

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
**(In Scheme of Arrangement)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**31 DECEMBER 2016**



**Company Number: 03406899**

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
**(In Scheme of Arrangement)**

**CONTENTS**

	<b>Page</b>
Company information	1
Strategic report	2
Directors' report	4
Income statement	6
Statement of income and retained earnings	8
Statement of financial position	9
Notes to the financial statements	11
Independent auditors' report	20

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
**(In Scheme of Arrangement)**

**COMPANY INFORMATION**

**Directors**

B V Strickland MA, FCA (Chairman)  
W J Cain BCom, FCA  
R E Beveridge MA

**Secretary**

R E Beveridge MA

**Scheme Administrators**

D Y Schwarzmenn, N D Rackham  
PricewaterhouseCoopers LLP  
7 More London  
London SE1 2RT

**Bankers**

Royal Bank of Scotland Plc  
London Corporate Services Centre  
PO Box 39952  
2 1/2 Devonshire Square  
London EC2M 4XJ

Barclays Bank Plc  
99 Hatton Garden  
London  
EC1N 8DN

**Management Company**

Capita Insurance Services Limited  
71 Victoria Street  
Westminster  
London SW1H 0XA

**Auditors**

Wilkins Kennedy LLP  
Statutory Auditor  
Chartered Accountants  
Bridge House  
London Bridge  
London SE1 9QR

**Legal Advisers**

Clifford Chance LLP  
10 Upper Bank Street  
Canary Wharf  
London E14 5JJ

**Actuarial Advisers**

PricewaterhouseCoopers LLP  
7 More London  
London SE1 2RT

**Registered Office**

Hays Galleria  
1 Hays Lane  
London SE1 2RD

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
**(In Scheme of Arrangement)**

**STRATEGIC REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

The directors have pleasure in presenting their strategic report for the year ended 31 December 2016.

**Review of business**

In early January 2001, the directors of Chester Street Insurance Holdings Limited ('Holdings'), the wholly owned subsidiary of Chester Street Employers Association (the 'Association'), received the preliminary findings of an actuarial review of its reserves, which indicated that a substantial increase would be required in the level of its provision for claims incurred but not yet reported, particularly insofar as that provision was for losses forecast to arise out of claims for asbestos-related diseases written many years ago. These findings reflected the impact of significant increases in both the number and average cost of asbestos-related disease claims notified during 2000.

The Board of Holdings, having considered those findings and taken appropriate advice, determined that Holdings' liabilities exceeded its assets and that Holdings was insolvent. On 9 January 2001, the High Court granted the petition of the directors for the appointment of Dan Schwarzmenn and Colin Bird of PricewaterhouseCoopers LLP ('PwC') as Provisional Liquidators.

Following a unanimous vote of the creditors attending and voting at meetings held on 5 February 2001, a Scheme of Arrangement (the 'Scheme') was sanctioned by the Court on 28 February 2001 and became effective on 5 March 2001, with Dan Schwarzmenn and Colin Bird of PwC as Scheme Administrators. On 25 July 2001, Mark Batten, also of PwC, replaced Colin Bird as a Provisional Liquidator and Scheme Administrator.

In 2007, an application was made to the Court to discharge the Provisional Liquidators from office and this order was granted on 15 August 2007. From this date Dan Schwarzmenn and Mark Batten were no longer Provisional Liquidators of Holdings, but remained as Scheme Administrators. On 30 June 2017, Mark Batten retired as a partner of PwC. In accordance with the terms of the Scheme, the creditors' committee approved the appointment of Nigel Rackham, a director of PwC, as his replacement as Scheme Administrator with effect from 1 July 2017.

At the end of March 2001, the Scheme Administrators set an initial payment percentage of 5% pursuant to the Scheme. In May 2001, the Association of British Insurers ('ABI') announced that its members would fund compensation for certain claimants, whose claims would otherwise fail to be met in full because their former employer was no longer able to pay and the claim failed to meet the criteria for compensation by the Financial Services Compensation Scheme ('FSCS'), formerly the Policyholders Protection Board ('PPB').

Payments to creditors under the Scheme began to be made in July 2001. The company is cooperating with its policyholders, FSCS, ABI and Department for Business, Energy and Industrial Strategy ('BEIS'), in order to ensure that claimants receive prompt payment.

In accordance with the Scheme, the payment percentage is reviewed annually. Following actuarial advice and in consultation with the Creditors' Committee, the payment percentage was reduced from 5% to 3% with effect from 1 January 2013.

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
**(In Scheme of Arrangement)**

**STRATEGIC REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**Results**

The results for the year ended 31 December 2016 are set out in the income statement on pages 6 and 7. This year's technical provisions have been adjusted according to the results of the year-end 2016 PwC actuarial projections of IBNR claims liabilities. These projections are based on a combination of stochastic and deterministic models, utilising Chester Street's exposure and claims data and PwC's market insights, with reference being given to the work of the Institute of Actuaries UK Asbestos Working Party ('AWP').

**Key financial performance indicators**

Since the Scheme became effective on 5 March 2001, the objective of the Scheme Administrators, supported by the directors and Creditors' Committee, has been to ensure that the business is run-off in as orderly manner as possible and in accordance with the terms of the Scheme.

The directors monitor the company's financial performance using the following key financial performance indicators:

	2016	2015
	£'m	£'m
Claims paid	85.9	95.4
Profit for the financial year	249.4	189.1
Financial investments	158.4	157.8
Technical provisions	2,503.0	2,825.9

**Principal risks and uncertainties**

The financial statements include a provision for the estimated outstanding insurance liabilities of the company. The estimated outstanding insurance liabilities include provision for claims that are not expected to be agreed for many years, and there is considerable uncertainty as to the amounts at which they will ultimately be agreed.

In preparing their report on the estimated outstanding insurance liabilities of the company, PwC, the consulting actuaries, have worked to a number of assumptions agreed in consultation with the Scheme Administrators. As disclosed in note 3, a significant degree of judgement is used in assessing outstanding insurance liabilities, including those claims incurred but not reported, the ultimate cost of which cannot be known with certainty at the balance sheet date.

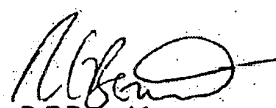
The change in the provision for claims, as reported in the Income Statement – Technical Account – General Business on page 6, has been assessed by the directors and is considered by them to be appropriate.

**Future developments**

The company will continue to run-off claims arising under insurance policies written prior to 1 January 1990 in accordance with the terms of the Scheme.

Hays Galleria  
1 Hays Lane  
London  
SE1 2RD

By order of the board

  
R E Beveridge  
Secretary  
29 November 2017

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
**(In Scheme of Arrangement)**

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

The directors have pleasure in presenting their report and financial statements for the year ended 31 December 2016.

**Directors**

The directors of the company during the year are as shown on page 1. No director is, or was, beneficially interested in the issued share capital of the company.

**Employees**

The company had 3 employees during the year.

**Management services provider**

The Management Service Provider is Capita Insurance Services Limited.

**Political and charitable contributions**

No contributions were made during the year.

**Financial instruments**

The company's financial instruments at the balance sheet date comprised mainly investments, bank balances and Scheme Creditors.

The main risk arising from the company's financial instruments is liquidity risk.

**Financial assets**

The company has no financial assets other than short-term debtors, cash at bank and investments.

**Registered number**

03406899

**Statement of directors' responsibilities**

The directors are responsible for preparing the strategic report, directors' 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 have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements 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, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a break up basis as it is inappropriate to presume that the company is a going concern.

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
**(In Scheme of Arrangement)**

**DIRECTORS' REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**Statement of directors' responsibilities (continued)**

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.

**Statement as to disclosure of information to auditors**

So far as the directors are aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director in order to make one self aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Auditors**

The auditors, Wilkins Kennedy LLP, have expressed their willingness to continue in office.

By order of the board

Hays Galleria  
1 Hays Lane  
London  
SE1 2RD



R E Beveridge  
Secretary  
29 November 2017

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
(In Scheme of Arrangement)

**INCOME STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**Technical Account – General Business  
Discontinued operations**

	Note	2016 £'m	2015 £'m
Claims paid			
- gross amount		78.9	88.4
- handling costs		7.0	7.0
	2	85.9	95.4
Change in the provision for claims			
- gross amount		(295.0)	(278.2)
- handling costs		(27.9)	(7.0)
		(322.9)	(285.2)
Claims incurred		(237.0)	(189.8)
Net operating expenses	5	3.9	2.3
<b>Total technical charge</b>		<b>(233.1)</b>	<b>(187.5)</b>
<b>Balance on the technical account for general business</b>		<b>233.1</b>	<b>187.5</b>



**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
(In Scheme of Arrangement)

**INCOME STATEMENT**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

<b>Non-Technical Account Discontinued operations</b>	<b>Note</b>	<b>2016 £'m</b>	<b>2015 £'m</b>
<b>Balance on the technical account for general business</b>		<b>233.1</b>	<b>187.5</b>
Investment income	<b>6</b>	<b>14.1</b>	<b>12.4</b>
Unrealised gains/(losses) on investments		<b>2.4</b>	<b>(10.6)</b>
		<b>16.5</b>	<b>1.8</b>
Investment expenses and charges		<b>(0.2)</b>	<b>(0.2)</b>
<b>Profit on ordinary activities before tax</b>		<b>249.4</b>	<b>189.1</b>
Tax on ordinary activities	<b>7</b>	<b>-</b>	<b>-</b>
<b>Profit retained for the financial year</b>		<b>249.4</b>	<b>189.1</b>

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
(In Scheme of Arrangement)

**STATEMENT OF INCOME AND RETAINED EARNINGS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

	Note	2016 £'m	2015 £'m
<b>Discontinued operations</b>			
Technical account for general business		233.1	187.5
Non-technical account		16.3	1.6
<b>Profit on ordinary activities before tax</b>		<b>249.4</b>	<b>189.1</b>
Tax on ordinary activities	7	-	-
<b>Profit for the financial year</b>		<b>249.4</b>	<b>189.1</b>
Retained loss at 1 January		(3,696.2)	(3,885.3)
<b>Retained loss at 31 December</b>		<b>(3,446.8)</b>	<b>(3,696.2)</b>

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
(In Scheme of Arrangement)

**STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2016**

<b>Assets</b>	<b>Note</b>	<b>2016 £'m</b>	<b>2015 £'m</b>
<b>Investments</b>			
Other financial investments	<b>8</b>	<b>158.4</b>	<b>157.8</b>
<b>Debtors</b>			
Other debtors		<b>0.7</b>	<b>0.9</b>
		<b>0.7</b>	<b>0.9</b>
<b>Other assets</b>			
Cash at bank and in hand		<b>4.3</b>	<b>2.5</b>
<b>Prepayments and accrued income</b>			
Accrued interest		<b>1.0</b>	<b>1.2</b>
Prepaid expenses		<b>1.7</b>	<b>1.6</b>
		<b>2.7</b>	<b>2.8</b>
<b>Total assets</b>		<b>166.1</b>	<b>164.0</b>

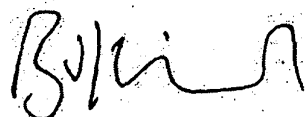
**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
(In Scheme of Arrangement)

**STATEMENT OF FINANCIAL POSITION**

**AS AT 31 DECEMBER 2016**

<b>Liabilities</b>	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>£'m</b>	<b>£'m</b>
<b>Capital and reserves</b>			
Share capital	9	5.0	5.0
Share premium		66.3	66.3
Profit and loss account		(3,446.8)	(3,696.2)
<b>Shareholders' Funds</b>		<b>(3,375.5)</b>	<b>(3,624.9)</b>
<b>Technical provisions</b>			
Claims outstanding	3	2,503.0	2,825.9
<b>Provisions for other risks and charges</b>	10(b)	32.6	31.3
<b>Creditors</b>			
Other creditors		1.8	1.2
Scheme creditors	2	1,003.6	929.6
		<b>1,005.4</b>	<b>930.8</b>
<b>Accruals and deferred income</b>		<b>0.6</b>	<b>0.9</b>
<b>Total liabilities</b>		<b>166.1</b>	<b>164.0</b>

Approved by the board on 29 November 2017



**B V Strickland**  
Director



**W J Cain**  
Director

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
**(In Scheme of Arrangement)**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1 Accounting policies**

**General information**

Chester Street Insurance Holdings Limited (In Scheme of Arrangement) is a limited liability company registered in England and Wales. The registered office is Hays Galleria, 1 Hays Lane, London SE1 2RD.

**Basis of presentation**

These financial statements have been prepared in accordance with Financial Reporting Standard 102 and 103 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention (as modified by revaluation of certain assets and the recognition of certain financial assets and liabilities at fair value).

The financial statements are presented in sterling (£) which is also the functional currency for the company.

**Going concern**

The accounts have been prepared on a break-up basis as the company is not a going concern, having entered into a Scheme of Arrangement with its creditors under section 425 of the Companies Act 1985 ('the Scheme') on 5 March 2001.

**Cash flow statement**

The company has not prepared a cash flow statement on the grounds that its parent undertaking presents a consolidated cash flow statement that includes the cash flows of the company.

**Basis of accounting**

The annual basis of accounting has been applied to all classes of business.

**Investments**

Listed investments are stated at middle market value based on prices quoted by the relevant exchanges.

**Investment income**

All realised and unrealised gains are taken to the profit and loss account. Realised gains are measured by reference to original cost. Since the company is no longer a going concern all the investment return has remained in the non-technical account.

Dividends received from companies in the United Kingdom are shown at the net amount received.

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
**(In Scheme of Arrangement)**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1 Accounting policies (continued)**

**Taxation**

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

**Current tax**

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

**Deferred tax**

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

**Judgements and key sources of estimation uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on a continuing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key judgements and sources of estimation uncertainty that have a significant effect on the amount recognised in the financial statements are described below.

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
(In Scheme of Arrangement)

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**1 Accounting policies (continued)**

**Claims**

General business claims incurred include all losses occurring during the year, whether reported or not, related handling costs and any adjustments to claims outstanding from previous years. Significant delays are experienced in the notification and settlement of certain claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the balance sheet date. Outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the balance sheet date. Any estimate represents a point within a range of possible outcomes. Further details of estimation techniques are given in note 3. Claims provisions are not discounted.

**Claims handling expenses**

The provision for claims handling expenses (which is included in the balance sheet within technical provisions - claims outstanding) consists of all estimated future costs of negotiating and settling claims until the date that the directors have anticipated that all claims will have been settled under the Scheme. No deduction has been made for anticipated investment income.

**Run-off provision**

The run-off provision consists of all estimated operational costs (other than the cost of negotiating and settling claims) until the date that the directors have anticipated that all claims will have been settled under the Scheme. This provision has been discounted at a rate justified by anticipated investment income. No further deduction for anticipated investment income has been made.

**2 Claims**

Claims paid in the profit and loss account reflect all amounts settled for defence costs and damage claims as well as all claims handling costs. The payments include amounts settled by policyholders, the FSCS, ABI and BEIS. Scheme creditors represent the portion of agreed claims which have been paid to the claimants by other parties, but which still remain a liability of the company. Claims handling costs are offset, in full, against the technical provision.

**3 Technical provisions**

Below is a summary of the gross outstanding claims:

	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
Notified outstanding claims	487.5	614.2
Incurred but not reported claims	1,945.5	2,113.8
	<b>2,433.0</b>	<b>2,728.0</b>
Claims handling provision	70.0	97.9
	<b>2,503.0</b>	<b>2,825.9</b>

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
**(In Scheme of Arrangement)**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**3 Technical provisions (continued)**

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques. The main assumption underlying these techniques is that past claim development experience can be used to project ultimate claims costs. The approach adopted takes into account the nature and materiality of the business and type of data available. Skilled claims technicians applying their experience and knowledge to the circumstances of individual claims generally set case estimates. Additional qualitative input, such as allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix, is also used in arriving at the estimated cost of claims, in order that it represents the most likely outcome taking account of all the uncertainties involved. Claims provisions are not discounted.

**Fundamental uncertainty**

The company has a substantial exposure to disease claims arising from employers' liability policies written many years ago. The majority of this exposure is in respect of asbestos.

There is a significant uncertainty over the ultimate out-turn of asbestos-related claims which reflects the limited data available particularly in relation to exposure analysis, the latency period for asbestos-related claims and mortality profile of claimants. The claims are extremely long tail in nature and the latency period for these claims is significant. There is very limited available data in respect of the number of employees of policyholders exposed to asbestos. The future costs arising from these claims cannot, therefore, be predicted with certainty. Accordingly, the provision for claims outstanding in respect of asbestos-related claims relies on a considerable degree of judgement as to the number of claims that will emerge, the timing of the claims and the amounts at which they will be settled.

The provision for disease claims is based on information currently available and the ultimate liability may vary as a result of subsequent information and events, and could result in significant adjustments to the amounts provided. Adjustments to the technical provisions are reflected in the accounts for the period in which the adjustments are made.

The technical provisions represent the directors' best estimate of the likely outcome of the run-off of the company's insurance liabilities and are therefore not comparable with any figure that may be inferred from the level of the payment percentage to Scheme Creditors set by the Scheme Administrators pursuant to the Scheme. The technical provisions are fundamentally uncertain because of the difficulty of forecasting the future development of the claims to which they relate.

**Provision for claims handling expenses**

Included in the balance sheet within technical provisions - claims outstanding is the provision for claims handling expenses of £70.0m (2015: £97.9m). This consists of all estimated future costs of negotiating and settling claims until the date that the directors have anticipated that all claims will have been settled under the Scheme. No deduction has been made for anticipated investment income. The claims handling expense provision is fundamentally uncertain because of the difficulty of forecasting the future development of the claims to which they relate.



**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
(In Scheme of Arrangement)

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**4 Run-off expenses**

	2016	2015
	£'000	£'000
Included in run-off expenses are:		
Auditors' remuneration		
- Audit services	31	30
- Other services	3	3
Directors' emoluments (see note 4.1)	50	50

**4.1 Directors' emoluments**

	2016	2015
	£'000	£'000
Aggregate emoluments	50	50

**Aggregate emoluments of highest paid director**

	2016	2015
	£'000	£'000
Aggregate emoluments	22	22

**4.2 Employment costs**

	2016	2015
	£'000	£'000
Wages and salaries	50	50
Social security costs	5	2
	55	52

**4.3 Average number of employees**

The average number of employees during the year was 3 (2015: 3).

**5 Operating expenses**

	Note	2016	2015
		£'m	£'m
Increase in run-off provision	10(b)	3.9	2.3

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
(In Scheme of Arrangement)

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2016**

**6 Investment income**

	2016	2015
	£'m	£'m
Income from investments	4.5	4.7
Realised gains on investments	9.6	7.7
	<u>14.1</u>	<u>12.4</u>

**7 Taxation**

	2016	2015
	£'m	£'m
Tax charge	-	-
UK corporation tax at 20% (2015: 20.25%)	-	-
Tax on profit on ordinary activities	-	-

**Factors affecting tax charge for period**

The tax assessed for the year is lower (prior year: lower) than the standard rate of corporation tax in the UK. The differences are explained below.

	2016	2015
	£'m	£'m
<b>Non-technical account</b>		
Profit on ordinary activities before tax	249.4	189.1
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	49.9	38.3
Brought forward losses utilised	(49.9)	(38.3)
Unutilised losses carried forward	-	-
Tax charge/(credit) for the year	-	-

**Factors affecting current and future tax charges**

Reductions in the UK corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020 were substantively enacted on 26 October 2015. A further reduction in the UK corporation tax rate to 17% from 1 April 2020 was substantively enacted on 6 September 2016. Deferred tax assets or liabilities with balance sheet dates on or after 6 September 2016 are measured as being realised or settled based on the 17% rate. As the Company does not recognise any deferred tax there is no immediate impact to the financial statements following the reduction in the rate of UK corporation tax, however the Company will be subject to lower levels of UK corporation tax in future years.

**8 Other financial investments**

	Current Value		Cost	
	2016	2015	2016	2015
	£'m	£'m	£'m	£'m
Debt securities and other fixed income securities	158.4	157.8	154.7	156.4

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
(In Scheme of Arrangement)

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**9 Share capital**

	2016 £'m	2015 £'m
<b>Allotted, called up and fully paid</b>		
5,000,002 ordinary shares of £1 each	5.0	5.0

**10 Provisions for other risks and charges**

**a) Deferred taxation**

A potential deferred tax asset of £575m (2015: £654m) in respect of certain unutilised tax losses has not been recognised as there is insufficient evidence that it will be recoverable. This asset would be recovered should sufficient taxable profits be generated in future which would be eligible for relief against the unutilised tax losses.

**b) Provision for run-off expenses**

	2016 £'m	2015 £'m
Balance at 1 January	31.3	31.1
Utilisation of provision	(2.6)	(2.1)
Increase in provision	3.9	2.3
Balance at 31 December	32.6	31.3

The provision for run-off expenses totals £32.6m (2015: £31.3m). This consists of all estimated operational costs (other than the cost of negotiating and settling claims) until the date that the directors have anticipated that all claims will have been settled under the Scheme. The provision is fundamentally uncertain because of the difficulty of forecasting the future development of the claims. This provision has been discounted at 1.11% (2015: 1.89%), a rate justified by anticipated investment income. No further deduction for anticipated investment income has been made. The undiscounted provision is £37.1m (2015: £39.1m). The average settlement period assumed in discounting this provision is 11.4 years (2015: 11.1 years).

**11 Parent undertaking**

The company's parent undertaking is The Chester Street Employers' Association Limited, a company incorporated in England.

The ultimate holding company prepares group accounts and copies can be obtained from the parent company's registered office at Hays Galleria, 1 Hays Lane, London SE1 2RD.

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
(In Scheme of Arrangement)

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**12 Contingent liabilities**

The company has entered into an arrangement with the Association, whereby the company settles the liabilities of the Association for the purpose of discharging its debts as they fall due to creditors in the ordinary course of business, whilst it is in the interest of Holdings' creditors. This arrangement does not cover liabilities arising out of the Association's negligence, fraud, and wilful default, breach of duty, breach of trust or other like action.

Note 3 gives details of the estimation techniques used in determining the outstanding claims provision. As stated in this note there is considerable uncertainty as to the quantum of the ultimate settlement of these liabilities. To the extent the ultimate cost is greater than that provided, there is a contingent liability in respect of this uncertainty.

**13 Segmental reporting**

The company ceased to write business in the liability insurance market segment with effect from 1 January 1990.

**14 Related party transactions**

In the opinion of the directors, the following may be considered to be Related Parties in terms of FRS 102, the value of transactions with who are required to be disclosed:

- a) the Scheme Administrators (Partners in the United Kingdom firm of PricewaterhouseCoopers LLP)
- b) the management services provider (Capita Insurance Services Limited)

<b>Amounts paid in cash book during the year:</b>	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
PricewaterhouseCoopers LLP		
- Scheme Administrators' fees	2.1	1.7
- Other services and fees	0.3	0.2
Capita Insurance Services Limited	7.3	7.2

<b>Amounts included in accruals at 31 December:</b>	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
PricewaterhouseCoopers LLP	0.2	0.2
Capita Insurance Services Limited	0.3	0.6

<b>Amounts included in prepayments at 31 December:</b>	<b>2016</b>	<b>2015</b>
	<b>£'m</b>	<b>£'m</b>
Capita Insurance Services Limited	1.6	1.6

**CHESTER STREET INSURANCE HOLDINGS LIMITED**  
**(In Scheme of Arrangement)**

**NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**14 Related party transactions (continued)**

Amounts included in provisions at 31 December:	2016	2015
	£'m	£'m
PricewaterhouseCoopers LLP	29.3	28.2
Capita Insurance Services Limited	70.0	97.9

The company has taken advantage of the exemption under FRS 102 not to disclose transactions with other group companies where all of the voting rights are controlled within the group.

**15 Contingent asset**

Under the terms of the Scheme, the company is able to pay elective defence costs. Where these exceed the dividend payable by the company, the excess is set off against future dividend entitlements to the same policyholder.

Following negotiations between the directors and the Scheme Administrators with FSCS in respect of defence costs incurred on pre 1972 claims made under the Third Parties (Rights Against Insurers) Act 1930, the FSCS has agreed that, for such claims, it can be treated in the same way as a solvent policyholder thus deducting defence costs funded by Holdings from dividends payable to FSCS on a rolling account basis for each individual insolvent policyholder.

At 31 December 2016, the company had a contingent asset comprising the value of elective defence costs paid in excess of dividend entitlements. The recoverability of this asset is dependent upon future claims arising from the same policyholders and as such cannot be estimated with reliability, and accordingly this asset is not included in the Balance Sheet.

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESTER STREET INSURANCE HOLDINGS LIMITED (In Scheme of Arrangement)**

We have audited the financial statements on pages 6 to 19, which have been prepared on a break-up basis. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

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 auditors' 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 auditors**

As explained more fully in the statement of directors' responsibilities set out on page 4 and 5, 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 the financial statements in accordance with applicable law and International Standards of 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 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 strategic report and directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Emphasis of matters**

In forming our opinion, we have considered the adequacy of the disclosure made in the financial statements in respect of:

**Latent Disease:** The financial statements include provisions for gross notified and incurred but not reported outstanding claims of £2,433m (2015: £2,728m). These provisions rely on a considerable degree of judgement due to the uncertainty as to the number of claims that will emerge and the amounts at which they will be settled and could be materially different to the amounts stated. Details of the circumstances relating to this fundamental uncertainty are described in note 3 (continued) on page 14.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESTER STREET  
INSURANCE HOLDINGS LIMITED (In Scheme of Arrangement) (continued)**

**Emphasis of matters (continued)**

**Claims Handling:** The financial statements include a claims handling provision of £70.0m (2015: £97.9m). The ultimate cost of claims handling is dependent upon future events and could be materially different to the amount stated. Details of this fundamental uncertainty are described in note 3 (continued) on page 14.

**Run-Off Expenses:** The financial statements include a discounted run-off provision of £32.6m (2015: £31.3m) for estimated operational costs of the run-off. The ultimate cost of the run-off is dependent upon future events and could be materially different from the amount provided. Details of this fundamental uncertainty are described in note 10(b) on page 17.

Given the nature of these issues, it is not possible to quantify the potential effects of the resolution of these uncertainties.

Our opinion is not qualified in respect of the above matters.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

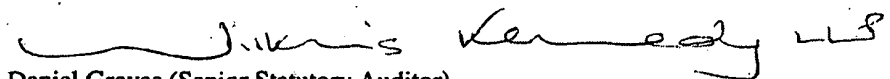
- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

**Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received by branches not visited by us; or
- the financial statements 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.

  
Daniel Graves (Senior Statutory Auditor)  
For and behalf of Wilkins Kennedy LLP  
Statutory Auditor  
Chartered Accountants  
Bridge House  
London Bridge  
London  
SE1 9QR

29 November 2017