was written down by its full amount of £1,091,000 as a result of KSF entering administration. During 2011, further interim distributions totalling £108,716 (2010: £250,047) were made from the administrators in respect of the deposit.

There are no other Group financial assets that are impaired, would otherwise be past due, or impaired, whose terms have been negotiated or past due but not impaired.

The Group has no significant exposure to Euro-denominated sovereign debt as at 31 December 2011.

7 Business combinations

Profit recognised on business combinations arises on acquisition of

	Year ended 31 December	
	2011 £000	2010 £000
Save & Prosper Insurance Limited	-	15,488
Aspis Försäkringar Liv AB	-	376
	-	15,864

(i) Acquisition of Save & Prosper Insurance Limited

On 20 December 2010, Chesnara plc acquired the entire issued share capital (100%) of Save & Prosper Insurance Limited ("S&P") from JPMorgan Asset Management Marketing Limited for a total consideration of £63,524,000, paid in cash.

(ii) Acquisition of business relating to Aspis Försäkringar Liv AB

On 19 February 2010, Chesnara plc's Swedish subsidiary, Movestic Livförsäkring Liv AB ('Movestic'), entered into an agreement with the Swedish Regulatory Authority, Finansinspektionen ('FI') to take over the operational management and certain of the assets and liabilities of Aspis Försäkringar Liv AB ('Aspis') for a total consideration of SEK 20.75m (£1.8m), paid in cash. Movestic has acquired the in-force business, the personnel, expertise and systems of Aspis and will also manage, but not be responsible for, the payment of in-force claims that had occurred up to 12 November 2009. Movestic had previously, under the terms of an asset transfer agreement entered into on 10 December 2009, acquired the right to offer renewal policies to Aspis policyholders from 12 November 2009.

The associated disclosures required under IFRS in respect of these business combinations are made in the financial statements in respect of the year ended 31 December 2010. No adjustments have been made to the provisional assessment of the fair values of assets and liabilities at the acquisition dates.

8 Operating segments

The Group considers that it has no product or distribution-based business segments. It reports segmental information on the same basis as reported internally to the Chief Operating Decision Maker, which is the Board of Directors of Chesnara plc.

The segments of the Group as at 31 December 2011 comprise

CA

This segment is part of the Group's UK life insurance and pensions run-off portfolio and comprises the original business of Countrywide Assured plc, the Group's principal UK operating subsidiary, and of City of Westminster Assurance Company Limited which was acquired in 2005 and the long-term business of which was transferred to Countrywide Assured plc during 2006. It is responsible for conducting unit-linked and non-linked business.

S&P

This segment, which was acquired on 20 December 2010, is the balance of the Group's UK life insurance and pensions run-off portfolio and comprises the business of Save & Prosper Insurance Limited and its subsidiary Save & Prosper Pensions Limited. It is responsible for conducting both unit-linked and non-linked business, including a with-profits portfolio, which carries significant additional market risk, as described in Note 6 'Management of financial risk'. On 31 December 2011 the whole of the business of this segment was transferred to Countrywide Assured plc under the provisions of Part VII of the Financial Services and Markets Act 2000.

Movestic

This segment comprises the Group's Swedish life and pensions business, Movestic Livförsäkring AB (Movestic) and its subsidiary and associated companies, which are open to new business and which are responsible for conducting both unit-linked and non-linked business

Other Group Activities

The functions performed by the parent company, Chesnara plc, are defined under the operating segment analysis as Other Group Activities. Also included therein are consolidation and elimination adjustments

Apart from the changes set out above, there were no changes to the basis of segmentation during the year ended 31 December 2011

The accounting policies of the segments are the same as those for the Group as a whole. Any transactions between the business segments are on normal commercial terms in normal market conditions. The Group evaluates performance of operating segments on the basis of the profit before tax attributable to shareholders and on the total assets and liabilities of the reporting segments and the Group. There were no changes to the measurement basis for segment profit during the year ended 31 December 2011

(i) Segmental income statement for the year ended 31 December 2011

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Insurance premium revenue	72,892	10,699	38,385	-	121,976
Insurance premium ceded to reinsurers	(13,331)	(259)	(21,380)	-	(34,970)
Net insurance premium revenue	59,561	10,440	17,005	-	87,006
Fee and commission income	37,675	2,768	27,420	-	67,863
Net investment return	(19,009)	(21,685)	(151,938)	230	(192,402)
Total revenue (net of reinsurance payable)	78,227	(8,477)	(107,513)	230	(37,533)
Other operating income	3,584	11,702	6,446	50	21,782
Segmental income	81,811	3,225	(101,067)	280	(15,751)
Insurance contract claims and benefits incurred					
Claims and benefits paid to insurance contract holders	(148,964)	(102,901)	(15,826)	-	(267,691)
Net (increase)/decrease in insurance contract provisions	83,323	122,009	(468)	-	204,864
Reinsurers' share of claims and benefits	8,660	(1,045)	9,786	-	17,401
Net insurance contract claims and benefits incurred	(56,981)	18,063	(6,508)	-	(45,426)
Change in investment contract liabilities	13,231	(963)	151,898	-	164,166
Reinsurers' share of investment contract liabilities	(1,500)	-	-	-	(1,500)
Net change in investment contract liabilities	11,731	(963)	151,898	-	162,666
Fees, commission and other acquisition costs	(1,293)	(63)	(15,920)	-	(17,276)
Administrative expenses	(8,734)	(11,687)	(15,342)	(3,035)	(38,798)
Other operating expenses					
Charge for amortisation of acquired value of in-force business	(3,640)	(964)	(4,428)	-	(9,032)
Charge for amortisation of acquired value of customer relationships	-	-	(758)	-	(758)
Other	(729)	(1,087)	(6,457)	(1,391)	(9,664)
Segmental expenses	(59,646)	3,299	102,485	(4,426)	41,712
Segmental income less expenses	22,165	6,524	1,418	(4,146)	25,961
Share of profit from associates	-	-	(152)	-	(152)
Profit recognised on acquisition of subsidiary	-	-	-	-	-
Segmental operating profit/(loss)	22,165	6,524	1,266	(4,146)	25,809
Financing costs	-	(12)	(1,957)	(1,419)	(3,388)
Loss recognised on disposal of subsidiary	-	-	-	-	-
Profit/(loss) before tax	22,165	6,512	(691)	(5,565)	22,421
Income tax (expense)/credit	(1,307)	3,079	275	1,197	3,244
Profit/(loss) after tax attributable to shareholders	20,858	9,591	(416)	(4,368)	25,665

(ii) Segmental income statement for the year ended 31 December 2010

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Insurance premium revenue	80,157	372	34,421	-	114,950
Insurance premium ceded to reinsurers	(14,563)	-	(21,132)	-	(35,695)
Net insurance premium revenue	65,594	372	13,289	-	79,255
Fee and commission income	38,532	77	24,801	-	63,410
Net investment return	178,664	16,949	108,023	214	303,850
Total revenue (net of reinsurance payable)	282,790	17,398	146,113	214	446,515
Other operating income	3,481	201	5,534	-	9,216
Segmental income	286,271	17,599	151,647	214	455,731
Insurance contract claims and benefits incurred					
Claims and benefits paid to insurance contract holders	(124,449)	(3,347)	(11,628)	-	(139,424)
Net (increase)/decrease in insurance contract provisions	(89,773)	(13,820)	(3,025)	-	(106,618)
Reinsurers' share of claims and benefits	37,084	-	8,551	-	45,635
Net insurance contract claims and benefits incurred	(177,138)	(17,167)	(6,102)	-	(200,407)
Change in investment contract liabilities	(71,672)	-	(108,349)	-	(180,021)
Reinsurers' share of investment contract liabilities	3,904	-	-	-	3,904
Net change in investment contract liabilities	(67,768)	-	(108,349)	-	(176,117)
Fees, commission and other acquisition costs	(1,252)	-	(13,436)	-	(14,688)
Administrative expenses	(9,524)	(208)	(15,407)	(4,236)	(29,375)
Other operating expenses	(4,897)	-	(11,470)	210	(16,157)
Charge for amortisation of acquired value of in-force business	(3,661)	-	(4,446)	(38)	(8,145)
Charge for amortisation of acquired value of customer relationships	-	-	(952)	-	(952)
Other	(1,236)	-	(6,072)	248	(7,060)
Segmental expenses	(260,579)	(17,375)	(154,764)	(4,026)	(436,744)
Segmental income less expenses	25,692	224	(3,117)	(3,812)	18,987
Share of profit from associates	-	-	597	-	597
Profit recognised on acquisition of subsidiary	-	-	376	15,488	15,864
Segmental operating profit/(loss)	25,692	224	(2,144)	11,676	35,448
Financing costs	-	-	(1,210)	(70)	(1,280)
Profit/(loss) before tax	25,692	224	(3,354)	11,606	34,168
Income tax (expense)/credit	(4,740)	(63)	176	160	(4,467)
Non-controlling interest	-	-	118	-	118
Profit/(loss) after tax attributable to shareholders	20,952	161	(3,060)	11,766	29,819

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(iii) Segmental balance sheet as at 31 December 2011

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Intangible assets	23,210	8,091	80,764	-	112,065
Property and equipment	55	-	330	-	385
Investment in associates	-	-	1,613	-	1,613
Reinsurers' share of insurance contract provisions	214,719	6,008	43,065	-	263,792
Amounts deposited with reinsurers	28,031	-	-	-	28,031
Investment properties	648	131,480	-	-	132,128
Financial assets	1,353,290	1,152,265	1,240,546	296	3,746,397
Reinsurers' share of accrued policyholder claims	4,644	23	-	-	4,667
Income tax	-	448	5,311	1,197	6,956
Cash and cash equivalents	150,267	5,894	24,122	15,637	195,920
Total assets	1,774,864	1,304,209	1,395,751	17,130	4,491,954
Bank overdrafts	828	6	-	-	834
Insurance contract provisions	1,042,030	1,078,873	63,782	-	2,184,685
Unallocated divisible surplus	-	6,254	-	-	6,254
Financial liabilities	599,587	105,599	1,239,768	35,486	1,980,440
Provisions	1,311	-	-	1,500	2,811
Provision for write-down of assets held for sale	-	-	-	-	-
Deferred tax liabilities	6,077	8,546	767	-	15,390
Reinsurance payables	1,901	20	14,415	-	16,336
Payables related to direct insurance and investment contracts	21,864	10,269	8,518	-	40,651
Deferred income	10,000	-	-	-	10,000
Income taxes	947	-	-	-	947
Other payables	4,833	5,906	11,591	2,087	24,417
Total liabilities	1,689,378	1,215,473	1,338,841	39,073	4,282,765
Net assets	85,486	88,736	56,910	(21,943)	209,189

(iv) Segmental balance sheet as at 31 December 2010

	CA	S&P	Movestic	Other Group Activities	Total
	£000	£000	£000	£000	£000
Intangible assets	27,870	9,055	80,641	-	117,566
Property and equipment	67	-	604	-	671
Investment in associates	-	-	1,783	-	1,783
Reinsurers' share of insurance contract provisions	228,276	7,692	44,775	-	280,743
Amounts deposited with reinsurers	30,264	-	-	-	30,264
Investment properties	2,895	117,925	-	-	120,820
Financial assets	1,491,088	1,276,303	1,320,645	243	4,088,279
Reinsurers' share of accrued policyholder claims	3,422	256	-	-	3,678
Income tax	-	4,943	-	543	5,486
Cash and cash equivalents	133,716	14,972	24,248	21,198	194,134
Assets held for sale	-	-	380	-	380
Total assets	1,917,598	1,431,146	1,473,076	21,984	4,843,804
Liabilities held for sale	-	-	380	-	380
Bank overdrafts	2,125	29	-	-	2,154
Insurance contract provisions	1,129,558	1,210,810	63,711	-	2,404,079
Unallocated divisible surplus	-	83	-	-	83
Financial liabilities	646,746	108,862	1,322,985	39,287	2,117,880
Provisions	1,822	-	-	-	1,822
Deferred tax liabilities	7,525	12,222	779	-	20,526
Reinsurance payables	1,921	23	20,366	-	22,310
Payables related to direct insurance and investment contracts	19,338	10,919	5,551	-	35,808
Deferred income	11,647	-	-	-	11,647
Income taxes	3,188	3,280	455	-	6,923
Other payables	3,098	5,773	6,050	2,002	16,923
Total liabilities	1,826,968	1,352,001	1,420,277	41,289	4,640,535
Net assets	90,630	79,145	52,799	(19,305)	203,269

9 Fees and commission income

	Year ended 31 December	
	2011	2010
	£000	£000
Fee income		
Policy-based fees	12,776	8,861
Fund management-based fees	26,258	24,060
Benefit-based fees	22,626	23,967
Change in deferred income – gross	1,647	1,485
Change in deferred income – reinsurer's share	(47)	(51)
Total fee income	63,260	58,322
Commission income	4,603	4,796
Other income	-	292
Total fee and commission income	67,863	63,410

10 Net investment return

	Year ended 31 December	
	2011	2010
	£000	£000
Dividend income	40,261	31,090
Interest income	28,632	16,913
Rental income from investment properties	8,108	1,020
Net fair value gains and losses		
Equity securities designated as at fair value through income on initial recognition	(326,014)	235,206
Debt securities designated as at fair value through income on initial recognition	53,332	19,253
Derivative financial instruments	(954)	256
Investment properties	4,233	112
Net investment return	(192,402)	303,850

Net fair value gains and losses in respect of holdings in collective investment schemes are included in the line that is most appropriate taking into account the nature of the underlying investments

No amounts included in net fair value gains and losses of financial instruments were estimated using a valuation technique (year ended 31 December 2010 £nil)

11 Other operating income

	Year ended 31 December	
	2011	2010
	£000	£000
Release of unused provisions	390	71
Recharge of shared property services to tenants	457	428
Administration fees charged to reinsurers	103	113
Professional indemnity insurance recoveries	173	4
Investment management fee rebate	14,120	2,800
HMRC interest on tax refund	9	11
Charges to policyholder funds for yield tax	6,428	5,532
Other	102	257
Total other operating income	21,782	9,216

12 Insurance contract claims and benefits

	Year ended 31 December	
	2011	2010
	£000	£000
Claims and benefits paid to insurance contract holders	267,691	139,424
Net (decrease)/increase in insurance contract provisions	(204,864)	106,618
Total insurance contract claims and benefits	62,827	246,042
Recoveries from reinsurers	(17,401)	(45,635)
Net insurance contract claims and benefits incurred	45,426	200,407

13 Change in investment contract liabilities

	Year ended 31 December	
	2011 £000	2010 £000
Net changes in the fair value of investment contracts designated on initial recognition as fair value through income	(169,281)	170,109
Net changes in the fair value of policyholders' funds held by the Group designated on initial recognition as fair value through income	5,115	9,912
Reinsurers' share	1,500	(3,904)
Net (decrease)/increase in investment contract liabilities	(162,666)	176,117

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

14 Fees, commission and other acquisition costs

	Year ended 31 December	
	2011 £000	2010 £000
Directly expensed costs		
Insurance contracts		
Commission	6,037	4,931
New business and renewal costs	2,654	2,084
Investment contracts		
Commission	10,457	9,178
New business and renewal costs	3,444	3,140
Additions to deferred acquisition costs		
Insurance contracts	(5,881)	(4,833)
Investment contracts – gross	(6,747)	(5,517)
Amortisation of deferred acquisition costs		
Insurance contracts	5,665	4,453
Investment contracts-gross	1,674	1,283
Investment contracts-reinsurance	(27)	(31)
Total	17,276	14,688

15 Administrative expenses

	Year ended 31 December	
	2011 £000	2010 £000
Personnel-related costs	12,772	11,475
Investment management fees	11,859	3,517
Amortisation charge on software assets	1,979	1,176
Depreciation charge on property and equipment	296	304
Costs paid to third-party administrators	8,436	5,062
Other goods and services	3,456	7,841
Total	38,798	29,375

Included in Other Goods and Services above are the following amounts payable to the Auditor and its associates, exclusive of VAT

	Year ended 31 December	
	2011 £000	2010 £000
Fees payable to the Company's Auditor for the audit of the company's annual accounts	78	85
Fees payable to the Company's Auditor and its associates for other services		
The audit of the Company's subsidiaries pursuant to legislation	360	257
Other services pursuant to legislation	183	107
Tax services	44	30
Services related to corporate finance transactions	-	287
All other services	16	2
Total	681	768

16 Other operating expenses

	Year ended 31 December	
	2011	2010
	£000	£000
Charge for amortisation of acquired value of in-force business	9,032	8,145
Charge for amortisation of acquired value of customer relationships (AVCR)	758	952
Other		
Increase in provisions	1,531	658
Direct operating expenses of investment properties		
Revenue-generating properties	1,162	35
Non revenue-generating properties	154	130
Recovery of cash deposit	(109)	(250)
Payment of yield tax relating to policyholder funds	6,428	5,532
Akademiker impairment charge	29	314
Akademiker write-down of AVCR	-	224
Other	469	417
Total	9,664	7,060

The recovery of cash deposit represents interim distributions received from the administrators of Kaupthing Singer & Friedlander relating to a cash deposit, previously written down and charged to operating expenses

The 2010 Akademiker items of £314,000 and £224,000 relate to the write-down of net assets and acquired value of customer relationships respectively

17 Financing costs

	Year ended 31 December	
	2011	2010
	£000	£000
Interest expense on bank borrowings	1,426	70
Interest expense on financial reinsurance	1,957	1,022
Interest expense on reinsurance deposit	-	184
Other interest	5	4
Total financing costs	3,388	1,280

Interest expense on bank borrowings is calculated using the effective interest method and is the total interest expense for financial liabilities that are not designated at fair value through income

18 Income tax (credit)/expense

	Year Ended 31 December	
	2011	2010
	£000	£000
Total income tax (credit)/expense comprises		
CA, S&P and Other Group Activities	(2,969)	4,643
Movestic	(275)	(176)
Total	(3,244)	4,467

	Year ended 31 December	
	2011	2010
	£000	£000
CA, S&P and Other Group Activities		
Current tax expense		
Current year	2,160	5,685
Overseas tax	587	617
Adjustment to prior years	(592)	441
Net expense/(credit)	2,155	6,743
Deferred tax expense		
Origination and reversal of temporary differences	(5,124)	(2,100)
Total income tax (credit)/expense	(2,969)	4,643

Reconciliation of effective tax rate on profit before tax

	Year ended 31 December	
	2011	2010
	£000	£000
Profit before tax	23,112	37,522
Income tax using the domestic corporation tax rate of 26.5% (2010: 28%)	6,125	10,506
Non-taxable profit on acquisition of subsidiary	-	(4,337)
Permanent difference arising on Part VII Transfer	(4,146)	-
Other permanent differences	270	777
Effect of UK tax bases on insurance profits		
Offset of franked investment income	(2,667)	(3,373)
Variation in rate of tax on amortisation of acquired in-force value	(619)	72
Other	(1,340)	556
(Over)/underprovided in prior years	(592)	442
Total income tax (credit)/expense	(2,969)	4,643

The permanent difference arising on the Part VII Transfer relates to a "duty of fairness" reserve allowed for tax purposes in the transferred S&P business, not now expected to reverse

	Year ended 31 December	
	2011	2010
	£000	£000
Movestic		
Current tax credit		
Current year	15	1
Adjustment to prior years	(289)	(15)
	(274)	(14)
Deferred tax credit		
Origination and reversal of temporary differences	(1)	(162)
Total income tax credit	(275)	(176)

Reconciliation of effective tax rate on profit before tax

	Year ended 31 December	
	2011	2010
	£000	£000
Loss before tax	(691)	(3,354)
Income tax using the domestic corporation tax rate of 26.3%	(182)	(882)
Non-taxable income in relation to unit-linked business	(195)	203
Non-taxable fair value adjustment on acquisition	293	469
Impact of different tax rate for subsidiaries	(5)	22
Permanent differences	8	(22)
Unrecognised tax recoverable	-	49
Non-deductible expenses	95	-
Overprovided in prior years	(289)	(15)
Total income tax (credit)/expense	(275)	(176)

19 Deferred acquisition costs

	Year ended 31 December				
	CA	S&P	Movestic	2011 Total	2010 Total
	£000	£000	£000	£000	£000
Balance at 1 January	6,745	-	7,914	14,659	9,327
Additions arising from new business	-	-	12,642	12,642	10,577
Amortisation charged to income	(1,020)	-	(6,319)	(7,339)	(5,736)
Foreign exchange translation difference	-	-	(242)	(242)	491
Balance at 31 December	5,725	-	13,995	19,720	14,659
Current	634	-	1,277	1,911	1,875
Non-current	5,091	-	12,718	17,809	12,784
Total	5,725	-	13,995	19,720	14,659

The amortisation charged to income is recognised in Fees, Commission and Other Acquisition Costs (see Note 14)

20 Acquired value of in-force business (AVIF)

	31 December	
	2011	2010
	£000	£000
Cost		
Balance at 1 January	128,777	113,480
Additions arising on acquisition of subsidiary	-	9,093
Foreign exchange translation difference	(870)	6,204
Balance at 31 December	127,907	128,777
Amortisation and impairment losses		
Balance at 1 January	35,731	27,017
Amortisation for the year	9,032	8,145
Foreign exchange translation difference	(202)	569
Balance at 31 December	44,561	35,731
Carrying amounts		
At 1 January	93,046	86,463
At 31 December	83,346	93,046
Current	8,620	9,249
Non-current	74,726	83,797
Total	83,346	93,046

The amortisation is charged to income and is recognised in Other Operating Expenses (see Note 16)

21 Acquired value of customer relationships (AVCR)

	31 December	
	2011	2010
	£000	£000
Cost		
Balance at 1 January	4,164	2,871
Additions arising on acquisition of subsidiary	-	1,306
Disposal of subsidiary	-	(387)
Foreign exchange translation difference	(51)	374
Balance at 31 December	4,113	4,164
Amortisation and impairment losses		
Balance at 1 January	1,132	189
Amortisation for the year	758	953
Disposal of subsidiary	-	(83)
Foreign exchange translation difference	(32)	73
Balance at 31 December	1,858	1,132
Carrying amounts		
At 1 January	3,032	2,682
At 31 December	2,255	3,032
Current	139	749
Non-current	2,116	2,283
Total	2,255	3,032

The amortisation period of AVCR is based on the underlying returns on the policies expected to be written as a result of customer relationships

The amortisation is charged to income and is recognised in Other Operating Expenses (see Note 16)

22 Software assets

	31 December	
	2011	2010
Cost	£000	£000
Balance at 1 January	9,421	5,350
Additions	1,968	3,484
Disposals	(1)	(123)
Foreign exchange translation difference	(159)	710
Balance at 31 December	11,229	9,421
Amortisation and impairment losses		
Balance at 1 January	2,592	1,290
Amortisation charge for the year	1,979	1,176
Disposals	(11)	(64)
Foreign exchange translation difference	(75)	190
Balance at 31 December	4,485	2,592
Carrying amounts at 31 December	6,744	6,829
Current	1,922	1,757
Non-current	4,822	5,072
Total	6,744	6,829

23 Property and equipment

	31 December	
	2011	2010
Cost	£000	£000
Balance at 1 January	1,327	840
Additions	49	483
Disposals	(113)	(32)
Reclassification to assets held for sale	-	(66)
Foreign exchange translation difference	(14)	102
Balance at 31 December	1,249	1,327
Amortisation and impairment losses		
Balance at 1 January	656	349
Depreciation charge for the year	296	304
Disposals	(77)	(10)
Reclassification to assets held for sale	-	(36)
Foreign exchange translation difference	(11)	49
Balance at 31 December	864	656
Carrying amounts at 31 December	385	671
Current	209	295
Non-current	176	376
Total	385	671

24 Investment in associates

Cost	31 December	
	2011	2010
	£000	£000
Balance at 1 January	1,783	1,051
Share of (loss) / profit	(152)	597
Foreign exchange translation difference	(18)	135
Balance at 31 December	1,613	1,783

Associates at 100%	Assets £000	Liabilities £000	Revenues £000	(Loss) £000
Modernac S A	20,449	17,158	8,635	(309)
Total 31 December 2011	20,449	17,158	8,635	(309)

Associates at 49%	Equity at 100% £000	Equity at 49% £000	49% share of (loss) £000
Modernac S A	3,291	1,613	(151)
Total 31 December 2011	3,291	1,613	(151)

25 Investment properties

	31 December	
	2011	2010
	£000	£000
Balance at 1 January	120,820	3,355
Additions		
Amount arising on acquisition of subsidiary	-	117,925
Properties acquired	9,310	-
Disposals	(2,235)	(572)
Fair value adjustments	4,233	112
Balance at 31 December	132,128	120,820
Current	2,750	2,445
Non-current	129,378	118,375
Total	132,128	120,820

Investment properties were bought for investment purposes in line with the investment strategy of the Group. The properties are independently valued in accordance with International Valuation Standards on the basis of determining the open market value of the investment properties on an annual basis. The latest valuations were conducted as at 31 December 2011.

Income arises from investment properties in two streams:

- (i) Fair value gains arising as a result of market appreciation in the value of the properties, and
- (ii) Rental income arising from leases granted on the properties

Both of these amounts are disclosed in Net Investment Return (see Note 10). Expenses incurred in the operation and maintenance of investment properties are disclosed in Other Operating Expenses (see Note 16).

26 Financial assets

Group

	31 December	
	2011	2010
Financial assets by measurement category	£000	£000
Fair value through income		
Designated at fair-value through income on initial recognition	3,702,056	4,041,439
Derivative financial instruments	10,308	9,707
Insurance and other receivables	30,799	33,225
Prepayments	3,234	3,908
Total	3,746,397	4,088,279

Fair value is the amount for which an asset could be exchanged between willing parties in an arm's length transaction. The tables below show the determination of fair value according to a three-level valuation hierarchy. Fair values are generally determined at prices quoted in active markets (Level 1). However, where such information is not available, the Group applies valuation techniques to measure such instruments. These valuation techniques make use of market-observable data for all significant inputs where possible (Level 2), but, in some cases it may be necessary to estimate other than market-observable data within a valuation model for significant inputs (Level 3).

Financial assets at fair value through income

	Fair value measurement at 31 December 2011 using			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities				
Listed	404,431	-	-	404,431
Debt securities – fixed rate				
Government Bonds	293,903	-	-	293,903
Listed	29,163	-	-	29,163
Debt securities – floating rate				
Listed	7,544	-	-	7,544
Total debt securities	330,610	-	-	330,610
Holdings in collective investment schemes	2,820,197	97,738	-	2,917,935
Policyholders' funds held by the group	49,080	-	-	49,080
Derivative financial instruments	6,845	3,463	-	10,308
Total	3,611,163	101,201	-	3,712,364
Current				1,337,188
Non-current				2,375,176
Total				3,712,364

	Fair value measurement at 31 December 2010 using			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities				
Listed	492,321	-	-	492,321
Debt securities – fixed rate				
Government Bonds	275,292	-	-	275,292
Listed	44,224	-	-	44,224
Total debt securities	319,516	-	-	319,516
Holdings in collective investment schemes	3,075,073	102,192	-	3,177,265
Policyholders' funds held by the group	52,337	-	-	52,337
Derivative financial instruments	5,593	4,114	-	9,707
Total	3,944,840	106,306	-	4,051,146
Current				359,454
Non-current				3,691,692
Total				4,051,146

Company

	Year ended 31 December	
	2011	2010
	£000	£000
Balance at 1 January	141,434	74,029
Acquisition of Save & Prosper Insurance Limited	-	63,524
Equity contributions paid to Movestic Livförsäkring AB	5,265	3,881
Balance at 31 December	146,699	141,434
Current	-	-
Non-current	146,699	141,434
Total	146,699	141,434

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

27 Insurance and other receivables and prepayments

Group

	31 December	
	2011	2010
	£000	£000
Insurance and other receivables		
Receivables arising from insurance contracts		
Brokers	653	622
Policyholders	3,926	4,076
Receivables arising from investment contracts		
Policyholders	1,737	1,127
Reinsurance receivables	201	272
Commission receivables	417	575
Debtor for professional indemnity insurance	40	7
Other receivables		
Loan to associated companies	536	795
Accrued interest income	4,631	4,598
Accrued rent	630	409
Receivables from fund management companies	7,865	8,976
Initial margin payments on derivatives	4,997	7,825
Other	5,166	3,943
Total	30,799	33,225
Current	30,263	31,354
Non-current	536	1,871
Total	30,799	33,225

The carrying amount is a reasonable approximation of fair value

	31 December	
	2011	2010
	£000	£000
Prepayments	3,234	3,908
Current	2,084	2,658
Non-current	1,150	1,250
Total	3,234	3,908

The carrying amount is a reasonable approximation of fair value

Company

	31 December	
	2011	2010
	£000	£000
Receivables and prepayments		
Amounts due from subsidiary companies	188	162
Other receivables	37	22
Prepayments	71	59
Total	296	243
Current	296	243
Non-current	-	-
Total	296	243

The carrying amount is a reasonable approximation of fair value

28 Derivative financial instruments

The Group does not hold derivatives outside the unit-linked and with-profits funds, except for an option to repay a financial reinsurance contract early, which comprises an embedded derivative

	31 December 2011		31 December 2010	
	Asset £000	Liability £000	Asset £000	Liability £000
Exchange-traded futures	6,893	(144)	5,593	(137)
Financial reinsurance embedded derivative	3,415	-	4,114	-
Total	10,308	(144)	9,707	(137)
Current	8,163	(144)	9,707	(137)
Non-current	2,145	-	-	-
Total	10,308	(144)	9,707	(137)

Derivatives within unit-linked funds

As part of its Investment management strategy, the Group purchases derivative financial instruments comprising part of its investment portfolio for unit-linked investment funds, which match the liabilities arising on its unit-linked insurance and investment business

A variety of equity futures are part of the portfolio matching the unit-linked investment and insurance liabilities. Derivatives are used to facilitate more efficient portfolio management allowing changes in Investment strategy to be reflected by futures transactions rather than a high volume of transactions in the underlying assets

All the contracts are exchange-traded futures, with their fair value being the bid price at the balance sheet date. They are, accordingly, determined at Level 1 in the three-level fair value determination hierarchy set out in Note 26

	31 December 2011		31 December 2010	
	Asset £000	Liability £000	Asset £000	Liability £000
Exchange-traded futures (by geographical investment market)				
Australia	183	(28)	221	(12)
Europe	878	-	1,148	(66)
UK	3,613	(72)	854	(57)
Hong Kong	137	(4)	152	(2)
Japan	183	(12)	391	-
South Korea	325	(25)	360	-
Singapore	30	(3)	55	-
USA	1,544	-	2,412	-
Total	6,893	(144)	5,593	(137)

Financial reinsurance embedded derivative

In respect of Movestic, the Group has entered into a reinsurance contract with a third party that has a section that is deemed to transfer significant insurance risk and a section that is deemed not to transfer significant insurance risk. This assessment has been determined by management based on the contractual terms of the reinsurance agreement. The element of the contract that does not transfer significant insurance risk has two components and has been accounted for as a financial liability at amortised cost and an embedded derivative asset at fair value.

The embedded derivative represents an option to repay the amounts due under the contract early at a discount to the amortised cost, with its fair value being determined by reference to market interest rates at the balance sheet date. It is, accordingly, determined at Level 2 in the three-level fair value determination hierarchy set out in Note 26.

Derivatives within the S&P with-profits funds

As part of its investment management strategy, S&P enters into a limited range of derivative instruments to manage its exposure to various risks.

S&P uses equity index futures in order to economically hedge equity market risk in the with-profit funds' investments.

The change in fair value of the futures contracts is intended to offset the change in fair value of the underlying equities being hedged. S&P settles the market value of the futures contracts on a daily basis by paying or receiving a variation margin. The futures contracts are not discounted as this daily settlement is equal to the change in fair value of the futures. As a result, there is no additional fair value to recognise in relation to these derivatives on the balance sheet at the period end.

S&P also purchases exchange rate futures to mitigate exchange rate risk within its with-profits funds.

These contracts are exchange-traded contracts in active markets with their fair value being the bid price at the balance sheet date. They are, accordingly, determined at Level 1 in the three-level fair value determination hierarchy set out in Note 26.

29 Income tax assets

Income tax assets, which are all current, comprise

	31 December	
	2011	2010
	£000	£000
Group		
Corporation tax recoverable	6,956	5,486
Company		
Corporation tax recoverable	1,197	543

The carrying amount is a reasonable approximation of fair value.

30 Cash and cash equivalents

	31 December	
	2011	2010
	£000	£000
Group		
Bank and cash balances	57,601	80,176
Call deposits due within 1 month	73,361	70,375
Call deposits due after 1 month	64,958	43,583
Total cash and cash equivalents	195,920	194,134
Bank overdrafts	(834)	(2,154)
Cash and cash equivalents in the statement of cash flows	195,086	191,980

The effective interest rate on short term bank deposits was 0.94% (2010 0.57%), with an average maturity of 28 days. All deposits included in cash and cash equivalents were due to mature within 3 months of their acquisition.

Included in cash and cash equivalents held by the Group are balances totalling £78,907,000 (2010 £79,472,000) held in unit-linked policyholders' funds.

	31 December	
	2011	2010
	£000	£000
Company		
Bank and cash balances	267	85
Call deposits due within 1 month	15,370	10,080
Short term deposits due within 1 year	-	11,033
Total	15,637	21,198

31 Assets held for sale and liabilities held for sale

As at 31 December 2010, the Group classified one of the subsidiaries within the Movestic operating segment, AkademikerRådgivning i Sverige AB (Akademiker'), as a disposal group. During 2011, the Group has taken the decision to dissolve Akademiker in lieu of a disposal. As a consequence, the assets and liabilities previously held for sale, have been reclassified in the balance sheet at a net written down value of £nil.

32 Capital management

(a) Objective

The Group's capital management framework is designed to provide security for all shareholders, while meeting the expectations of policyholders and shareholders. Accordingly it

- 1) safeguards policyholders interests by meeting regulatory requirements established by the regulators of the insurance markets in which the Group's regulated companies operate, while not retaining unnecessary excess capital,
- 2) seeks to meet the dividend expectations of shareholders and to optimise the gearing ratio to ensure an efficient capital base,
- 3) ensures there is sufficient liquidity to meet obligations to policyholders, debt financiers and creditors as they fall due, and
- 4) maintains the Group as a going concern so that it continues to provide returns and to meet obligations to all shareholders.

The Group's subsidiary and associate companies are subject to minimum regulatory capital requirements according to the jurisdictions in which they operate. In addition CA is required to prepare and submit a Group-level solvency capital statement in accordance with the EU Insurance Groups Directive (IGD).

The rules are designed to ensure that companies have sufficient assets to meet their liabilities in specified adverse circumstances. As such, there is, in the UK, a restriction on the full transfer of surpluses from the long-term business funds to shareholder funds in CA, and on the full distribution of retained earnings from CA to Chesnara and, in Sweden, on distributions from Movestic shareholder funds.

On 31 December 2011 the long-term business funds and the shareholder funds of SPI and SPP were transferred to CA under the provisions of Part VII of the Financial Services and Markets Act 2000 ('the Part VII Transfer'), subject to leaving sufficient capital within SPI and SPP to meet regulatory requirements for the limited period until these companies are wound up. Accordingly all of the long-term business of the UK businesses subsists within one regulated entity, CA, with effect from that date.

The overall capital dynamics of the Group are such that the UK businesses, being substantially in run-off, are net contributors of capital, which is reflected in the medium-term by way of dividend distributions to the parent company, while, in the medium-term, the Swedish business, as it expands, and before it achieves economies of scale, is a net consumer of capital, which is reflected by way of additional capital contributions from the parent company.

(b) Operation of the UK, Swedish and EU regulatory regimes

UK Businesses

The operation of regulation with respect to the UK Businesses is such as to specify the minimum amount of capital that must be held in addition to the insurance liabilities as determined for regulatory purposes. This is established by reference to two calculations, being

- (i) the Pillar 1 calculation, which compares regulatory capital based on the characteristics of the in-force life assurance business with an associated measure of capital as prescribed by regulation, and
- (ii) the Pillar 2 calculation, which compares a risk-based assessment of economic capital with an associated measure of capital based on a realistic assessment of insurance liabilities.

For CA, SPI and SPP, for the whole of the period covered by these financial statements, the minimum regulatory capital requirement was determined by the first calculation, as this gave rise to the lesser measure of surplus capital. This calculation is set out below in Section (c) Regulatory Capital Resources and Requirements, together with the CA Board's policy in targeting regulatory capital resource cover for total regulatory capital resource requirements.

The long-term insurance business subsisting within CA prior to the Part VII Transfer fell outside the scope of the FSA's 'realistic capital' regime and comprises mainly non-profit business, both unit-linked and non-linked business. The with-profits liabilities of the long-term insurance business, subsisting within CA prior to the Part VII Transfer, are wholly reassured to Guardian.

Therefore, in respect of this with-profits business, there is no separate with-profits fund and there is, accordingly, no unallocated divisible surplus. The long-term insurance business transferred to CA from SPI and SPP, which also fell outside the scope of the FSA's 'realistic capital' regime, comprises with-profits business, for which two separate subfunds and unallocated divisible surplus continue to be maintained, and unit-linked and non-linked non-profit business. CA continues to fall outside the scope of the FSA's 'realistic capital' regime following the Part VII Transfer.

Swedish Business

Movestic is subject to the Swedish regulatory regime and has to maintain a minimum level of regulatory capital, being the prescribed minimum solvency margin requirements.

The solvency surplus under the Swedish regulatory regime is the excess of the regulatory capital resources over the capital resource requirements which are based on the insurance business. This calculation is set out below in Section (c) Regulatory Capital Resources and Requirements together with the Movestic Board's policy in targeting regulatory capital resource cover for total regulatory capital resource requirements. The Swedish business also includes a 49% interest in an associated company, Modernac S A ('Modernac'), a Luxembourg-based reinsurer, which is subject to EU regulatory solvency requirements. Its scale of operations are such that its capital resource requirement is the EU regulatory minimum.

Group

In addition to the solvency requirements for the UK and Swedish Businesses, as set out above, the Group is subject to the requirements of the EU Insurance Group Directive, in accordance with which the Group calculates the excess of the aggregate of regulatory capital resources determined on a group-wide basis over the aggregate minimum regulatory capital requirement imposed by local regulators. The requirement is that available Group capital resources, as set out in Section (d) Group Capital Position Statement below, should be at least 100% of capital requirements.

(c) Regulatory capital resources and requirements

UK Businesses

The following summarises the capital resources and requirements of CA, SPI and SPP, as determined for UK regulatory purposes (Pillar 1).

	31 December 2011		31 December 2010	
	£m	£m	£m	£m
	CA	S&P	CA	S&P
Available capital resources (CR)	104.8	7.0	44.1	69.7
Long-term insurance capital requirement (LTICR)	39.1	-	19.1	24.3
Resilience capital requirement (RCR)	18.3	-	1.6	1.7
European minimum solvency capital requirement	-	6.1	-	-
Total capital resource requirements (CRR)	57.4	6.1	20.7	26.0
Excess of CR over CRR (solvency surplus)	47.4	0.9	23.4	43.7
Ratio of available CR to CRR	183%	115%	213%	268%
Target capital requirement cover	81.8	6.1	30.2	n/a
Excess of CR over target requirement	23.0	0.9	13.8	n/a

The information presented in respect of CA as at 31 December 2011 reflects the position following the Part VII Transfer referred to above.

The significant increase in the RCR as at 31 December 2011, compared with the position at 31 December 2010 arises as a result of the change in the approach to setting the S&P with-profits valuation interest rates, following the Part VII Transfer, as described in section e (ii) below. Together with this change, which had the effect of increasing regulatory capital resources by £13.4m, there was a net reduction of £1.0m in the excess of CR over CRR as at 31 December 2011.

Available capital resources for CA as at 31 December 2011 are stated after provision for a dividend of £44.0m which was approved by the CA Board subsequent to 31 December 2011 (as at 31 December 2010 £26.0m subsequent to 31 December 2010).

CA's Board, as a matter of policy, will continue to target CR cover for total CRR at a minimum level of 162.5% of the LTICR plus 100% of the RCR. Prior to the Part VII Transfer

- (i) CA's CR cover for total CRR was targeted at a minimum level of 150% of the LTICR plus 100% of the RCR
- (ii) The Boards of SPI and of SPP had not established formal targets for CR cover for total CRR

The statement above presents the capital resources and requirements of SPI and its subsidiary company, SPP, on a combined basis as at 31 December 2010 and a stand-alone statement for SPP as at that date is not presented. As at 31 December 2010, the excess of the CR of SPP was significantly in excess of its CRR on a stand-alone basis.

As at 31 December 2011, shareholder funds of £7.0m have been retained in S&P, in order to cover the EU regulatory minimum for regulated insurance companies. It is anticipated that SPI and SPP will be de-regulated during 2012, following which those residual shareholder funds will be transferred to CA shareholder funds.

Individual Capital Assessments (Pillar 2)

The FSA Prudential Sourcebooks require UK insurance companies to make their own assessment of their capital needs to a required standard (a 99.5% probability of being able to meet liabilities to policyholders after one year). In the light of scrutiny of this assessment, the FSA may impose its own additional individual capital guidance. The Individual Capital Assessment (ICA) is based on a realistic liability assessment, rather than on the statutory mathematical reserves, and involves stress testing the resultant realistic balance sheet for the impact of adverse events, including such market effects as significant falls in equity values, interest rate increases and decreases, bond defaults and further widening of bond spreads.

CA and S&P completed full annual assessments during 2011 as a result of which it was concluded that the effective current and medium-term capital requirement constraints on distributions to Chesnara will continue to be on the basis set out under 'Regulatory capital resources and requirements' above. This assessment is subject to quarterly high-level updates until the next full annual assessment.

Swedish Business

The following summarises the Capital Resources and the Capital Resources Requirements of Movestic as determined for Swedish regulatory purposes and Movestic's 49% proportionate share in the Capital Resources and Capital Resources Requirements of Modernac.

31 December 2011		
	Movestic £m	Modernac £m
Available Capital Resources (CR)	29.6	2.3
Capital Resource Requirements (CRR)	12.1	1.5
Excess of CR over CRR (solvency surplus)	17.5	0.8
Ratio of available CR to CRR	245%	153%
Target capital requirement cover	18.2	n/a
Excess of CR over target requirement	11.4	n/a

31 December 2010		
	Movestic £m	Modernac £m
Available Capital Resources (CR)	23.3	2.6
Capital Resource Requirements (CRR)	12.4	1.5
Excess of CR over CRR (solvency surplus)	10.9	1.1
Ratio of available CR to CRR	188%	173%
Target capital requirement cover	18.6	n/a
Excess of CR over target requirement	4.7	n/a

The Movestic Board has set a minimum target of 150% of the regulatory capital requirement. Swedish solvency regulation requires that a certain proportion of assets, to be fully admissible, is to be held in the form of cash. The operation of this requirement may, from time to time, act as the operative constraint in determining the level of additional funding requirements, thereby causing the solvency ratio to rise above what it would otherwise have been, had the form of assets matching capital resources not been a constraint. Movestic's solvency ratio declines as the increasing scale of its business requires a higher level of regulatory capital. As the ratio approaches 150%, further planned capital contributions will be made by the Group.

Movestic, in accordance with local regulatory requirements, continues to make quarterly assessments of the risk-based capital requirements of its business. These indicate that capital resources currently provide a comfortable margin over capital resource requirements.

(d) Group capital position statement

The following summarises the regulatory capital resources arising in both life and non-life entities, together with a statement of capital resources on a consolidated basis and with a reconciliation to shareholders' net equity established on the IFRS basis.

As at 31 December 2011

	UK Life businesses				Swedish Life and Non-life business	Group Life insurance businesses
	With profits £000	Non-participating £000	Shareholder £000	Total £000	Total £000	Total £000
Shareholder funds outside long-term insurance funds – retained earnings	-	-	61,164	61,164	37,059	98,223
Shareholder funds in long-term insurance funds	40,990	7,623	1,078	49,691	-	49,691
Total shareholder funds	40,990	7,623	62,242	110,855	37,059	147,914
Adjustment onto regulatory basis						
Unallocated divisible surplus	6,254	-	-	6,254	-	6,254
Adjustments to net assets	1,680	(1,090)	(5,872)	(5,282)	(7,454)	(12,736)
Total available capital resources	48,924	6,533	56,370	111,827	29,605	141,432

	Group Life insurance businesses	Other activities		Consolidation adjustments	Group total	Adjustment for dividend	Group total IFRS basis
	Total £000	UK Business £000	Swedish Business £000	£000	£000	£000	£000
Shareholder funds outside long-term insurance funds	98,223	156,529	1,662	(109,435)	146,979	12,519	159,498
Shareholder funds in long-term insurance funds	49,691	-	-	-	49,691	-	49,691
Total shareholder funds	147,914	156,529	1,662	(109,435)	196,670	12,519	209,189
Adjustment onto regulatory basis							
Unallocated divisible surplus	6,254	-	-	-	6,254		
Adjustments to net assets	(12,736)	(52,271)	16	14,537	(50,454)		
Total available capital resources	141,432	104,258	1,678	(94,898)	152,470		

As at 31 December 2010

	UK Life businesses				Swedish Life and Non-life business	Group Life insurance businesses
	With profits £000	Non-participating £000	Shareholder £000	Total £000	Total £000	Total £000
Shareholder funds outside long-term insurance funds – retained earnings	-	-	82,747	82,747	31,188	113,935
Shareholder funds in long-term insurance funds	34,015	5,166	-	39,181	-	39,181
Total shareholder funds	34,015	5,166	82,747	121,928	31,188	153,116
Adjustment onto regulatory basis						
Unallocated divisible surplus	83	-	-	83	-	83
Adjustments to net assets	2,553	(994)	(4,759)	(3,200)	(7,867)	(11,067)
Adjustments for non-fungible capital in subsidiary company	-	-	-	-	-	-
Other	-	-	(5,000)	(5,000)	-	(5,000)
Total available capital resources	36,651	4,172	72,988	113,811	23,321	137,132

	Group Life insurance businesses	Other activities	Swedish Business	Consolidation adjustments	Group total	Adjustment for dividend	Group total IFRS basis
	Total £000	UK Business £000	£000	£000	£000	£000	£000
Shareholder funds outside long-term insurance funds	113,935	136,295	2,627	(100,943)	151,914	12,174	164,088
Shareholder funds in long-term insurance funds	39,181	-	-	-	39,181	-	39,181
Total shareholder funds	153,116	136,295	2,627	(100,943)	191,095	12,174	203,269
Adjustment onto regulatory basis							
Unallocated divisible surplus	83	-	-	-	83		
Adjustments to net assets	(11,067)	(52,236)	808	9,172	(53,323)		
Adjustments for non-fungible capital in subsidiary company	-	-	-	(11,699)	(11,699)		
Other	(5,000)	-	-	-	(5,000)		
Total available capital resources	137,132	84,059	3,435	(103,470)	121,156		

The tables presented above illustrate Group total available capital resources as measured for the purposes of inclusion in the related regulatory returns. As at 31 December 2011 they are stated after provision of a dividend of £12.5m and, as at 31 December 2010, after provision of a dividend of £12.2m, which were approved by the Chesnara plc Board subsequent to the respective year ends. Provision is not made for such dividends on the IFRS basis accordingly, it is necessary to make adjustment to shareholder funds outside long-term insurance funds as at 31 December 2011, as reflected above, in order to illustrate the relationship with the total shareholder equity included in the consolidated balance sheet prepared on the IFRS basis.

The following tables set out the principal forms of capital, which comprise (i) total available capital resources for the total UK Life Businesses, the total Swedish Life and Non-life Business and the total Group for regulatory purposes and (ii) total shareholder funds for the Group on the IFRS basis.

Available Capital Resources for Regulatory Purposes

	CA £000	S&P £000	Movestic £000	Group £000
Share capital	40,000	7,000	1,235	42,024
Share premium	-	-	-	42,523
Treasury shares	-	-	-	(217)
Other equity contributions	-	-	40,460	-
Capital redemption reserve	-	-	-	50
Foreign exchange translation reserve	-	-	-	6,928
Surplus in Long-term business fund	6,533	-	-	-
Surplus in With Profits funds	42,670	-	-	42,670
Unallocated divisible surplus	6,254	-	-	6,254
Retained earnings/(accumulated deficit)	9,370	-	(12,090)	12,238
Total	104,827	7,000	29,605	152,470

The following tables summarise the movement in the available capital resources of the constituent funds of the life businesses, as determined under the respective regulatory regimes for the year ended 31 December 2011

UK Businesses

Year ended 31 December 2011	Life business non-participating		With profits		Life business shareholder		Total life business
	CA £000	S&P £000	CA £000	S&P £000	CA £000	S&P £000	
At beginning of period	3,248	924	-	36,651	40,816	32,172	113,811
Surplus arising on alignment of actuarial reserving methodology	3,215	-	10,153	-	-	-	13,368
Surplus arising in the year, net of the effect of the item shown above	21,148	(1,502)	-	3,198	-	-	22,844
Net profit/(loss) arising in shareholder fund	-	-	-	-	636	168	804
Intrafund transfers	-	1,500	(1,078)	-	1,078	(1,500)	-
Transfer from long-term business fund to shareholder fund	(22,000)	-	-	-	22,000	-	-
Part VII Transfer	922	(922)	39,849	(39,849)	28,840	(23,840)	5,000
Proposed dividend	-	-	-	-	(44,000)	-	(44,000)
At end of period	6,533	-	48,924	-	49,370	7,000	111,827

Year ended 31 December 2010	Life business non-participating		With profits		Life business shareholder		Total life business
	CA £000	S&P £000	CA £000	S&P £000	CA £000	S&P £000	
At beginning of period	2,484	-	-	-	41,121	-	43,605
Arising on acquisition of S&P companies	-	924	-	36,651	-	32,011	69,586
Surplus arising in the year, net of the effect of the item shown above	26,764	-	-	-	-	-	26,764
Net profit/(loss) arising in shareholder fund	-	-	-	-	(305)	161	(144)
Transfer from long-term business fund to shareholder fund	(26,000)	-	-	-	26,000	-	-
Proposed dividend	-	-	-	-	(26,000)	-	(26,000)
At end of period	3,248	924	-	36,651	40,816	32,172	113,811

There were no changes in available capital resources for the year ended 31 December 2011 due to changes in management policy, regulatory changes or external factors. The effect of new business written in the period on available capital resources is not considered to be significant.

Swedish Business**Year ended 31 December 2011**

	Total £000
At beginning of period	23,321
Profit arising in the period	8,758
Equity contributions	5,265
Change in untaxed reserves	-
Change in intangible assets software assets	(7,438)
Change in deferred tax	(16)
Change in foreign exchange reserve	(285)
At end of period	29,605

Year ended 31 December 2010

	Total £000
At beginning of period	24,460
Loss arising in the period	(4,518)
Equity contributions	3,881
Change in untaxed reserves	990
Change in intangible assets software assets	(3,829)
Change in deferred tax	-
Change in foreign exchange reserve	2,337
At end of period	23,321

There were no changes in available capital resources for the period ended 31 December 2011 due to changes in management policy, regulatory changes or external factors

The capital position of the Swedish business is sensitive to changes in market conditions affecting the asset values and changes in the assumptions for calculating the insurance contract liabilities, as described in Note 33

Group Capital Adequacy

In accordance with the EU Insurance Groups Directive, the Group calculates the excess of the aggregate of regulatory capital employed over the aggregate minimum solvency requirement imposed by local regulators for all of the constituent members of the Group, all of which are based in Europe. The following sets out these calculations after the recognition of final dividends for the respective financial year, but approved by the Board and paid to Group shareholders after the respective dates

	31 December 2011 £m	2010 £m
Total available capital resources (CR)	152.5	121.2
Capital resources requirement		
CA	57.4	20.7
S&P	6.1	26.0
Movestic Liv	12.1	12.4
Modernac SA	1.5	1.5
Total (CRR)	77.1	60.6
Group solvency surplus (CR less CRR)	75.4	60.6
Group solvency ratio	198%	200%

The Group and its individually regulated life assurance businesses have complied with all externally and internally imposed capital requirements during the year

There has been no material change in the Group's management of capital during the period, except that, notwithstanding that there are no formal intragroup funding arrangements in place, the parent company continues to make additional capital contributions to support the target capital requirement of Movestic as set out in Section (c) above

Subject to the regulatory constraints and capital management policy of the Group as set out above, capital resources are available for use elsewhere in the Group

(e) Technical provisions net of reinsurance - UK businesses

(i) The technical provisions established to determine the regulatory capital resources as set out above are

	CA		SPI/SPP	
	31 December		31 December	
	2011	2010	2011	2010
	£000	£000	£000	£000
Unit-linked				
Insurance contracts	670,117	755,435	709,813	826,869
Investment contracts	563,576	602,208	105,547	108,862
Non-unit (sterling)				
Insurance contracts	17,541	22,206	17,502	-
Investment contracts	9,232	6,595	273	-
Non-participating				
Insurance contracts	139,984	123,991	11,056	23,778
Investment contracts	11,037	19,277	-	-
With DPF	-	-	340,915	359,209
Total	1,411,487	1,529,712	1,185,106	1,318,718

(ii) Process used to determine assumptions underlying the calculation of technical provisions

The process used to determine the assumptions underlying the calculation of technical provisions, which are checked to ensure that they are consistent with observed market prices or other published information, is intended to result in conservative estimates of the most likely, or expected, outcome. The assumptions which are considered include the expected number and timing of deaths, other claims and investment returns over the period of risk exposure. A reasonable allowance is made for the level of uncertainty within the contracts. Following the Part VII Transfer of the S&P business into CA, the process for setting assumptions underlying the establishment of technical provisions was reviewed in order to identify differences in methodology between CA and S&P. A number of differences were identified and the related assumptions were subsequently aligned, of which two had a significant impact as follows:

- The methodology for setting the valuation interest rates for the S&P With-Profits business previously involved setting the rate at a level that eliminated the need for Resilience Capital Requirement. Changing the approach results in lower technical provisions, offset by a broadly similar level of increase in the solvency capital requirement. The reduction in technical provisions resulted in a release to surplus of £12.4m before tax (£9.2m after tax), and
- The methodology for assessing the technical provisions relating to unit-linked business was aligned resulting in a reduction in surplus of £0.7m before tax (£0.5m after tax).

(iii) The basis for establishing technical provisions is

The technical provision for S&P with-profits contracts is based on the guaranteed minimum benefits and is calculated on a gross premium basis, by subtracting the present value of future premiums from the present value of future benefits payable under the policy, until it ceases at maturity, or death if earlier. The gross premium method makes explicit allowance for future policy maintenance costs. If the net present value of the future discounted cash flows is positive, no asset is recognised. Provision is not made for future bonuses as all bonuses are terminal bonuses.

For those classes of CA non-linked and unit-linked business where policyholders participate in profits, the liability is wholly reinsured to Guardian. When performing the gross liability adequacy test allowance is made for expected future bonuses paid by Guardian. This is based on the realistic liabilities of the underlying policies reinsured, as provided to CA by Guardian.

For all other classes of unit-linked and quasi-linked business, the technical provision consists of a provision equal to the value of the matching unit-linked assets plus an additional reserve calculated on a gross premium basis, by subtracting the present value of future premiums from the present value of future benefits payable under the policy, until it ceases at maturity, or death if earlier. The gross premium method makes explicit allowance for future policy maintenance costs. If the net present value of the future discounted cash flows is positive, no asset is recognised.

For immediate annuities in payment the technical provision is calculated as the discounted value of the expected future annuity payments under the policies, allowing for mortality, interest rates and expenses.

For all other classes of non-linked business the technical provision is calculated on a net premium basis, being the level of premium consistent with a premium stream, the discounted value of which, at the outset of the policy, would be sufficient to cover exactly the discounted value of the original guaranteed benefits at maturity, or at death if earlier, on the valuation basis. The provision is then calculated by subtracting the present value of future net premiums from the present value of the benefits guaranteed at maturity, or death if earlier, as a result of events up to the balance sheet date. Negative provisions do not arise under the net premium method, which makes no allowances for voluntary discontinuances by policyholders, and which only implicitly allows for future policy maintenance costs.

(iv) The principal assumptions underlying the calculation of the technical provisions are

Mortality

A base mortality table is selected which is most appropriate for each type of contract taking into account rates charged to CA by reinsurers. The mortality rates reflected in these tables are periodically adjusted, allowing for emerging experience and changes in reinsurer rates.

Morbidity

Morbidity tables are derived based on reinsurer tables. These are periodically adjusted to take into account emerging experience where appropriate.

Persistency

In general, no allowance is made for lapses or surrenders within the valuation of insurance contract liabilities, which is a prudent assumption.

For S&P unit-linked business, when assessing additional reserves for expenses and mortality risk, allowance has been made for lapses at a prudent level of 75% of the expected level as indicated by recent experience, the rates used being

Rate of lapse	31 December 2011		31 December 2010	
	SPI*	SPP*	SPI	SPP
Assurances				
Regular premium plans	3.375%	3.00%	3.75%	3.00%
Single premium contracts	3.75%	3.75%	3.75%	3.75%
Linked TIC*	-	7.50%	-	7.50%

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

Discount rates

CA uses appropriate rates of interest, for different product types, in discounting projected liabilities. As at 31 December 2011 for the material product types, these lay between 1.25% and 3.2% (31 December 2010 between 2.0% and 4.0%). The assumptions as at 31 December 2011 reflect the change to the S&P with-profits valuation interest rate as set out in section e (ii) above.

The rates of interest shown above have been set after consideration of the risk of default on non-government bonds by applying the following adjustments to the earned yield:

- i Risk reduction of 0.1% for supranational issuers such as the European Investment Bank,
- ii For other issuers, a portion of the excess yield above that available on government backed bonds, where the portion varies by credit rating, and
- iii An overall maximum margin over the equivalent term government fixed interest security of 2.0%

Credit rating	AAA	AA	A	BBB	BB	B	C+
Reduction	25%	30%	35%	40%	50%	65%	80%

For many of the life insurance products the interest rate risk is managed through asset/liability management strategies that seek to match the interest rate sensitivity of the assets to that of the underlying liabilities. The overall objective of these strategies is to limit the net change in value of assets and liabilities arising from interest rate movements.

Technical provisions for with-profits contracts are particularly sensitive to the interest rate used when discounting due to the existence of investment guarantees.

Renewal expenses and inflation

The renewal expenses assumed are based on the charges made to CA by its two third party insurance administration services providers, with appropriate margins. These are assumed to inflate at a mix of current inflation rates in the UK, being the Retail Price Index and the National Average Earnings Index. Explicit allowance is also made for those Governance expenses which are charged to the long-term funds.

Taxation

It has been assumed that current tax legislation and tax rates will not change.

The sensitivities of technical provisions and of components of capital to changes in assumptions are materially the same as those detailed in Note 33.

(f) Valuation of options and guarantees - UK Businesses

(i) Stochastically-valued options and guarantees

CA has a small number of guaranteed annuity options which are valued stochastically

(ii) Deterministically-valued options and guarantees

Timed Investment Funds

Certain investment funds, the 'Timed Investment Funds', carry a guarantee that the price at maturity date or death will not be less than the highest price attained between commencement and contract cessation. The cost of the guarantee can be managed by changing the investment policy adopted by each fund.

In respect of this guarantee

- (i) a monthly charge of $\frac{1}{48}\%$ of the fund value is made, and
- (ii) investment conditions were such as to require the establishment of a reserve of £279,605 as at 31 December 2011 (31 December 2010 £177,770)

The reserve for a given fund is derived as the discounted exposure at fund maturity date, the exposure being the difference between the guaranteed Timed Investment Fund value and the projected fund maturity value, with the latter projected value being derived assuming an immediate fall in value of equities within the fund of 26% and allowing for future investment returns, including presumed future equity investment return of 3.95% per annum.

Guaranteed Growth Fund

The Guaranteed Growth Fund (GGF) is a deposit-based contract which provides a return to policyholders that is linked to the average residential mortgage rate. However, the assets backing the contract are largely held as cash on deposit. There is, therefore, likely to be a shortfall between the return given to policyholders and the return earned on assets, and the value of this shortfall is reserved for.

Reserves for this product comprise a 'unit' reserve of the current value of the benefits held and a non-unit reserve for expenses.

The underlying fund at 31 December 2011 was £6.47m (31 December 2010 £7.5m). 717 policies invested in the fund (31 December 2010 799), of which 76 (31 December 2010 91) were paying premiums (for a total of approximately £25,500 per annum (31 December 2010 £31,000)).

For the valuation of contract liabilities the following are projected for each future year:

- the benefit outgo from the fund,
- the investment return from the assets backing the fund, and
- the difference between these items.

These differences are then discounted and summed to establish the GGF loss reserve.

The following assumptions are used for calculating the loss reserve:

Rate of growth of liability	3.5% pa
Rate of return on cash	0.5% pa
Discount rate	0.6% pa
Retirement age	90% of business with policyholders retiring at age 65
	10% of business with policyholders retiring at age 70
Terminations before retirement	3% pa

The reserve for the guarantee as at 31 December 2011 was £1.0m (31 December 2010 £1.4m).

Deferral of Retirement Ages

Policyholders with a Personal Retirement Account and Guaranteed Plus Retirement Plan may defer their retirement age on terms that may be beneficial to the policyholder. The cost of policyholders exercising this benefit is assessed using a prudent assumption as to the level of take-up of the option and deferral to age 75. The reserve for this option as at 31 December 2011 was £7.3m (31 December 2010 £6.0m).

Increase of Premiums on Personal Retirement Account

Policyholders with a Personal Retirement Account may increase their regular premium contribution on terms that can be beneficial to the policyholder. The cost of policyholders exercising this benefit is assessed using a prudent assumption as to the level of take-up of the option. The reserve for this option as at 31 December 2011 was £0.2m (31 December 2010 £0.3m).

Insurability Options

Policyholders with certain contracts have the right to increase their sum assured without underwriting, in certain circumstances
The reserve for this option as at 31 December 2011 was £0.3m (31 December 2010 £0.3m)

(g) Management of risk

The Group's approach to the management of risk which may have an impact on the measurement of capital resources and requirements, as measured on a regulatory basis, is set out in Notes 5 and 6 to these financial statements

33 Insurance contract provisions

(a) Analysis of insurance contract provisions by operating segment

	31 December 2011			31 December 2010		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
CA	1,042,030	214,719	827,311	1,129,558	228,276	901,282
S&P	1,078,873	6,008	1,072,865	1,210,810	7,692	1,203,118
Movestic	63,782	43,065	20,717	63,711	44,775	18,936
	2,184,685	263,792	1,920,893	2,404,079	280,743	2,123,336
Unallocated divisible surplus	6,254	-	6,254	83	-	83
Total insurance contract provisions	2,190,939	263,792	1,927,147	2,404,162	280,743	2,123,419
Current	185,261	16,719	168,542	176,678	15,642	161,036
Non-current	2,005,678	247,073	1,758,605	2,227,484	265,101	1,962,383
Total	2,190,939	263,792	1,927,147	2,404,162	280,743	2,123,419

The unallocated divisible surplus arises within the S&P operating segment

(b) Analysis of movement in insurance contract provisions

	2011			2010		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Balance at 1 January	2,404,079	280,743	2,123,336	1,077,033	236,866	840,167
Arising on business combination	-	-	-	1,218,031	21,873	1,196,158
Premiums received	82,668	11,748	70,920	80,163	12,936	67,227
Fees deducted	(27,815)	(3,446)	(24,369)	(27,449)	(3,850)	(23,599)
Reserves released in respect of benefits paid	(226,419)	(20,718)	(205,701)	(98,623)	(17,880)	(80,743)
Movements in provisions for contracts sold- Movestic						
-in current year	25,477	14,172	11,305	20,445	12,485	7,960
-in prior years	(16,212)	(9,134)	(7,078)	(10,213)	(8,673)	(1,540)
Investment return	(27,888)	(7,908)	(19,980)	135,244	16,008	119,236
Other movements	(29,205)	(1,665)	(27,540)	9,448	10,978	(1,530)
Balance at 31 December	2,184,685	263,792	1,920,893	2,404,079	280,743	2,123,336

Unallocated divisible surplus

	Year ended 31 December 2011 £000	Period ended 31 December 2010 £000
Balance at start of period	83	83
Transfer from profit and loss account	6,171	-
Balance at end of period	6,254	83

The closing balance comprises

With-profits policyholders' funds	293,474	299,667
With-profits long-term business provision	(340,915)	(359,209)
Balance before shareholder charge	(47,441)	(59,542)
Shareholder charge for cost of guarantees	53,695	59,625
	6,254	83

The whole of the shareholder charge for cost of guarantees for the period ended 31 December 2010 arose prior to the acquisition of S&P. The long-term business provision for contracts with discretionary participation features ('DPF') provides for the present value of projected payments to policyholders based on guaranteed minimum investment returns, mainly at 5 per cent per annum. Where the policyholders' funds for contracts with discretionary participation features is greater than the long-term business provision, S&P establishes an unallocated divisible surplus fund which is eliminated by recognising a shareholder charge for the cost of guarantees. This fund represents unallocated surplus of the with-DPF business that has not been allocated to a specific policyholder, which is eliminated by recognising a shareholder charge for the cost of guarantees.

The actual cost to shareholders, if any, depends on future investment performance of the with-DPF policyholders' assets. Changes in the value of policyholders' assets together with changes in the long-term business provision will result in further charges to, or release from, the profit and loss account until such time as the unallocated divisible surplus becomes positive (after releasing any accumulated shareholder charges to the profit and loss account).

(c) Process and basis for establishing insurance contract provisions

The process and basis for establishing insurance contract provision for the UK businesses are materially the same as those stated in Note 32 (e) (ii) and (iii) for establishing technical provisions.

Swedish business (Movestic)

Group Contracts are sold on an annual basis and the Individual Contracts include an option for Movestic to increase the premium on an ongoing basis. Therefore, for both Group and Individual Contracts, Movestic adopts a reserving approach that is similar to that of a non-life insurance business, with claim reserves projected using an estimated loss ratio with reference to previous loss development for earlier years.

The insurance contract provisions comprise unearned premium provisions, outstanding claims and associated reinsurance recoveries. Except for the income protection and the waiver of premium benefits within the Individual Contracts, provisions for the insurance contracts are not discounted because of the short-term nature of the liabilities, which are generally paid by the fourth year of development for a single accident year. Income protection and waiver of premium contracts are discounted at a rate equivalent to a high quality (i.e. AA rated) corporate bond.

(d) Assumptions used in establishing insurance contract provisions

The assumptions used in establishing insurance contract provisions for the UK businesses are materially the same as those set out in Note 32 (e) (iv) for establishing technical provisions.

Swedish business (Movestic)

Unearned premiums

Unearned premiums represent a proportion of the premium relating to policies that expire after the balance sheet date. Unearned premiums are calculated automatically by the underwriting system on a straight-line basis over the period of the policy.

Outstanding claims

Outstanding claims include notified claims, claims incurred as at the balance sheet date but not reported and an estimate of the external cost of handling the claims.

The key risk in respect of notified claims is that they are paid or handled inappropriately (for example invalid or fraudulent claims are paid). All claims handling is outsourced, although physical payment of the claims is performed by Movestic, which also inspects companies performing outsourced claims handling services on at least an annual basis. Management information is also reviewed on a regular basis to identify unusual trends in the payment of claims.

The estimation of claims incurred but not reported ('IBNR') is generally subject to a greater degree of uncertainty than the estimation of costs of settling claims already notified to Movestic, where more information about the claim event is generally available. In calculating the estimated cost of claims which have not been notified, Movestic uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

The most common methods that are used are the chain ladder method and the Bornhuetter-Ferguson method. Chain ladder methods involve the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected factors are applied to cumulative claims data for each accident year that is not fully developed to provide an estimated ultimate claims cost. The Bornhuetter-Ferguson method uses a combination of an initial estimate of the expected loss ratio and an estimate based on observed claims experience. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes.

The use of different approaches assists in giving greater understanding of the trends inherent in the data being projected and also assists in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the policies sold. Where deemed appropriate, an allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims. Although claim reserves are considered reasonable, on the basis of information available to Movestic, the ultimate liabilities will vary as a result of subsequent information and events.

Income protection and waiver of premium benefits within Individual Contracts

For reported claims, the liabilities are reviewed on a case by case basis. A discounted cash flow model is used to determine the liabilities and the key factors used are

- the probability of 'recovery' (i.e. return to work). The recovery rates depend on age, sex and length of time the claimant has been claiming the benefits,
- the mortality rate, and
- the discount rate

For unreported claims, the claims development table is used. The development of insurance liabilities provides a measure of Movestic's ability to estimate the ultimate value of claims. The top half of the table below illustrates how Movestic's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. An accident-year basis is considered to be the most appropriate for the business written by Movestic. The information is presented on both a gross and net of reinsurance basis.

Analysis of claims development – gross

	2006	2007	2008	2009	2010	2011
	£000	£000	£000	£000	£000	£000
Estimate of ultimates						
End of accident year	10,855	17,208	19,379	20,021	50,292	31,589
One year later	9,547	13,042	15,246	13,709	37,257	-
Two years later	7,710	11,184	13,905	13,672	-	-
Three years later	7,525	10,009	11,680	-	-	-
Four years later	6,578	9,533	-	-	-	-
Five years later	6,572	-	-	-	-	-
Current estimate of ultimate claims	6,572	9,533	11,680	13,672	37,257	31,589
Cumulative payments	(5,749)	(7,216)	(9,139)	(8,021)	(11,329)	(6,698)
In balance sheet	823	2,317	2,541	5,651	25,928	24,891
Provision for prior years						1,631
Liability in balance sheet						63,782

Analysis of claims development – net

	2006	2007	2008	2009	2010	2011
	£000	£000	£000	£000	£000	£000
Estimate of ultimates						
End of accident year	1,320	2,678	2,671	3,422	17,075	12,868
One year later	1,069	1,696	2,320	2,037	10,200	
Two years later	757	1,622	2,110	2,412	-	-
Three years later	753	1,467	1,694	-	-	-
Four years later	687	1,387	-	-	-	-
Five years later	-	-	-	-	-	-
Current estimate of ultimate claims	690	1,387	1,694	2,412	10,200	12,868
Cumulative payments	(583)	(1,004)	(1,329)	(1,379)	(2,893)	(1,823)
In balance sheet	107	383	365	1,033	7,307	11,045
Provision for prior years						475
Liability in balance sheet						20,717

e) Sensitivity to changes in assumptions
UK businesses (CA and S&P)

Assumptions are adjusted for changes in mortality, investment return, policy maintenance expenses and expense inflation to reflect anticipated changes in market conditions and market experience and price inflation

CA and S&P re-run their valuation models on various bases. An analysis of sensitivity around various scenarios provides an indication of the sensitivity of the estimates to changes in assumptions in respect of its life assurance contracts. The table presented below demonstrates the sensitivity of assets and insured liability estimates to particular movements in assumptions used in the estimation process. Certain variables can be expected to impact on life assurance liabilities more than others, and consequently a greater degree of sensitivity to these variables may be expected.

Impact on reported net of tax profits and equity to changes in key variables

	Change in variable	Change in net of tax profits and equity
	2011	2011
	%	£m
CA business		
Investment return	+1	(1.6)
Investment return	-1	2.6
Mortality/morbidity	+10	1.8
Mortality alone	+10	2.9
Morbidity alone	+10	(1.1)
Policy maintenance expenses	+10	(1.8)
S&P business		
Investment return	+1	4.6
Investment return	-1	(4.3)
Mortality	+10	0.7
Policy maintenance expenses	+10	(2.5)

The above sensitivities are calculated as an expected impact on IFRS-based profits, net of reinsurance and tax and the analysis has been prepared for a change in the stated variable, with all other assumptions remaining constant.

The sensitivities to the changes in investment returns are calculated taking into account the consequential changes to valuation assumptions.

The sensitivities to mortality and morbidity (critical illness) rates shown above are calculated on the assumption that there would be no consequential change in rates to policyholders. In practice, Group policy is to pass costs on to policyholders where it is contractually permitted and where it considers that the impact of the change is significant.

The main expense risk is that of unforeseen changes to third party administration expenses. The impact shown above quantifies a 10% increase in those expenses.

Swedish business (Movestic)

The key sensitivities in the measurement of the Group and Individual Contracts insurance claim reserves within Movestic are a movement in the loss ratio applied to earned premium and the foreign exchange risk arising on business written in Norway. In addition, for the income protection and the waiver of premium benefits within the Individual Contracts, the claims reserves are impacted by the discount rate used. The impact of these sensitivities is shown below.

	Pre-tax profit		Shareholders' equity	
	2011 £000	2010 £000	2011 £000	2010 £000
5% increase in loss ratio				
Gross before reinsurance	(1,875)	(1,721)	(1,382)	(1,361)
Net after reinsurance	(681)	(690)	(502)	(537)
5% decrease in loss ratio				
Gross before reinsurance	1,875	1,721	1,382	1,341
Net after reinsurance	681	690	502	537
10% increase in the Norwegian Krone				
Gross before reinsurance	(476)	(605)	(351)	(471)
Net after reinsurance	74	(100)	(55)	(78)
10% decrease in the Norwegian Krone				
Gross before reinsurance	476	605	351	471
Net after reinsurance	74	100	55	78
1% increase in discount rate				
Gross before reinsurance	1,772	1,986	1,306	1,547
Net after reinsurance	577	609	425	474
1% decrease in discount rate				
Gross before reinsurance	(2,014)	(2,920)	(1,484)	(2,275)
Net after reinsurance	(656)	(858)	(484)	(668)

34 Investment contracts at fair value through income and amounts deposited with reinsurer

Analysis by operating segment

	31 December 2011			31 December 2010		
	Investment Contract Liability £000	Amount Deposited With Reinsurer £000	Net £000	Investment Contract Liability £000	Amount Deposited With Reinsurer £000	Net £000
CA	599,495	28,031	571,464	646,609	30,264	616,345
S&P	105,547	-	105,547	108,862	-	108,862
Movestic	1,171,421	-	1,171,421	1,247,241	-	1,247,241
Total	1,876,463	28,031	1,848,432	2,002,712	30,264	1,972,448
Current	138,114	488	137,626	230,641	469	230,172
Non-current	1,738,349	27,543	1,710,806	1,772,071	29,795	1,742,276
Total	1,876,463	28,031	1,848,432	2,002,712	30,264	1,972,448

The fair values of the Groups' investment contract liabilities are determined according to a three-level valuation hierarchy which is explained in Note 26, as follows:

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Investment contract liabilities	1,763,332	113,131	-	1,876,463

The liabilities in Level 1 of the valuation hierarchy represent the fair value of unit-linked liabilities based on the aggregation of prices quoted in active markets of their associated assets.

The liabilities in Level 2 of the valuation hierarchy represent the fair value of non-linked and guaranteed income and growth bond liabilities valued using established actuarial techniques utilising market observable data for all significant inputs, such as investment yields.

35 Liabilities relating to policyholders' funds held by the Group

	31 December	
	2011 £000	2010 £000
Unit-linked		
Balance at 1 January	52,337	41,107
Deposits received	4,877	6,087
Fees deducted from account balances	(526)	(180)
Investment yield	(5,115)	9,913
Foreign exchange translation difference	(578)	4,321
Other movements	(1,915)	(8,911)
Balance at 31 December	49,080	52,337
Current	4,304	4,081
Non-current	44,776	48,256
Total	49,080	52,337

The fair values of the 'Liabilities relating to Policyholders' funds held by the Group' are determined according to a three-level valuation hierarchy, which is explained in Note 26

The fair value of these liabilities is based on the aggregation of prices quoted in active markets of their associated assets (Level 1), as disclosed in Note 26

36 Borrowings

Group	31 December	
	2011 £000	2010 £000
Bank loan	35,486	39,287
Amount due in relation to financial reinsurance	19,267	23,406
Other	-	1
Total	54,753	62,694
Current	12,472	13,107
Non-current	42,281	49,587
Total	54,753	62,694
Company	31 December	
	2011 £000	2010 £000
Bank loan	35,486	39,287
Current	5,819	3,807
Non-current	29,667	35,480
Total	35,486	39,287

The bank loan subsisting at 31 December 2011, which was drawn down on 20 December 2010 under a facility made available on 17 November 2010, is unsecured and is repayable in five increasing annual instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.25 percentage points above the London Inter-Bank Offer Rate and is repayable over a period which varies between one and six months at the option of the borrower.

The fair value of the bank loan at 31 December 2011 was £36,000,000 (31 December 2010 £40,000,000)

The fair value of amounts due in relation to financial reinsurance was £20,672,526 (31 December 2010 £24,590,409)

The fair value of other borrowings is not materially different from their carrying value

37 Provisions

Group	MECR £000	Other complaints redress £000	Onerous contracts £000	Unit pricing Redress £000	Total £000
Balance at 1 January 2010	55	148	545	704	1,452
Provisions made during the year	36	77	545	-	658
Provisions used during the year	(27)	(3)	(80)	(107)	(217)
Provisions reversed during the year	(3)	(1)	(10)	(57)	(71)
Balance at 31 December 2010	61	221	1,000	540	1,822
Provisions made during the year	25	6	1,500	-	1,531
Provisions used during the year	(17)	(15)	(119)	(1)	(152)
Provisions reversed during the year	-	(10)	(291)	(89)	(390)
Balance at 31 December 2011	69	202	2,090	450	2,811
31 December 2010					
Current	61	221	224	540	1,046
Non-current	-	-	776	-	776
Total	61	221	1,000	540	1,822
31 December 2011					
Current	69	202	315	450	1,036
Non-current	-	-	1,775	-	1,775
Total	69	202	2,090	450	2,811

The reversal of provisions during the year was credited to Operating Income as disclosed in Note 11

Company	Onerous contracts £000
Balance at 1 January 2010	-
Provisions made during the year	-
Provisions utilised during the year	-
Provisions reversed during the year	-
Balance at 31 December 2010	-
Provisions made during the year	1,500
Provisions used during the year	-
Provisions reversed during the year	-
Group balance at 31 December 2011	1,500
31 December 2010	
Current	-
Non-current	-
Total	-
31 December 2011	
Current	176
Non-current	1,324
Total	1,500

(a) Mortgage endowment complaints redress (MECR)

Insurance contract provisions include a mortgage endowment complaints reserve of £1 57m, in respect of the estimate of future redress for future claims by customers in respect of past misselling of mortgage endowment policies

As part of the redress process if the complaint is upheld an offer of redress is made to the customer where a loss has occurred. These offers are classified as payables for the first 6 months after they are made, subsequent to which they are reclassified as provisions, as the customer loses the right of redress at the level offered, but continues to have a right to enforce a claim, which the Group has the right to reassess. The provision is established at the original offer level.

(b) Other complaints redress

Offers of redress on complaints other than mortgage endowment related are classified in a manner similar to that detailed for MECR above.

(c) Onerous contracts

The Group and Company have a number of onerous operating lease contracts that have been entered into historically, whose activity and current status is described in Note 50 Operating Leases. Given the terms of the contracts the Group and company have created onerous contract provisions for anticipated future net costs. Over the terms of the contracts these provisions take account of the contract terms, future payments and future mitigating income from sublets, contract by contract, to create a view as to the Group's and Company's exposure.

These provisions comprise three components: provision for vacant properties, provision for properties due to become empty at the end of their subleases, and provision for future under-recoveries of costs on subleases entered into.

The provision made during the year of £1.5m relates to the potential cost of vacant space within the Harbour House Head Office in Preston. The Company has a lease arrangement until mid-2019 for the entire building although it only occupies a small proportion. The majority of the building is sub-let. The additional provision represents the future contractual costs not expected to be covered by sub-let income when existing tenants vacate the building. The critical factor to which the value is sensitive is the assumed level of re-letting income. The maximum exposure based on no re-letting income is £2.3m.

(d) Unit pricing redress

A data error in the indexation of the costs of underlying financial assets in certain of the unit-linked funds was identified during 2007. As a result, the amount of capital gains chargeable to tax had been overestimated for unit pricing purposes and greater deductions were made from these funds than would otherwise have been the case. A provision of £2,994,000 was established at 31 December 2007 to cover the estimated cost of redress and the administration costs of performing the review. Associated recoveries from third parties were established at £494,000 as at the same date and these were included in 'Insurance and other receivables' as at 31 December 2007.

The provision established at 31 December 2007 was estimated insofar as it was not based on specific individual calculations for each policyholder, but was established on the basis of generic data relating to the amount of payments to policyholders who exited from the funds in specific periods, of the unit prices ruling in those periods and of an estimate of the extent of the pricing error pertaining to those periods. Subsequently, a revised estimate was established at £2,794,000 based on specific policy-by-policy data. The residual provision of £450,000 as at 31 December 2011 continues to be subject to uncertainty until all of the associated administration procedures are completed. The Directors consider that the methodology used to establish the provision continues to be prudent.

(e) Sharesave Plan

A Sharesave Plan was launched during October 2011. The level of contributions combined with the closing share price, result in an immaterial level of company liability and hence no provision has been raised.

38 Deferred tax liabilities

Total deferred tax liabilities comprise

	31 December	
	2011	2010
	£000	£000
CA, S&P and Other Group Activities	14,623	19,747
Movestic	767	779
Total	15,390	20,526

CA, S&P and Other Group Activities

(a) Recognised deferred tax assets and liabilities

As at 31 December 2011

	Assets	Liabilities	Net
	£000	£000	£000
Insurance contract provisions	-	4,706	(4,706)
Contingency reserve	-	-	-
Intangible assets	-	-	-
Deferred acquisition costs	-	1,319	(1,319)
Acquired value of in-force business	-	6,159	(6,159)
Deferred income	2,322	-	2,322
Unrealised gains	-	4,682	(4,682)
Property and equipment	16	95	(79)
Total	2,338	16,961	(14,623)
Current	-	-	-
Non-current	2,338	16,961	(14,623)
Total	2,338	16,961	(14,623)

As at 31 December 2010

	Assets	Liabilities	Net
	£000	£000	£000
Insurance contract provisions	-	5,918	(5,918)
Contingency reserve	-	220	(220)
Intangible assets	-	-	-
Deferred acquisition costs	-	1,692	(1,692)
Acquired value of in-force business	-	8,007	(8,007)
Deferred income	2,939	-	2,939
Unrealised gains	-	6,776	(6,776)
Property and equipment	22	95	(73)
Total	2,961	22,708	(19,747)
Current	-	-	-
Non-current	2,961	22,708	(19,747)
Total	2,961	22,708	(19,747)

(b) Unrecognised deferred tax assets

	31 December	
	2011	2010
	£000	£000
Tax losses arising in pensions business	34,180	34,635
Unrelieved expenses	90,695	102,157
Capital losses	2,166	5,424
Total	127,041	142,216

(i) A deferred tax asset has not been recognised in respect of tax losses arising on pension business, because it is uncertain whether future taxable profit arising on pensions business will be available against which the Group can utilise the benefits therefrom

(ii) A deferred tax asset has not been recognised in respect of unrelieved expenses, because it is not probable that there will be a sufficient level of taxable income arising from income and gains on financial assets, so that the Group can utilise the benefits therefrom

Normally, deferred tax would be recognised in respect of the taxable element of unrealised gains or losses on equities. However, the current expectation is that the Life businesses will continue to be taxed on a basis equivalent to surplus less franked investment income. As any unrealised amounts have already been included in surplus, the theoretical taxable temporary difference is expected to have no practical consequences for tax payable at the time the assets are disposed of. Accordingly no amount is provided.

(c) Movement in temporary differences during the year

	Year ended 31 December 2011			Year ended 31 December 2010			
	Balance at 1 January £000	Recognised in year £000	Balance at 31 December £000	Balance at 1 January £000	Arising on acquisition £000	Recognised in year £000	Balance at 31 December £000
Insurance contract provisions	(5,918)	1,212	(4,706)	(4,596)	(2,686)	1,364	(5,918)
Contingency reserves	(220)	220	-	-	(220)	-	(220)
Intangible assets							
Deferred acquisition costs	(1,692)	373	(1,319)	(2,009)	-	317	(1,692)
Acquired value of in-force business	(8,007)	1,848	(6,159)	(6,506)	(2,455)	954	(8,007)
Deferred income	2,939	(617)	2,322	3,449	-	(510)	2,939
Property and equipment	(73)	(6)	(79)	47	(95)	(25)	(73)
Unrealised gains on financial assets	(6,776)	2,094	(4,682)	-	(6,776)	-	(6,776)
Total	(19,747)	5,124	(14,623)	(9,615)	(12,232)	2,100	(19,747)

Movestic

(a) Recognised deferred tax assets and liabilities

As at 31 December 2011	Assets £000	Liabilities £000	Net £000
Intangible assets			
Fair value adjustments on acquisition	-	561	(561)
Corporation tax recoverable	-	-	-
Equity accounting for associates	-	222	(222)
Property and equipment	16	-	16
Total	16	783	(767)
Current	16	783	(767)
Non-current	-	-	-
Total	16	783	(767)

As at 31 December 2010	Assets £000	Liabilities £000	Net £000
Intangible assets			
Fair value adjustments on acquisition	-	564	(564)
Corporation tax recoverable	50	-	50
Equity accounting for associates	-	270	(270)
Property and equipment	5	-	5
Total	55	834	(779)
Current	55	834	(779)
Non-current	-	-	-
Total	55	834	(779)

(b) Unrecognised deferred tax assets (gross)

	31 December	
	2011	2010
	£000	£000
Corporation tax recoverable – not recognised	734	191
Total	734	191

(c) Movement in temporary differences during the year

	Year ended 31 December 2011			
	Balance at 1 January 2011	Recognised through income	Foreign exchange translation difference	Balance at 31 December 2011
	£000	£000	£000	£000
Fair value adjustment on acquisition	(564)	(5)	8	(561)
Corporation tax recoverable	50	(50)	-	-
Equity accounting for associates	(270)	45	3	(222)
Property & equipment	5	11	-	16
Total	(779)	1	11	(767)

	Year ended 31 December 2010				
	Balance at 1 January 2010	Arising on acquisition	Recognised through income	Foreign exchange translation difference	Balance at 31 December 2010
	£000	£000	£000	£000	£000
Fair value adjustment on acquisition	(512)	-	(2)	(50)	(564)
Other intangible assets	(91)	80	19	(8)	-
Corporation tax recoverable	188	(206)	47	21	50
Equity accounting for associates	(76)	-	(177)	(17)	(270)
Untaxed reserves	(260)	-	270	(10)	-
Property & equipment	-	-	5	-	5
Total	(751)	(126)	162	(64)	(779)

39 Reinsurance payables

	31 December	
	2011	2010
	£000	£000
Payable to reinsurers		
Payables in respect of insurance contracts	15,060	21,548
Payables in respect of investment contracts	105	129
Reinsurer's share of deferred acquisition costs and claims deposits	1,171	633
Total	16,336	22,310
Current	16,336	22,310
Non-current	-	-
Total	16,336	22,310

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

40 Payables related to direct insurance and investment contracts

	31 December 2011			31 December 2010		
	Gross £000	Reinsurance £000	Net £000	Gross £000	Reinsurance £000	Net £000
Accrued claims	30,784	4,667	26,117	28,744	3,678	25,066
Intermediaries' liabilities	2,378	-	2,378	1,502	-	1,502
Policyholder premium liabilities	5,610	-	5,610	3,748	-	3,748
Other	1,879	-	1,879	1,814	-	1,814
Total	40,651	4,667	35,984	35,808	3,678	32,130
Current	40,651	4,667	35,984	35,808	3,678	32,130
Non-current	-	-	-	-	-	-
Total	40,651	4,667	35,984	35,808	3,678	32,130

The carrying value of payables related to the direct insurance and investment contracts is a reasonable approximation of fair value

41 Deferred income

	31 December	
	2011 £000	2010 £000
Balance at 1 January	11,647	13,132
Release to income	(1,647)	(1,485)
Balance at 31 December	10,000	11,647
Current	1,147	1,245
Non-current	8,853	10,402
Total	10,000	11,647

The release to income is included in Fees and Commission Income (see Note 9)

42 Income tax liabilities

	31 December	
	2011 £000	2010 £000
Income tax liabilities, which are all current, comprise		
Corporation tax – CA S&P and Other Group Activities	947	6,468
Corporation tax - Movestic	-	455
	947	6,923

The carrying value of income tax liabilities is a reasonable approximation of fair value

43 Other payables**Group**

	31 December	
	2011	2010
	£000	£000
Accrued expenses	6,524	6,620
VAT	360	321
Employee tax	421	374
Policyholder property fund creditors	-	1,713
Other	17,112	7,895
Total	24,417	16,923
Current	24,417	16,923
Non-current	-	-
Total	24,417	16,923

Company

	31 December	
	2011	2010
	£000	£000
Accrued expenses	1,481	1,090
Amounts due to Group companies	266	41
Other	340	871
Total	2,087	2,002
Current	2,087	2,002
Non-current	-	-
Total	2,087	2,002

The carrying value of other payables is a reasonable approximation of fair value

44 Share capital and share premium**Group**

	31 December 2011		31 December 2010	
	Number of shares	Share capital £000	Number of shares	Share capital £000
Share capital	115,047,662	42,024	115,047,662	42,024
		Share Premium £000		Share Premium £000
		42,523		42,523

The number of shares in issue at the balance sheet date included 199,011 shares held in treasury (31 December 2010 199,011)

Share capital for the Group includes the impact of "reverse acquisition accounting" associated with Chesnara plc's acquisition of Countrywide Assured Life Holdings Limited ('CALH') from Countrywide plc ('Countrywide') on 24 May 2004. As a result of this, included within share capital of the Group is £41,501,000, which represents the amount of issued share capital of Countrywide Assured Life Holdings Limited (the legal subsidiary) immediately before the acquisition. As a result of this accounting treatment the Group share capital differs from the Chesnara plc company position, which is set out below

The following sets out changes in Group share capital and share premium during the year ended 31 December 2010

	Issued share capital		Share premium
	Number	£000	£000
Balance at 1 January 2010	104,588,785	41,501	20,458
Issue and allocation on 26 November 2010 arising from non pre-emptive placing	10,458,877	523	20,394
Expenses incurred in connection with non pre-emptive placing	-	-	(962)
Arising on sale of treasury shares	-	-	2,633
Balance at 31 December 2010	115,047,662	42,024	42,523

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On 26 November 2010 Chesnara plc launched and completed a bookbuilt, non pre-emptive placing of 10,458,877 new ordinary shares of 5p each with institutional investors and thereby raised gross proceeds of £20,917,754 (£19,955,622 net of expenses of £962,132)

During November 2010 the Chesnara plc sold 2,897,183 ordinary shares held in treasury, thereby raising gross proceeds of £5,794,366 the profit arising of £2,632,670 arising on the sale has been credited to the share premium account

There were no changes in Group share capital or share premium during the year ended 31 December 2011

Company	31 December 2011		31 December 2010	
	Number of shares	Share capital £000	Number of shares	Share capital £000
Authorised				
Ordinary shares of 5p each	201,000,000	10,050,000	201,000,000	10,050,000
Issued				
Ordinary shares of 5p each	115,047,662	5,752,383	115,047,662	5,752,383
Share premium		Share Premium £000		Share Premium £000
		42,523		42,523

The number of shares in issue at the balance sheet date included 199,011 shares held in treasury (31 December 2010 199,011)

The following sets out changes in share capital and share premium during the year ended 31 December 2010

	Issued share capital		Share premium
	Number	£000	£000
Balance at 1 January 2010	104,588,785	5,229	20,458
Issue and allocation on 26 November 2010 arising from non pre-emptive placing	10,458,877	523	20,394
Expenses incurred in connection with non pre-emptive placing	-	-	(962)
Arising on sale of treasury shares	-	-	2,633
Balance at 31 December 2010	115,047,662	5,752	42,523

Details of the changes are set out in the 'Group' section above There were no changes in share capital or share premium during the year ended 31 December 2011

45 Treasury shares

Group and Company

	31 December	
	2011	2010
	£000	£000
Balance at 1 January	217	3,379
Sales during the year	-	(3,162)
Balance at 31 December	217	217

During November 2010, the Company sold 2,897,183 ordinary shares held in treasury for a total consideration of £5,794,366 The cost of those shares was £3,161,696 and the consequential profit arising on sale of £2,632,670 has been credited to the share premium account

46 Other reserves

Group

	31 December	
	2011	2010
	£000	£000
Capital redemption reserve	50	50
Foreign exchange translation reserve	6,928	7,666
Balance at 31 December	6,978	7,716

Company

	31 December	
	2011	2010
	£000	£000
Capital redemption reserve	50	50

47 Retained earnings

Group

	31 December	
	2011	2010
	£000	£000
Retained earnings attributable to equity holders of the parent company comprise		
Balance at 31 January	111,223	97,744
Profit for the year	25,665	29,819
Dividends		
Final approved and paid for 2009	-	(10,453)
Interim approved and paid for 2010	-	(5,887)
Final approved and paid for 2010	(12,174)	-
Interim approved and paid for 2011	(6,833)	-
Balance at 31 December	117,881	111,223

The interim dividend in respect of 2010, approved and paid in 2010 was paid at the rate of 5 8p per share. The final dividend in respect of 2010, approved and paid in 2011, was paid at the rate of 10 6p per share so that the total dividend paid to the equity shareholders of the Parent Company in respect of the year ended 31 December 2010 was made at the rate of 16 4p per share.

The interim dividend in respect of 2011, approved and paid in 2011, was paid at the rate of 5 95p per share to equity shareholders of the Parent Company registered at the close of business on 9 September 2011, the dividend record date.

A final dividend of 10 9p per share in respect of the year ended 31 December 2011 payable on 22 May 2012 to equity shareholders of the Parent Company registered at the close of business on 13 April 2012, the dividend record date, was approved by the Directors after the balance sheet date. The resulting total final dividend of £12 5m has not been provided for in these financial statements and there are no income tax consequences.

The following summarises dividends per share in respect of the year ended 31 December 2011 and 31 December 2010.

	2011	2010
	p	p
Interim – approved and paid	5 95	5 80
Final - proposed	10 90	10 60
Total	16 85	16 40

Company

	Year ended 31 December	
	2011	2010
	£000	£000
Balance at 1 January	74,021	65,555
Profit for the year	21,634	24,806
Dividends paid		
Final approved and paid for 2009	-	(10,453)
Interim approved and paid for 2010	-	(5,887)
Final approved and paid for 2010	(12,174)	-
Interim approved and paid for 2011	(6,833)	-
Balance at 31 December	76,648	74,021

Details of dividends, approved and paid, are set out in the 'Group' section above.

48 Employee benefit expense

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Year ended 31 December	
					2011 £000	2010 £000
Wages and salaries	1,395	402	6,464	669	8,930	7,975
Social security costs	191	54	2,031	105	2,381	2,113
Pension costs-defined contribution plans	171	79	1,130	81	1,461	1,387
Total	1,757	535	9,625	855	12,772	11,475

Average number of employees

Company	22	19
Subsidiaries	134	131
Total	156	150

UK-based employees

UK-based employees are employed by companies within the CA, S&P and Other Group Activities segment

At the end of May 2005 the Group allowed eligible employees to enter a pension scheme known as the Chesnara plc Stakeholder Scheme, on a basis where employer contributions are made to the scheme at the same rate as would be payable had their membership of their predecessor scheme continued, provided that employee contributions also continued to be made at the same rate. The employee may opt to request the Company to pay employer contributions into a personal pension plan, in which instance, employer contributions will be made on the same terms as for the Chesnara plc Stakeholder Scheme.

Employees who joined the Group as a result of the acquisition of CWA Life Holdings plc continue to be members of the pre-existing defined contribution Group Personal Pension scheme, to which employer and employee contributions are made.

The Group has, for the period covered by these financial statements, only made contributions to defined contribution plans to provide pension benefits for employees upon retirement and, otherwise, has no residual obligation or commitments in respect of any defined benefit scheme.

The Group has established frameworks for approved and unapproved discretionary share option plans which may, at the discretion of the Remuneration Committee, be utilised for granting options to Executive Directors and to other Group employees. No options have been granted in relation to these plans. A Sharesave Plan was launched to all UK employees of the Group in October 2011.

Swedish-based employees

The Swedish Business participates in a combined defined benefit and defined contribution scheme operated by Forsäkringsbranschen Pensionskassa (the 'Scheme'). The Scheme is a multi-employer scheme with participants including other Swedish insurance companies not related to the Group. The Scheme provides, for those born in 1978 or earlier, benefits to employees which are linked to their final salary and to the amount of time working for companies which are members of the Scheme. For those employees born in 1979 or later, the scheme operates on a defined contribution basis.

Assets and liabilities are held on a pooled basis and are not allocated by the Trustee to any individual company. Consequently, reliable information is not available to account for the Scheme as a defined benefit scheme and therefore, in accordance with IAS 19 Employee Benefits, the Scheme is accounted for as a defined contribution scheme.

Contributions to the Scheme are based on the funding recommendations of the independent qualified actuary. The contributions paid to the Scheme subsequent to the acquisition of the Swedish Business on 23 July 2009 and up to 31 December 2010, totalled SEK 3,728,000 (£322,500). During 2011 further contributions of SEK 3,239,053 (£311,142) were made.

The employers within the Scheme are responsible collectively for the funding of the Scheme as a whole and therefore in the event that other employers exit from the Scheme, remaining employers would be responsible for the ongoing funding. The collective nature of the Scheme results in all participating entities sharing the actuarial risk associated with the Scheme.

Forsäkringsbranschens Pensionskassa ("FPK") issues an audited annual report (under Swedish law-limited IFRS) each year. The last available published report was as at 31 December 2010.

The annual report states that the Scheme's surplus is SEK 1,525m (£146 5m) as at 31 December 2010 SEK 1,025m (£88 9m) as at 31 December 2009. As at 31 December 2010, the fund had assets under management of SEK 9 6bn (£900 1m), 142 employer insurance companies participating in the Scheme and 21,700 insured individuals.

From the available information, it cannot be determined with certainty as to whether there would be a change in the required employer funding rate, although there is currently no deficit in the Scheme.

49 Earnings per share

Earnings per share are based on the following

	Year ended 31 December	
	2011	2010
Profit for the year attributable to shareholders (£000)	25,665	29,819
Weighted average number of ordinary shares	114,848,651	102,642,750
Basic earnings per share	22 35p	29 05p
Diluted earnings per share	22 35p	29 05p

The weighted average number of ordinary shares in respect of the year ended 31 December 2011 is based upon 115,047,662 shares in issue less 199,011 own shares held in treasury.

The weighted average number of ordinary shares in respect of the year ended 31 December 2010 is based on 104,588,785 shares in issue at the beginning of the period less 3,096,194 own shares held in treasury and on 115,047,662 shares in issue at the end of the period, less 199,011 own shares held in treasury, taking account of the timing of the issue of new shares and of the sale of treasury shares.

There were no share options outstanding during the year ended 31 December 2010 or during the year ended 31 December 2011. Accordingly, there is no dilution of the average number of ordinary shares in issue in respect of these periods.

Earnings per share for the year ended 31 December 2010 includes the impact of £15,864,000 of profit recognised on the acquisition of S&P and of the Aspis business. Excluding this item, both the basic and diluted earnings per share for the year ended 31 December 2010 would have been 13 60p.

50 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows

	31 December 2011			31 December 2010		
	Non-investment properties	Motor vehicles	Total	Non-investment properties	Motor vehicles	Total
	£000	£000	£000	£000	£000	£000
Operating lease rentals						
Less than one year	1,306	74	1,380	891	33	924
Between one and two years	1,363	64	1,427	831	23	854
Between two and five years	2,887	37	2,924	2,106	11	2,117
More than five years	1,226	-	1,226	1,723	-	1,723
Expenses recognised in the year in respect of operating leases	1,312	65	1,377	1,514	43	1,557

The Group leases a property under an operating lease which it part occupies in the course of its day-to-day business. The lease expires on 22 July 2019, with an option to renew the lease after that date. Lease payments are reviewed every five years to reflect market rentals. The lease does not include any contingent rentals. The Group also leases a number of office premises which are no longer used for Group purposes. The leases typically run for approximately a further 5 years after the balance sheet date. Lease payments are reviewed every five years to reflect market rentals. None of the leases includes contingent rentals. These leased properties are sublet by the Group. Sublease payments as detailed below are expected to be received during the following years. The Group has recognised a provision of £2,090,000 at 31 December 2011 (31 December 2010: £1,000,000) in respect of these leases (see Note 37).

Leases as lessor

The Group subleases out both investment properties from its investment portfolio and the office premises which are no longer used for Group purposes. The future minimum lease payments under non-cancellable leases are as follows:

	31 December 2011			31 December 2010		
	Investment Properties	Non-Investment Properties	Total	Investment Properties	Non-Investment Properties	Total
	£000	£000	£000	£000	£000	£000
Sub lease rentals						
Less than one year	7,692	382	8,074	7,661	331	7,992
Between one and two years	7,577	372	7,949	7,646	313	7,959
Between two and five years	18,696	911	19,607	20,005	939	20,944
More than five years	24,771	767	25,538	29,965	1,112	31,077
Rental income recognised in the year	8,108	465	8,573	1,020	398	1,418
Repairs and maintenance costs recognised in the year	1,162	154	1,316	35	93	128

51 Contingencies

Past sales

The Group has made provision for the estimated cost of settling complaints in respect of past sales of endowment mortgages. Although the provisions are regularly reviewed, the final outcome could be different from the provisions established as these costs cannot be calculated with certainty and are influenced by external factors beyond the control of management, including future regulatory actions.

52 Capital commitments

There were no capital commitments as at 31 December 2011 or as at 31 December 2010.

53 Related party transactions

(a) Identity of related parties

The shares of the Company were widely held and no single shareholder exercised significant influence or control over the Company

The Company has related party relationships with

- (i) key management personnel who comprise only the Directors of the Company,
- (ii) its subsidiary companies,
- (iii) its associated company, and
- (iv) other companies over which the Directors have significant influence

(b) Related party transactions

(i) Transactions with key management personnel

Key management personnel comprise of the Directors of the Company. There are no executive officers other than certain of the Directors. Key management compensation is as follows

	Year Ended 31 December	
	2011	2010
	£000	£000
Short-term employee benefits	970	937
Post-employment benefits	132	132
Long-term employment benefits	-	502
Total	1,102	1,571

In addition to their salaries the Company also provides non-cash benefits to Directors, and contributes to a post employment defined contribution pension plan on their behalf

The following amounts were payable to Directors in respect of bonuses and incentives

	Year Ended 31 December	
	2011	2010
	£000	£000
Annual bonus scheme	112	204
Long-term incentive plan	415	485
Discretionary bonus	238	325
Total	765	1,014

These amounts have been included in Accrued Expenses as disclosed in Note 43

The amounts payable under the annual bonus scheme were payable within one year

As at 31 December 2011, no amounts were payable within one year in respect of the long-term incentive plan (as at 31 December 2010 £70,467)

As at 31 December 2011, £150,000 of the amount payable in respect of discretionary bonuses was payable within one year (as at 31 December 2010 £nil)

(ii) Transactions with subsidiaries

The Company undertakes centralised administration functions, the costs of which it charges back to its operating subsidiaries. The following amounts which effectively comprised a recovery of expenses at no mark up were credited to the income statement of the Company for the respective periods

	Year ended 31 December	
	2011	2010
	£000	£000
Recovery of expenses	2,775	2,158

In addition, the Company has made equity contributions to its subsidiary, Movestic Livförsäkring AB as follows

	Year ended 31 December	
	2011	2010
	£000	£000
Equity contribution - Movestic Livförsäkring AB	5,265	3,881

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(iii) *Transactions with associate*

Movestic Livförsäkring AB and its associate Modernac SA

	Year ended 31 December	
	2011	2010
	£000	£000
Reinsurance premiums paid	(8,863)	(6,619)
Reinsurance recoveries received	4,167	4,343
Reinsurance commission received	878	677
	<u>(3,818)</u>	<u>(1,599)</u>
Amounts outstanding as at balance sheet date	<u>(1,450)</u>	<u>364</u>

Movestic Livförsäkring AB had the following amounts outstanding at the balance sheet date

	31 December 2011	
	Amounts owed by Associate	Amounts owed to Associate
	£000	£000
Modernac S A	<u>658</u>	<u>2,108</u>

	31 December 2010	
	Amounts owed by Associate	Amounts owed to Associate
	£000	£000
Modernac S A	<u>364</u>	<u>1,698</u>

These amounts have been included in other payables as disclosed in Note 43 and other receivables as disclosed in Note 27

54 Group entities

Control of the Group

The issued share capital of Chesnara plc the Group parent company is widely held, with no single party able to control 20% or more of such capital or of the rights which such ownership confers

Group Subsidiary Companies

Name	Country of Incorporation or Registration	Ownership Interest 31 December		Functional Currency
		2011	2010	
Countrywide Assured plc	England & Wales	100% of all share capital (1)	100% of all share capital (1)	Sterling
Countrywide Assured Life Holdings Limited	England & Wales	100% of all share capital	100% of all share capital	Sterling
Countrywide Assured Services Limited	England & Wales	100% of all share capital (1)	100% of all share capital (1)	Sterling
Countrywide Assured Trustee Company Limited	England & Wales	100% of all share capital (1)	100% of all share capital (1)	Sterling
CWA Trustee Company Limited	England & Wales	100% of all share capital (2)	100% of all share capital (2)	Sterling
CWA Life Holdings plc	England & Wales	100% of all share capital	100% of all share capital	Sterling
Movestic Livförsäkring AB	Sweden	100% of all share capital – acquired 23/7/09	100% of all share capital – acquired 23/7/09	Swedish Krona
Modernac S A	Luxembourg	49% of all share capital (3)	49% of all share capital (3)	Swedish Krona
AkademikerRådgivning i Sverige AB	Sweden	91% of all share capital (3)	91% of all share capital (3)	Swedish Krona
Movestic Kapitalförvaltning AB	Sweden	100% of all share capital (3)	100% of all share capital (3)	Swedish Krona
Save & Prosper Insurance Limited	England & Wales	100% of all share capital	100% of all share capital	Sterling
Save & Prosper Pensions Limited	England & Wales	100% of all share capital (4)	100% of all share capital (4)	Sterling
Amber Lily (Jersey) Limited	Jersey	(5)	100% of all share capital	Sterling

(1) Held indirectly through Countrywide Assured Life Holdings Limited

(2) Held indirectly through CWA Life Holdings plc – dissolved on 20 March 2012

(3) Held indirectly through Movestic Livförsäkring AB

(4) Held indirectly through Save & Prosper Insurance Limited

(5) Wound up in July 2011

EEV SUPPLEMENTARY INFORMATION

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- Page 142 Summarised EEV consolidated income statement**
- Page 143 Summarised EEV consolidated balance sheet**
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Directors' Responsibility Statement in respect of the EEV Basis Supplementary Information

The Directors have chosen to prepare supplementary information in accordance with the EEV Principles issued in May 2004 by the CFO Forum of European Insurance Companies and expanded by the Additional Guidance on European Embedded Value Disclosures issued in October 2005

When compliance with the EEV Principles is stated, those principles require the Directors to prepare supplementary information in accordance with the Embedded Value Methodology ('EVM') contained in the EEV Principles and to disclose and explain any non-compliance with the EEV guidance included in the EEV Principles

In preparing the EEV supplementary information, the Directors have

- Prepared the supplementary information in accordance with the EEV Principles,
- Identified and described the business covered by the EVM,
- Applied the EVM consistently to the covered business,
- Determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently,
- Made estimates that are reasonable and consistent, and
- Described the basis on which business that is not covered business has been included in the supplementary information, including any material departures from the accounting framework applicable to the Group's financial statements

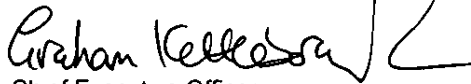
By order of the Board



Chairman

Peter Mason

29 March 2012



Chief Executive Officer

Graham Kettleborough

29 March 2012

EEV Supplementary Information

Independent Auditor's Report

Independent Auditor's Report to the Directors of Chesnara plc on the European Embedded Value (EEV) Basis Supplementary Information

We have audited the EEV Basis Supplementary Information of Chesnara plc for the year ended 31 December 2011 which comprise the summarised EEV consolidated income statement, the summarised EEV consolidated balance sheet and the related notes 1 to 10. The financial reporting framework that has been applied in their preparation is the EEV Principles issued in May 2004 by the CFO Forum of European Insurance Companies and expanded by the Additional Guidance on European Embedded Value Disclosures issued in October 2005 ("the EEV Principles").

We have reported separately on the statutory group financial statements of Chesnara plc for the year ended 31 December 2011. The EEV Basis Supplementary Information should be read in conjunction with the financial statements prepared on an IFRS basis.

This report is made solely to the company's directors in accordance with our engagement letter and solely for the purpose of expressing an opinion on whether the EEV Basis Supplementary Information has been properly prepared in accordance with the EEV principles. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in an independent auditors' report and for no other purpose. To the fullest extent permitted by law, we will not accept or assume responsibility to anyone other than the company, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibility Statement for in respect of the EEV Basis Supplementary Information, the directors are responsible for the preparation of the EEV Basis Supplementary Information. Our responsibility is to audit and express an opinion on the EEV Basis Supplementary Information in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

Scope of the audit of the EEV Basis Supplementary Information

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

Opinion

In our opinion, the EEV Basis Supplementary Information for the year ended 31 December 2011 has been properly prepared in accordance with the EEV principles using the methodology and assumptions set out on pages 144 to 157.

Deloitte LLP *Deloitte LLP*

Chartered Accountants

Manchester, United Kingdom

29 March 2012

Supplementary Information – European Embedded Value Basis

Summarised EEV consolidated income statement

	Note	Year ended 31 December	
		2011 £000	2010 £000
Operating profit of covered business	6	15,314	6,364
Other operational result	6	(2,811)	(6,114)
Operating profit		12,503	250
Variation from longer-term investment return	6	(16,929)	26,941
Effect of economic assumption changes	6	(32,479)	(4,453)
(Loss)/profit before tax and before exceptional item		(36,905)	22,738
Exceptional items			
Profit recognised on business combinations	6	-	41,043
Effect of modelling adjustments	6	(10,328)	13,239
(Loss)/profit before tax		(47,233)	77,020
Tax	6	7,123	(4,014)
(Loss)/Profit for the year		(40,110)	73,006
Attributable to			
Shareholders		(40,110)	73,124
Non-controlling interest		-	(118)
		(40,110)	73,006
Earnings per share			
Based on profit for the period attributable to shareholders	9	(34.92)p	71.24p
Diluted earnings per share			
Based on profit for the period attributable to shareholders	9	(34.92)p	71.24p

The notes and information on pages 144 to 157 form part of this supplementary information

EEV Supplementary Information

Summarised EEV consolidated balance sheet

Supplementary Information – European Embedded Value Basis

Summarised EEV consolidated balance sheet

	Note	31 December	
		2011 £000	2010 £000
Assets			
Value of in-force business	5,8	199,560	265,415
Deferred acquisition costs arising on unmodelled business		834	616
Acquired value of customer relationships		694	983
Software assets		-	6,829
Property and equipment		385	671
Investment in associate		1,613	1,783
Reinsurers' share of insurance contract provisions		230,891	247,432
Amounts deposited with reinsurers		26,637	29,002
Investment properties		132,128	120,820
Financial assets			
Equity securities at fair value through income		404,431	492,321
Holdings in collective investment schemes at fair value through income		2,917,935	3,177,265
Debt securities at fair value through income		330,610	319,516
Insurance and other receivables		30,799	33,234
Prepayments		3,234	3,908
Policyholders' funds held by the Group		49,080	52,337
Derivative financial instruments		10,308	9,707
Total financial assets		3,746,397	4,088,288
Reinsurers' share of accrued policy claims		4,667	3,678
Income taxes		6,932	5,486
Cash and cash equivalents		195,920	194,134
Assets held for sale		-	380
Total assets		4,546,658	4,965,517
Liabilities			
Liabilities held for sale		-	380
Bank overdraft		834	2,154
Insurance contract provisions		2,149,676	2,370,948
Unallocated divisible surplus		15,644	14,930
Financial liabilities			
Investment contracts at fair value through income		1,887,261	2,010,954
Borrowings		61,765	70,148
Derivative financial instruments		144	137
Liabilities relating to policyholders' funds held by the Group		49,080	52,337
Total financial liabilities		1,998,250	2,133,576
Provisions		2,811	1,822
Deferred tax liabilities		3,080	5,578
Reinsurance payables		15,883	21,830
Payables related to direct insurance and investment contracts		40,651	35,808
Income taxes		923	6,923
Other payables		24,217	16,932
Total liabilities		4,252,169	4,610,881
Net assets		294,489	354,636
Equity			
Share capital		42,024	42,024
Share premium		42,523	42,523
Treasury shares		(217)	(217)
Foreign exchange reserve		14,026	15,056
Other reserves		50	50
Retained earnings		196,083	255,200
Total shareholders' equity	5,8	294,489	354,636

The notes and information on pages 144 to 157 form part of this supplementary information

Approved by the Board of Directors on 29 March 2012 and signed on its behalf by

Ken Romney

Graham Kettleborough

Notes to the EEV Supplementary Information

1 Basis of preparation

This section sets out the detailed methodology followed for producing these Group financial statements which are supplementary to the Group's primary financial statements which have been prepared in accordance with International Financial Reporting Standards ('IFRS'). These financial statements have been prepared in accordance with the European Embedded Value ('EEV') principles issued in May 2004 by the European CFO Forum and supplemented by Additional Guidance on EEV Disclosures issued by the same body in October 2005. The principles provide a framework intended to improve comparability and transparency in embedded value reporting across Europe.

In order to improve understanding of the Group's financial position and performance, certain of the information presented in these financial statements is presented on a segmental basis: the business segments are the same as those described in Note 8 to the primary financial statements prepared on the IFRS basis. The S&P business was acquired on 20 December 2010; accordingly, the results relating thereto for the year ended 31 December 2010, as reflected in segmental analysis are for a period of 11 days.

2 Covered business

The Group uses EEV methodology to value the bulk of its long-term business (the 'covered business'), which is written primarily in the UK and Sweden, as follows:

- (i) for the UK businesses (comprising the CA and S&P segments), the covered business comprises the business's long-term business being those individual life insurance, pensions and annuity contracts falling under the definition of long-term insurance business for UK regulatory purposes. The operating expenses of the holding company, Chesnara plc, are treated as an integral part of the UK covered business.
- (ii) for the Swedish business (comprising the Movestic segment), the covered business comprises the business's long-term pensions and savings unit-linked business. Group life and sickness business, including waiver of premium and non-linked individual life assurance policies are not included in the covered business: the result relating to this business is established in accordance with IFRS principles and is included within 'other operational result' within the consolidated summarised income statement.

On 31 December 2011, under the provisions of Part VII of the Financial Services and Markets Act 2000 ('The Part VII Transfer'), the long-term business funds and certain of the shareholder funds of the companies comprising the S&P business segment, being Save & Prosper Insurance Limited and Save & Prosper Pensions Limited, were transferred to Countrywide Assured plc ('CA'), the principal operating subsidiary company of the UK Business. As a result, the whole of the covered business of the UK Business subsists within CA with effect from that date. The transfer gives rise to benefits which have been recognised within the covered business, including:

- i) Determination of the capital requirements of the covered business on a combined basis, and
- ii) Other financial synergies. The impact of these benefits has been recognised in the cash flow projections relating to the value of business in force as at 31 December 2011 and in the income statement for the year then ended.

Under EEV principles no distinction is made between insurance and investment contracts, as there is under IFRS, which accords these classes of contracts different accounting treatments.

3 Methodology

(a) Embedded Value

Overview

Shareholders' equity comprises the embedded value of the covered business, together with the net equity of other Group companies, including that of the holding company which is stated after writing down fully the carrying value of the covered business.

The embedded value of the covered business is the aggregate of the shareholder net worth ('SNW') and the present value of future shareholder cash flows from in-force covered business (value of in-force business) less any deduction for (i) the cost of guarantees within S&P, and (ii) the cost of required capital. It is stated after allowance has been made for aggregate risks in the business. SNW comprises those amounts in the long-term business, which are either regarded as required capital or which represent surplus assets within that business.

EEV Supplementary Information

Notes to the EEV supplementary information

New business

CA and S&P

Much of the covered business is in run-off and is, accordingly, substantially closed to new business. The UK businesses do still sell a small amount of new business but, overall, the contribution from new business to the results established using EEV methodology is not material. Accordingly, not all of those items related to new business values, which are recommended by the EEV guidelines, are reported in this supplementary financial information.

Movestic

New business, in relation to the pensions and savings covered business is taken as all business where contracts are signed and new premiums paid during the reporting period, for both new policies and premium increases on existing business, but excluding standard renewals. New business premium volumes as disclosed in the Swedish Business Review on page 17 are not consistent with this definition, as they include non-covered business. New business premium volume for the period which is consistent with the analysis of profit in Note 6 is as follows:

Pensions and savings covered business	31 December	
	2011	2010
New business premium income*	£46.9m	£52.3m

* Basis: annualised premium plus 1/10 single premium translated into sterling at the 2011 average rate of SEK 10 4102 = £1 (2010: SEK 11 1249 = £1)

The new business contribution has been assessed as at the end of the period, using opening assumptions.

Value of in-force business

The cash flows attributable to shareholders arising from in-force business are projected using best estimate assumptions for each component of cash flow.

The present value of the projected cash flows is established by using a discount rate which reflects the time value of money and the risks associated with the cash flows which are not otherwise allowed for. There is a deduction for the cost of holding the required capital, as set out below.

In respect of Movestic there are certain non-linear exposures of shareholder profit to asset returns arising from variable administrative fees and variable investment fund rebates which are modelled deterministically rather than stochastically.

Participating business

For participating business within the S&P business the Group maintains the assets and liabilities in separate with-profits funds. In accordance with the Principles and Practices of Financial Management, in the first instance all benefits, which in some cases include guaranteed minimum investment returns, are paid from policyholder assets within the fund. The participating business effectively operates as a smoothed unit linked contract subject to minimum benefit guarantees. The with-profits funds contain assets which are attributable to shareholders as well as those attributable to policyholders. Assets attributable to shareholders can only be released from the fund subject to meeting prudent liabilities in respect of minimum benefits and the fractional cost of this restriction has been allowed for in determining the value of the in-force business.

Fundamentally, the value of the with-profits in-force business is driven by the fund management charges levied on the policyholder assets, subject to the effect of minimum benefit guarantees.

Taxation

The present value of the projected cash flows arising from in-force business takes into account all tax which is expected to be paid under current legislation, including tax which would arise if surplus assets within the covered business were eventually to be distributed. For the UK businesses, allowance has been made for planned reductions in corporation tax, as announced by the Chancellor in his budget speech on 23 March 2011. No allowance has been made for the changes announced by the Chancellor in his budget speech on 21 March 2012. The value as at 31 December 2010 was not restated to allow for this announcement. No allowance has been made for changes to insurance taxation expected to take effect from 1 January 2013. It is not anticipated that these changes, which are still being finalized, will materially impact the embedded value.

The value of the in-force business has been calculated on an after-tax basis and is grossed up to the pre-tax level for presentation in the income statement. The amount used for the grossing up is the amount of shareholder tax, excluding those payments made on behalf of policyholders, being policyholder tax in the UK businesses and yield tax in Movestic.

Cost of capital

The valuation approach used requires consideration of 'frictional' costs of holding shareholder capital. In particular, the cost of tax on investment returns and the impact of investment management fees can reduce the face value of shareholder funds. For CA, the expenses relating to corporate governance functions eliminate any taxable investment return in shareholder funds, while investment management fees are not material. The cost of holding the required capital to support the covered business (see 3(b) below) is reflected as a deduction from the value of in-force business.

Financial options and guarantees

CA

The principal financial options and guarantees in CA are (i) guaranteed annuity rates offered on some unit-linked pension contracts and (ii) a guarantee offered under Timed Investment Funds that the unit price available at the selected maturity date (or at death, if earlier) will be the highest price attained over the policy's life. The cost of these options and guarantees has been assessed, in principle, on a market-consistent basis, but, in practice, this has been carried out on approximate bases, which are appropriate to the level of materiality of the results.

S&P

The principal financial options and guarantees in S&P are (i) minimum benefits payable on maturity or retirement for participating business, (ii) the option to extend the term under the Personal Retirement Account contract on terms potentially beneficial to the policyholder, (iii) the option to increase premiums under the Personal Retirement Account contract on terms potentially beneficial to the policyholder, and (iv) certain insurability options offered.

The cost of guaranteeing a minimum investment return on participating contracts, being the only material guarantee, has been assessed on a market-consistent basis. For the remaining options and guarantees the cost has been assessed on an approximate basis, appropriate to the level of materiality of the results.

Movestic

In respect of Movestic, some contracts provide policyholders with an investment guarantee, whereby a minimum rate of return is guaranteed for the first 5 years of the policy, at a rate of 3% per annum. The value of the guarantee is ignored as it is not material to the results.

Allowance for risk

Allowance for risk within the covered business is made by

- (i) setting required capital levels by reference to the assessment of capital needs made by the directors of the regulated entities within the respective businesses (the 'Directors'),
- (ii) setting the risk discount rate, which is applied to the projected cash flows arising on the in-force business, at a level which includes an appropriate risk margin (see 3(c) below), and
- (iii) explicit allowance for the cost of financial options and guarantees and, where appropriate, for reinsurer default.

Internal group company

EEV Guidance requires that actual and expected profit or loss incurred by an internal group company on services provided to the covered business should be included in allowances for expenses. The covered business in Movestic is partially managed by an internal group fund management company. Not all relevant future income and expenses of that company have been included in the calculation of embedded value. However, the effect is not considered to be material.

Consolidation adjustments

Consolidation adjustments have been made to

- (i) eliminate the investment in subsidiaries,
- (ii) allocate group debt finance against the segment to which it refers, and
- (iii) allocate corporate expenses as explained in note 4(d) below.

EEV Supplementary Information

Notes to the EEV supplementary information

(b) Level of Required Capital

The level of required capital of the covered business reflects the amount of capital that the Directors consider necessary and appropriate to manage the respective businesses. In forming their policy the Directors have regard to the minimum statutory requirements and an internal assessment of the market, insurance and operational risks inherent in the underlying products and business operations. The capital requirement resulting from this assessment represents

- (i) for the UK business, 162.5% of the long-term insurance capital requirement ('LTICR') together with 100% of the resilience capital requirement ('RCR'), as determined by the regulations of the Financial Services Authority in the UK, and
- (ii) for Movestic, 150% of the regulatory solvency requirement as determined by Finansinspektionen in Sweden

Prior to the Part VII Transfer CA and S&P operated with separate capital requirements. For CA this was 150% of the LTICR together with 100% of the RCR, whilst S&P operated with a requirement of 175% of the LTICR together with 100% of the RCR. These requirements were used in calculating the value as at 31 December 2010.

The required level of regulatory capital is provided as follows:

- (i) for the UK businesses, by the retained surplus within the long-term business fund and by share capital and retained earnings within the shareholder funds of the regulated entities, and
- (ii) for Movestic, by share capital and additional equity contributions from the parent company, net of the accumulated deficit in the regulated entity, these components together comprising shareholder's equity.

Movestic is reliant, in the short to medium term, on further equity contributions from the parent company, Chesnara plc.

(c) Discount Rates

The discount rates are a combination of the reference rate and a risk margin. The reference rate reflects the time value of money and the risk margin reflects any residual risks inherent in the covered business and makes allowance for the risk that future experience will differ from that assumed. In order to reduce the subjectivity when setting the discount rates, the Group has decided to adopt a 'bottom up' market-consistent approach to allow explicitly for market risk.

Using the market-consistent approach, each cash flow is valued at a discount rate consistent with that used in the capital markets. In accordance with this, equity-based cash flows are discounted at an equity discount rate and bond-based cash flows at a bond discount rate. In practice a short-cut method known as the 'certainty equivalent' approach has been adopted. This method assumes that all cash flows earn the reference rate of return and are discounted at the reference rate.

In general, and consistent with the market's approach to valuing financial instruments for hedging purposes, the reference rate is based on swap yields. These have been taken as mid swap yields available in the market at the end of the reporting period.

Allowance also needs to be made for non-market risks. For some of these risks, such as mortality and expense risk, it is assumed that the shareholder can diversify away any uncertainty where the impact of variations in experience on future cash flows is symmetrical. For those risks that are assumed to be diversifiable, no adjustment has been made. For any remaining risks that are considered to be non-diversifiable risks, there is no risk premium observable in the market and, therefore, a constant margin has been added to the risk margin. The margin added reflects the assumed risks within the businesses and is 50 basis points for CA and S&P (2010: 50 basis points), and 70 basis points for Movestic (2010: 70 basis points). This margin is applied to the basic value of in-force business prior to the deductions for financial options and guarantees and the cost of required capital.

(d) Analysis of Profit

The contribution to operating profit, which is identified at a level which reflects an assumed longer-term level of investment return, arises from three sources:

- (i) new business,
- (ii) return from in-force business, and
- (iii) return from shareholder net worth.

Additional contributions to profit arise from:

- (i) variances between the actual investment return in the period and the assumed long-term investment return, and
- (ii) the effect of economic assumption changes.

The contribution from new business represents the value recognised at the end of each period in respect of new business written in that period, after allowing for the cost of acquiring the business, the cost of establishing the required technical provisions and after making allowance for the cost of capital, calculated on opening assumptions.

The return from in-force business is calculated using closing assumptions and comprises

- (i) the expected return, being the unwind of the discount rates over the period applied to establish the value of in-force business at the beginning of the period,
- (ii) variances between the actual experience over the period and the assumptions made to establish the value of business in force at the beginning of the period, and
- (iii) the net effect of changes in future assumptions, made prospectively at the end of the period, from those used in establishing the value of business in force at the beginning of the period, other than changes in economic assumptions

The contribution from shareholder net worth comprises the actual investment return on residual assets in excess of the required capital

(e) Assumption Setting

There is a requirement under EEV methodology to use best estimate demographic assumptions and to review these at least annually with the economic assumptions being reviewed at each reporting date. The current practice is detailed below.

Each year the demographic assumptions are reviewed as part of year-end processes and hence were reviewed in December 2011.

The detailed projection assumptions, including mortality, morbidity, persistency and expenses reflect recent operating experience. Allowance is made for future improvement in annuitant mortality based on experience and externally published data. Favourable changes in operating experience, particularly in relation to expenses and persistency, are not anticipated until the improvement in experience has been observed. Holding company expenses (for the Chesnara Group such expenses relate largely to listed company functions) are allocated to the CA covered business, except for a relatively small amount of expense, which is assumed to relate to business development functions, to reflect effort expended within the holding company relating to the transaction of life assurance business through the subsidiary companies. Hence the expense assumptions used for the cash flow projections include the full cost of servicing this business.

The economic assumptions are reviewed and updated at each reporting date based on underlying investment conditions at the reporting date. The assumed discount rates and inflation rates are consistent with the investment return assumptions.

In addition, the demographic assumptions used at 31 December 2011 are considered to be best estimate and, consequently, no further adjustments are required. In respect of the CA Business, the assumptions required in the calculation of the value of the annuity rate guarantee on pension business have been set equal to best-estimate assumptions.

(f) Pension Schemes

In Movestic, where the Group participates in a combined defined benefit and defined contribution scheme, future contributions to the scheme are reflected in the value of in-force business.

(g) Financial Reassurance

In respect of Movestic the Group uses financial reinsurance to manage the impact of its new business strain. Whilst this liability is valued at fair value within the IFRS statements, allowing for an option which provides the Group with the right to settle the liability early on beneficial terms, when valuing the shareholder net worth within the EEV it is considered more appropriate to assess this liability at a higher cost, reflecting the likelihood of the option not being utilised.

EEV Supplementary Information

Notes to the EEV supplementary information

4 Assumptions

(a) Investment Returns

Investment returns are assumed to be equal to the reference rate, as covered in note 3(c) above. For linked business, the aggregate return has been determined by the reference rate less an appropriate allowance for tax. For S&P and Movestic, a full swap curve is used; the rates quoted are presented as indicative spot rates whilst for CA business, a single rate is applied for all durations.

	CA		S&P		Movestic	
	31 December	31 December	31 December	31 December	31 December	31 December
	2011	2010	2011	2010	2011	2010
Investment Return*	1.9%	3.1%				
5 year			1.58%	2.69%	2.04%	3.18%
10 year			2.36%	3.70%	2.37%	3.61%
15 year			2.79%	4.09%	2.42%	3.80%
20 year			3.00%	4.15%	2.39%	3.94%
25 year			3.14%	4.12%	2.39%	3.94%
30 year			3.20%	4.04%	2.39%	3.94%
Inflation - RPI	2.4%	2.95%	2.4%	2.95%	2.3%	2.3%

(b) Actuarial Assumptions

The demographic assumptions used to determine the value of the in-force business have been set at levels commensurate with the underlying operating experience identified in the periodic actuarial investigations.

Certain products contain provisions that provide for the charges in respect of morality risk to be reviewable. In these cases assumptions for future experience and charges are assumed to be in linked and assumptions are only updated when decisions have been made regarding product charges, so as not to capitalise any benefits that may not accrue to shareholders.

(c) Taxation

Projected tax has been determined assuming current tax legislation and rates continue unaltered, except where future tax rates or practices have been announced. The tax rates for CA and S&P allow for changes in Corporation Tax as announced by the Chancellor in his budget speech of 23 March 2011, so reflect a reduction from the current rate of 26% to 23% in steps of 1%. If allowance had only been made for the enacted change to 25%, the embedded value would have been £1m lower as at 31 December 2011. The tax rates do not allow for further changes announced by the Chancellor in his budget speech on 21 March 2012 for a reduction in the UK Corporation Tax rate to 24% from April 2012 and to reduce thereafter by annual decrements of 1% to 22%.

(d) Expenses

The expense levels are based on internal expense analysis investigations and are appropriately allocated to the new business and policy maintenance functions.

For CA and S&P, these have been determined by reference to

- (i) the outsourcing agreements in place with our third-party business process administrators,
- (ii) anticipated revisions to the terms of such agreements as they fall due for renewal, and
- (iii) corporate governance costs relating to the covered business.

For Movestic, these have been determined by reference to

- (i) an expense analysis in which all expenses were allocated to covered and uncovered business, with expenses for the covered business being allocated to acquisition and maintenance activities, and
- (ii) expense drivers, being, in relation to acquisition costs, the number of policies sold during the period and, in relation to maintenance expenses, the average number of policies in force during the period.

The expense assumptions for CA also include the expected future holding company expenses which will be recharged to the worldwide covered business.

EEV Guidance requires that no allowance is made for future productivity improvements in expense assumptions. For the UK business, for expenses relating to policy administration this requirement is met. As the UK company is essentially closed to new business, those governance expenses which are not immediately variable can reasonably be expected to reduce through management control in the future, though the timing and scale of such reductions is not fixed. A prudent estimate of the reductions has been allowed for within the expense assumptions.

(e) Discount Rate

An explicit constant margin is added to the reference rate shown in (a) above to cover any remaining risks that are considered to be non-market, non-diversifiable risks, as there is no risk premium observable in the market. This margin, which is 50 basis points for CA and S&P (as at 31 December 2010 50 basis points) and 70 basis points for Movestic (as at 31 December 2010 70 basis points), gives due recognition to the relative sensitivity of the value of in-force business to the discount rate for the different businesses, and to the fact that

a) For CA

- (i) the covered business is substantially closed to new business,
- (ii) there is no significant exposure in the with profit business, which is wholly reinsured,
- (iii) expense risk is limited as a result of the outsourcing of substantially all policy administration and related functions to third-party business process administrators, and
- (iv) for much of the life business the Group has the ability to vary risk charges made to policyholders

b) For S&P

- (i) the covered business is substantially closed to new business, and
- (ii) expense risk is limited as a result of the outsourcing of substantially all policy administration and related functions to third-party business process administrators

c) For Movestic

- (i) the covered business remains open,
- (ii) the in-force business is relatively small,
- (iii) reinsurance is used to significantly reduce insurance risks, and
- (iv) a number of the risks provide diversification benefits within the Chesnara Group, in relation to reinsurance counterparties, market exposures and policyholder populations

EEV Supplementary Information

Notes to the EEV supplementary information

5 Analysis of shareholders' equity

31 December 2011

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Regulated entities					
Capital required	28,701	59,237	18,131	-	106,069
Restricted capital	-	6,254	-	-	6,254
Free surplus	37,147	24,531	11,474	-	73,152
Regulatory capital resource of regulated entities	65,848	90,022	29,605	-	185,475
Adjustments to shareholder net worth					
Deferred acquisition costs	-	-	(53,293)	-	(53,293)
Financial reinsurance liability	-	-	(5,499)	-	(5,499)
Software asset adjustment	-	-	(6,744)	-	(6,744)
Adjustment to provisions on insurance	-	2,913	-	-	2,913
Unallocated divisible surplus	-	(15,686)	-	-	(15,686)
Other asset / liability adjustments	308	-	7,784	-	8,092
Adjusted shareholder net worth	66,156	77,249	(28,147)	-	115,258
In-force value of covered business	50,941	20,816	127,803	-	199,560
Embedded value of regulated entities	117,097	98,065	99,656	-	314,818
Less amount financed by borrowings	-	(35,486)	-	-	(35,486)
Embedded value of regulated entities attributable to shareholders	117,097	62,579	99,656	-	279,332
Net equity of other Group companies	-	-	1,332	13,825	15,157
Total shareholders' equity	117,097	62,579	100,988	13,825	294,489

31 December 2010

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Regulated entities					
Capital required	30,250	45,598	18,585	-	94,433
Restricted capital	9,750	83	-	-	9,833
Free surplus	30,064	24,066	4,736	-	58,866
Regulatory capital resource of regulated entities	70,064	69,747	23,321	-	163,132
Adjustments to shareholder net worth					
Deferred acquisition costs	-	-	(51,243)	-	(51,243)
Financial reinsurance liability	-	-	(6,145)	-	(6,145)
Software asset adjustment	-	-	(6,888)	-	(6,888)
Adjustment to provisions on insurance	-	2,773	-	-	2,773
Unallocated divisible surplus	-	(14,930)	-	-	(14,930)
Deferred tax	-	(630)	-	-	(630)
Ineligible surplus	-	5,000	-	-	5,000
Other asset / liability adjustments	284	-	15,537	-	15,821
Adjusted shareholder net worth	70,348	61,960	(25,418)	-	106,890
In-force value of covered business	79,360	41,307	144,748	-	265,415
Embedded value of regulated entities	149,708	103,267	119,330	-	372,305
Less amount financed by borrowings	-	(39,287)	-	-	(39,287)
Embedded value of regulated entities attributable to shareholders	149,708	63,980	119,330	-	333,018
Net equity of other Group companies	-	-	1,307	20,311	21,618
Total shareholders' equity	149,708	63,980	120,637	20,311	354,636

EEV Supplementary Information
Notes to the EEV supplementary information

During the year ended 31 December 2011, adjustments to Movestic shareholder net worth have been amended in respect of the treatment of software assets. Whereas, for all reporting periods up to 31 December 2010, software assets were reflected within shareholder net worth at their net written down value on an IFRS basis, subsequent to that date such assets are reflected on a fully amortised basis within shareholder net worth and there is a corresponding reduction in the assumption regarding future maintenance expenses in the calculation of the value in force. There has been an associated net reduction of £0.8m in net embedded value during the year ended 31 December 2011 as the two adjustments do not fully offset. Prior periods have not been re-stated to reflect this change.

EEV free surplus, as shown above, represents the balance of the shareholder's net worth above the capital required. The movement in free surplus is analysed as follows:

31 December 2011

	CA £000	S&P £000	Movestic £000	Total £000
Free surplus at beginning of the year	30,064	24,066	4,736	58,866
Dividend paid to parent	(26,000)	-	-	(26,000)
Contribution from parent	-	-	5,265	5,265
Synergies and adjustments arising from the Part VII transfer, including adjustments to surplus	10,144	1,501	-	11,645
Surplus / (deficit) arising in the year	21,784	(3,344)	1,019	19,459
Adjustments to required capital	1,155	2,308	454	3,917
Free surplus at end of the year	37,147	24,531	11,474	73,152

31 December 2010

	CA £000	S&P £000	Movestic £000	Total £000
Free surplus at beginning of the year	32,027	-	6,275	38,302
Dividend paid to parent	(28,500)	-	-	(28,500)
Contribution from parent	-	-	3,881	3,881
Free surplus arising on acquisition	-	23,905	-	23,905
Synergies and adjustments arising from the Part VII transfer, including adjustments to surplus	-	-	-	-
Surplus / (deficit) arising in the year	26,459	161	(5,020)	21,600
Adjustments to required capital	1,870	-	(400)	1,470
Adjustments to restricted capital	(1,792)	-	-	(1,792)
Free surplus at end of the year	30,064	24,066	4,736	58,866

The movement in the in-force value of covered business comprises:

Year ended 31 December 2011

	CA £000	S&P £000	Movestic £000	Total £000
Value at beginning of period	79,360	41,307	144,748	265,415
Amount charged to operating profit	(28,419)	(20,491)	(16,945)	(65,855)
Value at end of period	50,941	20,816	127,803	199,560

Year ended 31 December 2010

	CA £000	S&P £000	Movestic £000	Total £000
Value at beginning of period	85,559	-	112,753	198,312
Amount arising on acquisition	-	42,391	-	42,391
Amount (charged)/credited to operating profit	(6,199)	(1,084)	31,995	24,712
Value at end of period	79,360	41,307	144,748	265,415

S&P

On 20 December 2010, the Group drew down £40m on a bank loan facility, in order to part fund the acquisition of Save & Prosper Insurance Limited and its subsidiary, Save & Prosper Pensions Limited (together 'S&P'). This effectively represented a purchase of part of the underlying value in force of S&P by way of debt finance and it follows that the embedded value of the UK regulated entity is not attributable to equity shareholders of the Group to the extent of the outstanding balance on the loan account at each balance sheet date. In accordance with this, £4.0m of the loan was repaid on 20 December 2011, leaving principal outstanding at that date of £36m.

EEV Supplementary Information

Notes to the EEV supplementary information

Movestic

The adjusted shareholder net worth of Movestic is that of the regulated entity, which includes also the net worth attributable to the non-covered business within the regulated entity. Accordingly, for Movestic, the embedded value of regulated entities comprises the embedded value of covered business and the value of the non-covered business of the regulated entity, the latter component being valued on an IFRS basis.

6 Summarised statement of changes in equity and analysis of profit/(loss)

(a) Changes in equity may be summarised as

Statement of changes in equity

	Year ended 31 December		Year ended 31 December	
	2011	2011	2010	2010
	£000	£000	£000	£000
Shareholders' equity at beginning of the year		354,636		262,585
(Loss)/profit for the period attributable to shareholders before modelling adjustments	(29,782)		59,885	
Effect of modelling adjustments	(10,328)		13,239	
(Loss)/profit for the year		(40,110)		73,124
Issue of new shares				
Share capital		-		523
Share premium		-		22,065
Sale of treasury shares		-		3,162
Foreign exchange reserve movement		(1,030)		9,517
Dividends paid		(19,007)		(16,340)
Shareholders' equity at end of the year		294,489		354,636

During 2010, Movestic introduced a new system for modelling value-in-force, which provided the capability for (i) more accurately modelling the impact on commission paid of policies becoming paid-up and (ii) for determining future fee income on a case-by-case investment mix basis, whereas previously it had been necessary to adopt high-level estimates.

During 2011

- (i) a further improvement was introduced into the Movestic modelling system in respect of projected fee income from investment contracts where the fee is premium based, such contracts hitherto not being differentiated and this resulted in an increase in embedded value of £2.7m,
- (ii) Movestic modelling errors were detected relating to certain parameters and discounting periods specified at inception of the new model and the correction of these has given rise to a reduction in embedded value of £12.4m, and
- (iii) S&P model enhancements giving rise to a further £0.6m reduction in EEV, account for the balance of the total modelling adjustments of £(10.3)m for the year ended 31 December 2011, as presented above.

The European Embedded Value principles issued by the European CFO Forum in May 2004, together with supplementary guidance, do not provide specific guidance on how the errors identified in (ii) above should be treated and presented.

The effect of the modelling adjustments is classified as an exceptional item in the consolidated income statement and is presented after operating profit.

EEV Supplementary Information
Notes to the EEV supplementary information

(b) The profit/(loss) for the year before modelling adjustments is analysed as

Year ended 31 December 2011

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Covered business					
New business contribution	398	42	3,074	-	3,514
Return from in-force business					
Expected return	4,072	257	5,902	-	10,231
Experience variances	5,203	(157)	(4,922)	-	124
Operating assumption changes	(2,397)	372	(592)	-	(2,617)
Return on shareholder net worth	1,126	2,936	-	-	4,062
Operating profit of covered business	8,402	3,450	3,462	-	15,314
Variation from longer-term investment return	3,066	(1,762)	(18,233)	-	(16,929)
Effect of economic assumption changes	(8,754)	(23,706)	(19)	-	(32,479)
Profit/(loss) on covered business before tax	2,714	(22,018)	(14,790)	-	(34,094)
Tax thereon	(11,804)	17,455	-	-	5,651
(Loss)/profit on covered business after tax	(9,090)	(4,563)	(14,790)	-	(28,443)
Results of non-covered business and of other group companies					
Profit/(loss) before tax	-	-	308	(3,119)	(2,811)
Tax	-	-	280	1,192	1,472
Loss after tax	(9,090)	(4,563)	(14,202)	(1,927)	(29,782)

The results of the non-covered business and of other group companies before tax and before exceptional item are presented as 'other operational result' in the consolidated income statement

Year ended 31 December 2010

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Covered business					
New business contribution	685	-	2,057	-	2,742
Return from in-force business					
Expected return	5,203	6	6,207	-	11,416
Experience variances	11,315	101	(7,942)	-	3,474
Operating assumption changes	(1,985)	-	(10,142)	-	(12,127)
Return on shareholder net worth	736	123	-	-	859
Operating profit/(loss) of covered business	15,954	230	(9,820)	-	6,364
Variation from longer-term investment return	14,880	-	12,061	-	26,941
Effect of economic assumption changes	(7,248)	(1,513)	4,308	-	(4,453)
Profit/(loss) on covered business before tax	23,586	(1,283)	6,549	-	28,852
Tax thereon	(4,695)	359	-	-	(4,336)
Profit/(loss) on covered business after tax	18,891	(924)	6,549	-	24,516
Results of non-covered business and of other group companies					
Loss before tax, and exceptional items	-	-	(3,674)	(2,440)	(6,114)
Exceptional profit recognised on					
- business combination of Aspis	-	-	376	-	376
- business combination of S&P	-	-	-	40,667	40,667
Tax	-	-	177	145	322
Profit/(loss) after tax	18,891	(924)	3,428	38,372	59,767
Non-controlling interest	-	-	118	-	118
Profit/(loss) for the period attributable to shareholders	18,891	(924)	3,546	38,372	59,885

EEV Supplementary Information

Notes to the EEV supplementary information

7 Sensitivities to alternative assumptions

The following tables show the sensitivity of the embedded value as reported at 31 December 2011, and of the new business contribution of Movestic, to variations in the assumptions adopted in the calculation of the embedded value. Sensitivity analysis is not provided in respect of the new business contribution of CA and S&P for the year ended 31 December 2011 as the reported level of new business contribution is not considered to be material (see Note 3(a)).

	Embedded Value			New Business Contribution
	CA £m	S&P £m	Movestic £m	Movestic £m
Published value as at 31 December 2011	117.1	98.1	101.0	3.1
Changes in embedded value/new business contribution arising from				
Economic sensitivities				
100 basis point increase in yield curve	-	8.7	(0.2)	(0.1)
100 basis point reduction in yield curve	(3.2)	(23.3)	0.2	0.1
10% decrease in equity and property values	(3.4)	(9.2)	(8.0)	n/a
Operating sensitivities				
10% decrease in maintenance expenses	2.1	3.1	6.4	0.6
10% decrease in lapse rates	2.2	(1.9)	8.5	1.1
5% decrease in mortality/morbidity rates				
Assurances	1.2	0.4	0.4	-
Annuities	(2.0)	(0.5)	n/a	n/a
Reduction in the required capital to statutory minimum	0.8	0.9	-	-

The key assumption changes represented by each of these sensitivities are as follows

Economic sensitivities

- (i) 100 basis point increase in the yield curve. The reference rate is increased by 1% and the rate of future inflation has also been increased by 1% so that real yields remain constant,
- (ii) 100 basis point reduction in the yield curve. The reference rate is reduced by 1% and the rate of future inflation has also been reduced by 1% so that real yields remain constant, and
- (iii) 10% decrease in the equity and property values. This gives rise to a situation where, for example, a Managed Fund unit liability with a 60% equity holding would reduce by 6% in value.

Operating sensitivities

- (i) 10% decrease in maintenance expenses, giving rise to, for example, a base assumption of £20 per policy pa reducing to £18 per policy pa,
- (ii) 10% decrease in persistency rates giving rise to, for example, a base assumption of 10% of policy base lapsing pa reducing to 9% pa,
- (iii) 5% decrease in mortality/morbidity rates giving rise to, for example, a base assumption of 95% of the parameters in a selected mortality/morbidity table reducing to 90.25% of the parameters in the same table, assuming no changes are made to policyholder charges or any other management actions, and
- (iv) the sensitivity to the reduction in the required capital to the statutory minimum shows the effect of reducing the required capital from that defined in Note 3(b) above to the minimum requirement prescribed by regulation.

In each sensitivity calculation all other assumptions remain unchanged except where they are directly affected by the revised economic conditions. For example, as stated, changes in interest rates will directly affect the reference rate.

8 Reconciliation of shareholders' equity on the IFRS basis to shareholders' equity on the EEV basis

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
31 December 2011					
Shareholders' equity on the IFRS basis	85,486	88,736	56,910	(21,943)	209,189
Reclassifications					
Debt finance	-	(35,486)	-	35,486	-
Other	(282)	-	-	282	-
Adjustments					
Deferred acquisition costs					
Investment contracts	(5,272)	-	(13,161)	-	(18,433)
Deferred income	9,285	-	-	-	9,285
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(11,477)	-	-	-	(11,477)
Adjustments to provisions on insurance contracts, net of reinsurers' share	(119)	2,227	-	-	2,108
Adjustments to provisions on unallocated divisible surplus		(9,390)	-	-	(9,390)
Acquired in-force value	(13,350)	(6,068)	(57,770)	-	(77,188)
Acquired value of customer relationships	-	-	(1,561)	-	(1,561)
Software Assets	-	-	(6,744)	-	(6,744)
Adjustment to borrowings	-	-	(7,012)	-	(7,012)
Deferred tax	1,885	1,744	2,523	-	6,152
Shareholder net worth	66,156	41,763	(26,815)	13,825	94,929
Value of in-force business	50,941	20,816	127,803	-	199,560
Shareholders' equity on the EEV basis	117,097	62,579	100,988	13,825	294,489
Shareholder net worth comprises					
Shareholder net worth in regulated entities	66,156	77,249	(28,147)	-	115,258
Shareholders' net equity in other Group companies	-	-	1,332	13,825	15,157
Debt finance	-	(35,486)	-	-	(35,486)
Total	66,156	41,763	(26,815)	13,825	94,929

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
31 December 2010					
Shareholders' equity on the IFRS basis	90,630	79,145	52,799	(19,305)	203,269
Reclassifications					
Debt finance	-	(39,287)	-	39,287	-
Other	(329)	-	-	329	-
Adjustments					
Deferred acquisition costs					
Investment contracts	(6,265)	-	(7,298)	-	(13,563)
Deferred income	10,885	-	-	-	10,885
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(10,739)	1,997	-	-	(8,742)
Adjustments to provisions on insurance contracts, net of reinsurers' share	(180)	-	-	-	(180)
Adjustments to provisions on unallocated divisible surplus	-	(14,847)	-	-	(14,847)
Acquired in-force value	(15,563)	(6,610)	(62,866)	-	(85,039)
Acquired value of customer relationships	-	-	(2,049)	-	(2,049)
Adjustment to borrowings	-	-	(7,454)	-	(7,454)
Deferred tax	1,909	2,275	2,757	-	6,941
Shareholder net worth	70,348	22,673	(24,111)	20,311	89,221
Value of in-force business	79,360	41,307	144,748	-	265,415
Shareholders' equity on the EEV basis	149,708	63,980	120,637	20,311	354,636
Shareholder net worth comprises					
Shareholder net worth in regulated entities	70,348	61,960	(25,418)	-	106,890
Shareholders' net equity in other Group companies	-	-	1,307	20,311	21,618
Debt finance	-	(39,287)	-	-	(39,287)
Total	70,348	22,673	(24,111)	20,311	89,221

EEV Supplementary Information

Notes to the EEV supplementary information

9 Earnings per share

	Year ended 31 December	
	2011 p	2010 p
Basic earnings per share		
Based on (loss)/profit for the period attributable to shareholders	<u>(34 92)</u>	<u>71 24</u>
Based on (loss)/profit for the period attributable to shareholders before exceptional item	<u>(27 36)</u>	<u>31 26</u>
Diluted earnings per share		
Based on profit for the period attributable to shareholders	<u>(34 92)</u>	<u>71 24</u>
Based on profit for the period attributable to shareholders before exceptional item	<u>(27 36)</u>	<u>31 26</u>

10 Foreign exchange translation reserve

A foreign exchange translation reserve arises on the translation of the financial statements of Movestic, the functional currency of which is the Swedish Krona, into pounds sterling, which is the presentational currency of the Group financial statements. Items in the consolidated income statement are translated at the average exchange rate of SEK10 4104 = £1 ruling in the reported period (year ended 31 December 2010 SEK11 1249 = £1), while all items in the balance sheet are stated at the closing rates ruling at the reported balance sheet date, being SEK10 6553 = £1 at 31 December 2011 (SEK10 5250 = £1 at 31 December 2010). The differences arising on translation using this methodology are recognised directly in shareholders' equity within the foreign exchange translation reserve.

The reported embedded value is sensitive to movements in the SEK £ exchange rate. Had the exchange rate as at 31 December 2011 been 10% higher at SEK11 7208 = £1, then the reported embedded value of £294.5m as at 31 December 2011 would have been reported as £285.3m.

ADDITIONAL INFORMATION

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Additional Information

Financial Calendar

30 March 2012	Results for the year ended 31 December 2011 announced
11 April 2012	Ex dividend date
13 April 2012	Dividend record date
11 April 2012	Published Financial Statements issued to shareholders
18 May 2012	Annual General Meeting
18 May 2012	Interim Management Statement for the quarter ending 31 March 2012
22 May 2012	Dividend payment date
August 2012	Interim results for the six months ending 30 June 2012 announced
November 2012	Interim Management Statement for the quarter ending 30 September 2012 announced

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Additional Information

Notice of Annual General Meeting

Company No. 4947166

NOTICE OF ANNUAL GENERAL MEETING

Chesnara plc

Notice is given that the 2012 Annual General Meeting of Chesnara plc will be held at the offices of Panmure Gordon (UK) Limited, Moorgate Hall, 155 Moorgate, London EC2M 6XB on 18 May 2012 at 11 a.m. for the business set out below. Resolutions 1 to 11 will be proposed as ordinary resolutions and resolutions 12 to 14 will be proposed as special resolutions.

- 1 To receive and adopt the accounts for the financial year ended 31 December 2011 together with the reports of the directors and auditor thereon
- 2 To declare a final dividend of 10.90 pence per share for the financial year ended 31 December 2011
- 3 To approve the directors' remuneration report set out in the Report and Accounts for the financial year ended 31 December 2011
- 4 To re-elect Peter Mason as a director who retires by rotation in accordance with the Company's Articles of Association
- 5 To re-elect Graham Kettleborough as a director who retires by rotation in accordance with the Company's Articles of Association
- 6 To re-elect Peter Wright as a director who retires by rotation in accordance with the Company's Articles of Association
- 7 To reappoint Deloitte LLP as auditor of the Company to hold office until the conclusion of the next general meeting of the Company at which accounts are laid before shareholders
- 8 To authorise the directors to fix the auditor's remuneration
- 9 That, from the date of this resolution until the earlier of 17 November 2013 and the conclusion of the Company's next Annual General Meeting, the Company and all companies which are its subsidiaries at any time during such period are authorised
 - (a) to make donations to political parties or independent election candidates,
 - (b) to make donations to political organisations other than political parties, and
 - (c) to incur political expenditure,up to an aggregate total amount of £100,000, with the amount authorised for each of heads (a) to (c) above being limited to the same total. Any such amounts may comprise sums paid or incurred in one or more currencies. Any sum paid or incurred in a currency other than sterling shall be converted into sterling at such rate as the board may decide is appropriate. Terms used in this resolution have, where applicable, the meanings that they have in Part 14 of the Companies Act 2006 on "Control of political donations and expenditure"
- 10 That the Directors be and are hereby authorised to establish the Chesnara 2012 Long-Term Incentive Plan, a copy of the draft rules of which has been produced to the meeting and initialed by the Chairman for the purpose of identification only and a summary of the main provisions of which is set out in Appendix 1 to the notice of Annual General Meeting

- 11 That the directors be and they are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into such shares ("Allotment Rights"), but so that
- (a) the maximum amount of shares that may be allotted or made the subject of Allotment Rights under this authority are shares with an aggregate nominal value of £3,790,005, of which
 - (i) one-half may be allotted or made the subject of Allotment Rights in any circumstances, and
 - (ii) the other half may be allotted or made the subject of Allotment Rights pursuant to any rights issue (as referred to in the Financial Services Authority's listing rules) or pursuant to any arrangements made for the placing or underwriting or other allocation of any shares or other securities included in, but not taken up under, such rights issue,
 - (b) this authority shall expire 18 months after the passing of this resolution or, if earlier, on the date of the Company's next Annual General Meeting,
 - (c) the Company may make any offer or agreement before such expiry which would or might require shares to be allotted or Allotment Rights to be granted after such expiry, and
 - (d) all authorities vested in the directors on the date of the notice of this meeting to allot shares or to grant Allotment Rights that remain unexercised at the commencement of this meeting are revoked
- 12 That, subject to the passing of the resolution numbered 11 in the notice convening this meeting, the directors be and they are empowered, pursuant to section 570 of the Companies Act 2006, to allot equity securities (as defined in section 560 of that Act) pursuant to the authority contained in the foregoing resolution numbered 11 as if section 561 of that Act did not apply to such allotment, provided that this power shall be limited to
- (a) the allotment of equity securities in connection with any rights issue or open offer (each as referred to in the Financial Services Authority's listing rules) or any other pre-emptive offer that is open for acceptance for a period determined by the directors to the holders of ordinary shares on the register on any fixed record date in proportion to their holdings of ordinary shares (and, if applicable, to the holders of any other class of equity security in accordance with the rights attached to such class), subject in each case to such exclusions or other arrangements as the directors may deem necessary or appropriate in relation to fractions of such securities, the use of more than one currency for making payments in respect of such offer, any such shares or other securities being represented by depositary receipts, treasury shares, any legal or practical problems in relation to any territory or the requirements of any regulatory body or any stock exchange, and
 - (b) the allotment of equity securities for cash (otherwise than as mentioned in sub-paragraph (a) above), provided that the maximum aggregate nominal value of equity securities allotted does not exceed £287,619,
- and shall expire 18 months after the passing of this resolution or, if earlier, on the date of the Company's next Annual General Meeting save that, before the expiry of this power, the Company may make any offer or agreement which would or might require equity securities to be allotted after such expiry

Additional Information

- 13 That the Company be and is generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 to make one or more market purchases (as defined in section 693 of that Act) on the London Stock Exchange of ordinary shares of 5p each in the capital of the Company, provided that
- (a) the maximum aggregate number of ordinary shares hereby authorised to be purchased is 11,484,865,
 - (b) the minimum price (exclusive of expenses) which may be paid for such ordinary shares is 5p per share,
 - (c) the maximum price (exclusive of expenses) which may be paid for such ordinary shares is the maximum price permitted under the Financial Services Authorities listing rules or, in the case of a tender offer (as referred to in those rules), 5% above the average of the middle market quotations for the ordinary shares derived from the Daily Official List of the London Stock Exchange for the five business days before the date on which the terms of the tender offer are announced,
 - (d) the authority hereby conferred shall expire 18 months after the passing of this resolution or, if earlier, on the date of the Company's next Annual General Meeting, and
 - (e) the Company may make a contract or contracts to purchase ordinary shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares in pursuance of any such contract or contracts
- 14 That a general meeting of the Company (other than an Annual General Meeting) may be called on not less than 14 clear days' notice

By order of the Board

Mary Fishwick
Company Secretary

Registered office

Harbour House

Portway

Preston

Lancashire

PR2 2PR

Registered in England No 4947166

Dated 29 March 2012

Notes

- 1 **Any Member who is entitled to attend and vote at this meeting is entitled to appoint another person, or two or more persons in respect of different shares held by him, as his proxy to exercise all or any of his rights to attend and to speak and to vote at the meeting**
- 2 A member wishing to attend and vote at the meeting in person should arrive prior to the time fixed for its commencement. A member that is a corporation can only attend and vote at the meeting in person through one or more representatives appointed in accordance with section 323 of the Companies Act 2006. Any such representative should bring to the meeting written evidence of his appointment such as a certified copy of a board resolution of, or a letter from, the corporation concerned confirming the appointment. Any member wishing to vote at the meeting without attending in person or (in the case of a corporation) through its duly appointed representative must appoint a proxy to do so. A proxy need not be a member of the Company. A form of proxy for this meeting is enclosed and, in order to be valid, any form of proxy and power of attorney or other authority under which it is signed, or a notanally certified or office copy of such power of attorney, must reach the Company's Registrars, Capita Registrars at PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU or by post to Business Reply Licence No RSBH-UXKS-LRBC, PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4BR by 11 a.m. on Wednesday 16 May 2012. Alternatively, members may submit their proxy vote electronically via www.capitashareportal.com, by entering the company name "Chesnara plc", and following the on-screen instructions. To be a valid proxy appointment, the member's electronic message confirming the details of the appointment completed in accordance with those instructions must be transmitted so as to be received by the same time. Members who hold their shares in uncertificated form may also use the "CREST" voting service to appoint a proxy electronically, as explained below. The appointment of a proxy will not preclude a shareholder from attending and voting at the meeting.
- 3 CREST members who wish to appoint one or more proxies through the CREST system may do so by using the procedures described in "the CREST voting service" section of the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed one or more voting service providers, should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or a proxy instruction made using the CREST voting service to be valid, the appropriate CREST message (a "CREST proxy appointment instruction") must be properly authenticated in accordance with the specifications of CREST's operator, Euroclear UK & Ireland Limited ("Euroclear"), and must contain all the relevant information required by the CREST Manual. To be valid, the message (regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy) must be transmitted so as to be received by Capita Registrars (ID RA10) by 11 a.m. on Wednesday 16 May 2012. After this time, any change of instruction to a proxy appointed through the CREST system should be communicated to the appointee through other means. The time of the message's receipt will be taken to be when (as determined by the timestamp applied by the CREST Applications Host) the issuer's agent is first able to retrieve it by enquiry through the CREST system in the prescribed manner. Euroclear does not make available special procedures in the CREST system for transmitting any particular message. Normal system timings and limitations apply in relation to the input of CREST proxy appointment instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or a CREST sponsored member or has appointed any voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as is necessary to ensure that a message is transmitted by means of the CREST system by any particular time. CREST members and, where applicable, their CREST sponsors or voting service providers should take into account the provisions of the CREST Manual concerning timings as well as its section on "Practical limitations of the system". In certain circumstances, the Company may, in accordance with the Uncertificated Securities Regulations 2001 or the CREST Manual, treat a CREST proxy appointment instruction as invalid.
- 4 Copies of directors' service contracts and letters of appointment will be available for inspection at the registered office of the Company during normal business hours each business day and at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

Additional Information

- 5 Copies of the rules of The Chesnara 2012 Long-Term Incentive Plan will be available for inspection at the registered office of the Company and at the place of the Annual General Meeting during normal business hours each business day from the date of this notice until the conclusion of the Annual General Meeting
- 6 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast) is 6 00 p m on Wednesday 16 May 2012. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend or vote at the meeting
- 7 In accordance with section 325 of the Companies Act 2006, the right to appoint proxies does not apply to persons nominated to receive information rights under section 146 of the Companies Act 2006. Persons nominated to receive information rights under section 146 of the Companies Act 2006 who have been sent a copy of this notice of meeting are hereby informed, in accordance with section 149(2) of the Companies Act 2006, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements
- 8 As at 29 March 2012 (being the last practicable date prior to the publication of this document), the Company's issued share capital consists of 115,047,662 ordinary shares, carrying one vote each. The total voting rights in the Company as at 29 March 2012 (being the last practicable date prior to the publication of this document) are 114,848,651
- 9 Information regarding this meeting, including information required by section 311A of the Companies Act 2006, is available at www.chesnara.co.uk. Any electronic address provided either in this notice or any related documents (including the proxy form) may not be used to communicate with the Company for any purposes other than those expressly stated
- 10 In accordance with section 319A of the Companies Act 2006, any member attending the meeting has the right to ask questions. The company must cause to be answered any such question relating to the business being dealt with at the meeting, but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered
- 11 Under section 527 of the Companies Act 2006, members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting or (ii) any circumstances connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website
- 12 Members meeting the threshold requirements in sections 338 and 338A of the Companies Act 2006 have the right to require the Company (i) to give to members entitled to receive notice of the meeting notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or (as applicable) the matter to be included in the business, must be authenticated by the person or persons making it, must be received by the Company not later than 6 weeks before the meeting and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request

EXPLANATORY NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

The notes on the following pages give an explanation of the proposed resolutions

Resolution 1

Report and accounts

For each financial year, the directors are required to present the directors' report, the audited accounts and the auditor's reports to shareholders at a general meeting

Resolution 2

Final dividend

The payment of the final dividend requires the approval of shareholders in general meeting. If the meeting approves resolution 2, the final dividend of 10.9 pence per share will be paid on 22 May 2012 to ordinary shareholders who are on the register of members at the close of business on 13 April 2012 in respect of each ordinary share.

Resolution 3

Approval of the directors' remuneration report

The Company is required by law to seek the approval of shareholders of its annual report on remuneration policy and practice. This does not affect the directors' entitlement to remuneration and the result of this resolution is advisory only.

The remuneration report for the year ended 31 December 2011 is set out in full on pages 43 to 47 of this document.

Your directors are satisfied that the Company's policy and practice in relation to directors' remuneration are reasonable and that they deserve shareholder support.

Resolutions 4 - 6

Re-election of directors

Under the Company's articles of association, directors are obliged to retire by rotation at Annual General Meetings and may not serve beyond three years without being re-elected by shareholders. The directors who now fall due for retirement and re-election at the Annual General Meeting, through separate resolutions numbered 4 to 6 respectively, are Peter Mason, Graham Kettleborough and Peter Wright. Brief biographical details of those directors can be found on page 36 of this document. Following formal performance evaluation of the Board, they all continue to be effective and demonstrate commitment to the role. The remaining directors therefore unanimously recommend that each of these directors be re-elected as a director of the Company.

Resolutions 7 and 8

Reappointment and remuneration of auditors

The Company is required to appoint auditors, at each general meeting before which accounts are laid, to hold office until the end of the next such meeting. Deloitte LLP has indicated that it is willing to act as the Company's auditor. You are asked to reappoint Deloitte LLP and, following normal practice, to authorise the directors to determine its remuneration. The directors recommend its appointment.

Additional Information

Resolution 9

Political donations

It has always been the Company's policy that it does not make political donations. This remains the Company's policy.

Part 14 of the Companies Act 2006 imposes restrictions on companies making political donations to any political party or other political organisation or to any independent election candidate unless they have been authorised to make donations at a general meeting of the Company. Whilst the Company has no intention of making such political donations, the Act includes broad and ambiguous definitions of the terms "*political donation*" and "*political expenditure*" which may apply to some normal business activities which would not generally be considered to be political in nature.

The directors therefore consider that, as a purely precautionary measure, it would be prudent to obtain the approval of the shareholders to make donations to political parties, political organisations and independent election candidates and to incur political expenditure up to the specified limit. The directors intend to seek renewal of this approval at future Annual General Meetings, but wish to emphasise that the proposed resolution is a precautionary measure for the above reason and that they have no intention of entering into any party political activities.

Resolution 10

Proposed New Long-Term Incentive Plan

This resolution seeks to approve the introduction of the Chesnara 2012 Long-Term Incentive Plan (the "**New LTIP**"), which will replace the long-term incentive plan introduced at last year's AGM (the "**2011 LTIP**"), while retaining some of the key concepts from the 2011 LTIP and responding to comments received from shareholders.

A summary of the background to the New LTIP and the key terms of the initial awards to be made under it is below.

- The Remuneration Committee (the "**Committee**") implemented the 2011 LTIP because it believed that the Executive Directors would be more effectively incentivised and their interests better aligned with those of shareholders if a part of their bonus was determined by reference to performance against targets based on the European Embedded Value ("EEV") of the Company. Performance was assessed against the change in EEV during the course of the 2011 financial year, with any payment under 2011 LTIP awards being deferred for three years and being linked to the share price at the end of that period.
- The Committee believes that the New LTIP will provide a more appropriate incentive arrangement for the Executive Directors, while retaining the EEV and share price linkages contained in the 2011 LTIP.
- Awards under the New LTIP will have a performance target which is based on a target EEV for the end of a three year performance period. A target share price based on the target EEV will be calculated by the Committee, derived by reference to market capitalisation as a proportion of EEV at the start of the three year performance period. The awards will provide for cash payments to be made following the end of the performance period, according to the extent to which the target share price is met or exceeded.
- The annual bonus opportunity for the Executive Directors (under the annual bonus scheme) will continue to be dependent on achievement of stretching profit targets and any bonuses earned will be paid in cash with no deferral (as more particularly described in the remuneration report).
- The potential payment for an on-target level of performance under New LTIP awards made in 2012 will be 57.16% of the Executive Directors' aggregate annual bonus and long term incentive opportunity for the year (with the on-target profit related bonus under the annual bonus scheme set at 42.84%). The aggregate on-target annual bonus and long term incentive opportunity for 2012 is set at 36.84% of basic salary (respectively 15.79% of 2012 basic salary under the annual bonus scheme and 21.05% under the New LTIP). Additional sums may be paid under the New LTIP if performance exceeds the on-target level. However, the cap of 100% of salary on the combined outcomes under the annual bonus and long term incentive arrangements which applied under the 2011 LTIP will continue to apply under the New LTIP.
- Subject to approval by shareholders, the Committee intends to make the initial awards to Executive Directors shortly following the AGM.

The main terms of the New LTIP are summarised in Appendix 1 to these notes. The Committee's intention is that the New LTIP will replace the 2011 LTIP (which is more particularly described in the directors' remuneration report).

Resolution 11

Power to allot shares

The directors are currently authorised to allot shares and to grant rights to subscribe for or to convert any security into shares of the Company, but their authorisation ends on the date of this year's Annual General Meeting. This resolution seeks to renew the directors' authority to allot shares.

The Association of British Insurers ("ABI") published guidance on 31 December 2008 to the effect that ABI members will regard as routine a request for authorisation to allot new shares in an amount of up to one third of the existing issued share capital and additionally that they will regard as routine requests to authorise the allotment of a further one third, provided that such additional headroom shall be applied to fully pre-emptive rights issues only and the authorisation shall be valid for one year only. This authority was conferred on the directors at last year's Annual General Meeting and the directors recommend that the Company should have this additional headroom this year. This authority is limited to a maximum nominal amount of £3,790,005 (representing 75,800,100 ordinary shares), which represents approximately two thirds in aggregate of the total ordinary share capital in issue as at 29 March 2012, excluding treasury shares (being the latest practicable date prior to the publication of this document). Of this amount, 37,900,050 ordinary shares (representing approximately one third in aggregate of the total ordinary share capital in issue, excluding treasury shares) can only be allotted pursuant to a rights issue.

As at 29 March 2012, the Company held 199,011 treasury shares, being approximately 0.17% of the total ordinary share capital in issue (calculated exclusive of treasury shares). The renewed authority will expire 18 months after the passing of this resolution or, if earlier, on the date of the next Annual General Meeting.

The directors have no present intention of exercising this authority. The purpose of giving the directors this authority is to maintain the Company's flexibility to take advantage of any appropriate opportunities that may arise.

Resolution 12

Disapplication of pre-emption rights

This resolution, which will be proposed as a special resolution, seeks to renew the authority conferred on the directors at last year's Annual General Meeting to issue equity securities of the Company for cash without first offering them to existing shareholders in proportion to their existing shareholdings. Other than in connection with a rights or other similar issue or scrip dividend (where difficulties arise in offering shares to certain overseas shareholders and in relation to fractional entitlements), the authority contained in this resolution will be limited to an aggregate nominal value of £287,619 (representing 5,752,380 ordinary shares), which represents approximately 5% of the Company's issued equity share capital as at 29 March 2012 (being the latest practicable date prior to the publication of this document). The renewed authority will expire 18 months after the passing of this resolution or, if earlier, on the date of the next Annual General Meeting. This is a standard resolution for most UK listed companies each year.

In accordance with the Statement of Principles on disapplying pre-emption rights issued in 2006 by the Pre-Emption Group (which is supported by the Association of British Insurers, the National Association of Pension Funds Limited and the Investment Managers Association), the board confirms its intention that no more than 7.5% of the issued share capital will be issued for cash on a non pre-emptive basis during any rolling three year period. The directors have no present intention of exercising this authority.

Resolution 13

Authority to purchase own shares

This resolution, which will be proposed as a special resolution, is to renew the authority granted to the directors at last year's Annual General Meeting, which expires on the date of this year's Annual General Meeting, and to give the Company authority to buy back its own ordinary shares in the market as permitted by the Companies Act 2006. The authority limits the number of shares that could be purchased to a maximum of 11,484,865 (representing 10% of the issued ordinary share capital of the Company (excluding treasury shares) as at 29 March 2012 (being the latest practicable date prior to the publication of this document) and

Additional Information

sets the minimum and maximum prices. This authority will expire no later than 18 months after the date of the Annual General Meeting.

Your directors believe that the Company should continue to have the authority to purchase its own shares. The authority will be exercised only if the directors believe that to do so would result in an increase in earnings per share and would promote the success of the Company for the benefit of its shareholders generally. To the extent that any shares so purchased are held in treasury (see below), earnings per share will be enhanced until such time, if any, as such shares are resold or transferred out of treasury.

Any purchases of ordinary shares would be by means of market purchases through the London Stock Exchange.

Sections 724 – 732 of the Companies Act 2006 provide that shares held in treasury can be cancelled, sold for cash or, in appropriate circumstances, used to meet obligations under employee share schemes. Any shares held in treasury would not be eligible to vote nor would any dividend be paid on any such shares. If any ordinary shares purchased pursuant to this authority are not held by the Company as treasury shares, then such shares would be immediately cancelled in which event the number of ordinary shares in issue would be reduced.

The directors believe that it continues to be desirable for the Company to have this choice. Holding the repurchased shares as treasury shares gives the Company the ability to re-issue them quickly and cost effectively and provides the Company with additional flexibility in the management of its capital base. No dividends will be paid on, and no voting rights will be exercised in respect of, treasury shares. In 2011, no shares were purchased into treasury, none were sold and none were cancelled.

Resolution 14

Notice of general meetings

The Companies Act 2006 requires the notice period for general meetings of the Company to be at least 21 days, but, as a result of a resolution which was passed by the Company's shareholders at last year's Annual General Meeting, the Company is currently able to call general meetings (other than an Annual General Meeting) on 14 clear days' notice. In order to preserve this ability, shareholders must have approved the calling of meetings on 14 days' notice. Resolution 14 seeks such approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The Company will also need to meet the requirements for electronic voting under the Shareholder Rights Directive before it can call a general meeting on 14 days' notice.

The shorter notice period would not be used as a matter of routine for general meetings, but only where the flexibility is merited by the business of the meeting and is thought to be to the advantage of shareholders as a whole.

The directors recommend all shareholders to vote in favour of all the resolutions, as the directors intend to do in respect of their own shares, and consider that they are in the best interests of the Company and the shareholders as a whole.

APPENDIX 1

**SUMMARY OF THE MAIN PROVISIONS OF
THE CHESNARA 2012 LONG-TERM INCENTIVE PLAN (THE "NEW LTIP")**

1 THE NEW LTIP

The New LTIP will allow the Company to make awards to selected employees in the form of rights to receive cash sums ("Awards") calculated by reference to the price of an ordinary share in the capital of the Company (a "Share") as compared against a target Share price at the end of the financial year falling three years from the start of the year in which an Award is made (the "Award Year" and the "Performance Period")

The Remuneration Committee of the Directors (the "Committee") will set the target Share price, which will be derived from a target European Embedded Value ("EEV") figure for the Company at the end of the Performance Period. The target Share price will be calculated by reference to the proportion that the market capitalisation at the start of the Performance Period represents to the EEV at that time

Awards will not normally vest until after the end of the Performance Period and participants will not normally be entitled to any payment under the New LTIP before this time. The operation of the New LTIP will be overseen by the Committee. Benefits under the New LTIP will not be pensionable

2 ELIGIBILITY

A participant must be an employee of the Company or of any of its subsidiaries (the "Group"). Participation in the New LTIP will be at the discretion of the Committee

3 INDIVIDUAL LIMIT

The maximum cash sum which may be paid to a participant in respect of an Award made under the New LTIP in respect of an Award Year, together with any other bonus paid or payable to the participant in respect of that Award Year, will not exceed a limit of 100 per cent of the participant's basic salary for that Award Year

If this limit would otherwise be exceeded, the Committee will scale back the cash sum payable under the New LTIP so that the limit is not exceeded

4 TIMING OF AWARDS

Awards may only be made during the period of 42 days beginning with the approval of the New LTIP by the shareholders of the Company, or during the period of 42 days beginning with the announcement of the Company's results for any period, or within 28 days of a person first joining the Group or, exceptionally, and subject to the Model Code and other relevant restrictions, on any other day on which the Committee determines that exceptional circumstances exist. No Awards may be made more than ten years after the adoption of the New LTIP. No payment will be required for the making of an Award

Awards are not transferable and may only be exercised by the persons to whom they were made or their personal representatives

5 VESTING OF AWARDS

Awards will normally vest following the end of the Performance Period and payments will be made to participants as soon as practicable thereafter

If a participant leaves the Group his Award will normally be forfeited

If the participant leaves the Group and if the reason for leaving is death, injury or disability, redundancy, retirement or the sale of the employing business or company, the Committee may allow a time-apportioned proportion of his Award to be retained (according to the part of the Performance Period which has then elapsed) and to vest at the end of the Performance Period. The Committee may vary the time pro-rating to allow a greater proportion of the Award to vest

Additional Information

If the participant leaves for any other reason, the Committee may in its absolute discretion determine whether all or any part of the Award may be retained

6 TARGET SHARE PRICE

The target Share price will be set by the Committee at the time that an Award is made. Once set, the target Share price may be varied by the Committee, but only if the Committee reasonably considers it to be necessary to ensure that the effectiveness of the Award as an incentive is not undermined, or if the dividends paid in respect of Shares during the Performance Period differ from the projected dividends for that period which were taken into account in calculating the target EEV used in determining the target Share price

When measuring price of a Share as at a particular date for the purposes of the New LTIP, the Committee will take the average price of a Share for the month immediately preceding that date

7 PERFORMANCE ADJUSTMENT

The Committee may review an Award in light of appropriate circumstances including the individual performance of the participant or the published results of the Group for the Award Year subsequently being found to be materially inaccurate and may in their discretion determine that an Award shall lapse or shall be reduced

8 TAKEOVER OR RECONSTRUCTION ETC

In the event of a takeover of the Company during the Performance Period, the Committee shall determine the extent to which the target Share price shall be deemed to have been met and any cash payments which thereby become due in respect of Awards shall be made as soon as practicable following such determination

In the event of a demerger, reconstruction upon a change of control, reorganisation, amalgamation or voluntary winding-up of the Company, the Committee may vary the terms of Awards or the target Share price for Awards in such a manner as it determines appropriate

9 ADJUSTMENT OF AWARDS

If there is a rights or capitalisation issue, sub-division, consolidation, reduction, demerger or other variation of the Company's ordinary share capital the Committee may adjust the target Share price for Awards in such a manner as it determines appropriate

10 RIGHTS TO CASH ONLY

Participants' Awards are rights to receive cash sums calculated by reference to the price of a Share as compared against a target Share price, and do not give them any right or interest in, or entitlement to, any Shares

11 AMENDMENT

The Committee may amend the New LTIP. However, the provisions governing eligibility requirements or individual participation limits cannot be altered to the advantage of existing or new participants without the prior approval of the Company's shareholders in general meeting. There is an exception for minor amendments to benefit the administration of the New LTIP, to take account of a change in legislation or developments in the law affecting the New LTIP or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the New LTIP or for any member of the Group

This summary does not form part of the rules of the New LTIP and should not be taken as affecting the interpretation of their detailed terms and conditions. The Board reserves the right up to the time of the Annual General Meeting to make such amendments and additions to the rules of the New LTIP as the Committee considers necessary provided that such amendments do not conflict in any material respect with this summary