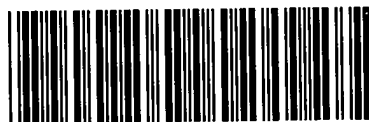


CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

ANNUAL REPORT AND ACCOUNTS

31 DECEMBER 2014

TUESDAY



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COMPANIES HOUSE

Company Number: 03406899

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

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 Schwarzmman, M C Batten
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

10-18 Union Street
London SE1 1SZ

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

The Directors have pleasure in presenting their strategic report for the year ended 31 December 2014.

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 Schwarzmann 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 Schwarzmann 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 Schwarzmann and Mark Batten were no longer Provisional Liquidators of Holdings, but remained as Scheme Administrators.

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, Innovation and Skills ('BIS'), 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.

Results

The results for the year ended 31 December 2014 are set out in the profit and loss account on pages 8 and 9.

This year's technical provisions have been adjusted according to the results of the year-end 2014 PwC actuarial projections of IBNR claims liabilities. These projections are based on stochastic models using Chester Street's exposure and claims data and the work of the Institute of Actuaries UK Asbestos Working Party ('AWP').

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

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:

	2014	2013
	£'m	£'m
Claims paid	93.1	89.5
Profit/(loss) for the financial year	36.7	(121.2)
Financial investments	170.3	160.5
Technical provisions	3,111.1	3,221.8

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, PricewaterhouseCoopers LLP, 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 Profit and Loss Account – Technical Account – General Business on page 8, 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.

Legal developments

Legal Aid, Sentencing and Punishment of Offenders Act ("LASPO") and Mesothelioma Claims

On 2 October 2014 the High Court handed down its judgment on whether mesothelioma claims should become subject to LASPO. The court held that the consultation undertaken by the Ministry of Justice was insufficient to assess the likely effects of the reforms on the needs for mesothelioma victims.

The Government will undertake a review under s.48 of LASPO in due course to identify the likely effects of the LASPO reforms on mesothelioma cases and will then consider whether, in the light of that review, there is a case to maintain the exception of these cases from those reforms.

As a result there has been no change to the current position that mesothelioma claims are exempt from the provisions of LASPO.

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

Legal developments (continued)

Recovery of Medical Costs for Asbestos Diseases (Wales) Bill

On 9 February judgment was handed down by the Supreme Court on the Recovery of Medical Costs for Asbestos Diseases (Wales) Bill. The five justices found that unless and until the devolution settlement with Wales is significantly changed, the Bill remains outside the competence of the Welsh Assembly.

Recovery of Medical Costs for Asbestos Diseases (Scotland) Bill

On 5 January a draft proposal was lodged for a Bill to enable the Scottish Ministers to recover, from anyone responsible for paying compensation to a victim of asbestos-related disease, certain costs incurred by the NHS in Scotland in providing care and treatment to that victim. The consultation closed on 30 March 2015.

There has been no final proposal since the consultation closed.

McDonald (Deceased) v National Grid Electricity Transmission Plc

The deceased was diagnosed with mesothelioma in July 2012 and it was believed that he was exposed to asbestos in the course of his work as a lorry driver. The case considered the applicability of Regulation 2(a) of the Asbestos Industry Regulations 1931 to factories not engaged in the manufacture of asbestos products but making lagging paste for insulation in a power station.

After dismissal of the claim at its first instance and its success before the Court of Appeal the case came before the Supreme Court in February 2014. By a majority of three to two it was found that there was a liability under the Asbestos Industry Regulations 1931.

The case and the broad interpretation of the application of the 1931 Regulation potentially has implications for other employers where transient asbestos exposure is alleged prior to 1970.

Diffuse Mesothelioma Payment Scheme ("DMPS")

On 28 November 2014 the DMPS came into force, the scheme makes payments to eligible victims, or eligible dependents of those who have died with diffuse mesothelioma, and who currently have no redress to compensation. Mesothelioma sufferers diagnosed after 25 July 2012 who are unable to trace an insurer or compensator are eligible to make a claim under the scheme.

Regulations require active employers' liability insurers to pay an annual levy based on their relative market share for the purpose of meeting the full costs of the DMPS. As Chester Street Insurance Holdings Limited is not an active employers' liability insurer it does not contribute towards the DMPS.

International Energy Group Ltd v Zurich Insurance Plc UK

Judgment was handed down by the Supreme Court in May 2015. This case concerns the issue of liability for uninsured periods of cover. The Court concluded that Zurich's liability to IEG was proportionate to its time on risk. Therefore, whilst an insurer may have to pay a mesothelioma claim in full at the outset, they are entitled to a right of contribution on a pro rata basis from any other insurer or solvent employer who was also on risk. The Court drew a distinction between damages and costs and stated that an insurer was liable for 100% of the defence costs even where they were not responsible for 100% of the damages.

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

Legal developments (continued)

The Financial Services Compensation Scheme is currently considering their position in light of the above.

Guideline Hourly Rates

The Civil Justice Council's Costs Committee has produced its recommendations for the new guideline hourly rates. The report has been reviewed by the Masters of the Rolls, Lord Dyson, who has confirmed that the existing rates will remain in force for the foreseeable future.

Therefore, there is no change from the current position regarding the guideline hourly rates which have remained at the same level since 2010.

Criminal Justice and Courts Bill: 'fundamentally dishonest' clause

The Criminal Justice and Courts Bill was introduced into the House of Commons on 5 February 2014 and received Royal Assent on 12 February 2015. It requires courts to dismiss the whole of a claimant's claim if it is satisfied that the claimant has been 'fundamentally dishonest'.

Reports in the market indicated that dismissal of 'fundamentally dishonest' claims could have a multi-million pound impact on the market.

10-18 Union Street
London
SE1 1SZ

By order of the board



R E Beveridge
Secretary
10 September 2015

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

The Directors have pleasure in presenting their report and financial statements for the year ended 31 December 2014.

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 Report of the Directors 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). The financial statements are required by law to give a true and fair view 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 accounts; and
- prepare the financial statements on a break up basis as it is inappropriate to presume that the Company is a going concern.

The Directors confirm that they have complied with the above requirements when preparing the accounts.

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2014

Statement of Directors' responsibilities (continued)

The Directors are responsible for keeping proper accounting records which 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

10-18 Union Street
London
SE1 1SZ



R E Beveridge
Secretary
10 September 2015

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2014

Technical Account – General Business
Discontinued operations

	Note	2014 £'m	2013 £'m
Claims paid			
- gross amount		86.2	83.0
- handling costs		6.9	6.5
	2	93.1	89.5
Change in the provision for claims			
- gross amount		(103.8)	36.5
- handling costs		(6.9)	(6.5)
		(110.7)	30.0
Claims incurred		(17.6)	119.5
Net operating expenses	5	4.5	0.6
Total technical charge		(13.1)	120.1
Balance on the technical account for general business		13.1	(120.1)

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2014

Non-Technical Account			
Discontinued operations	Note	2014 £'m	2013 £'m
Balance on the technical account for general business		13.1	(120.1)
Investment income	6	8.9	15.3
Unrealised gains/(losses) on investments		14.9	(16.2)
		23.8	(0.9)
Investment expenses and charges		(0.2)	(0.2)
Profit/(loss) on ordinary activities before tax		36.7	(121.2)
Tax on ordinary activities	7	-	-
Profit/(loss) retained for the financial year	10	36.7	(121.2)

The Company has no recognised gains or losses other than the results for the current and preceding years.

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

BALANCE SHEET

AS AT 31 DECEMBER 2014

Assets	Note	2014 £'m	2013 £'m
Investments			
Other financial investments	8	170.3	160.5
Debtors			
Amounts owed by group undertakings		0.1	0.1
Other debtors		0.8	0.3
		0.9	0.4
Other assets			
Cash at bank and in hand		2.5	1.5
Prepayments and accrued income			
Accrued interest		1.4	1.6
Prepaid expenses		1.6	1.5
		3.0	3.1
Total assets		176.7	165.5

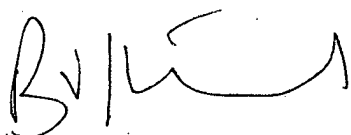
CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

BALANCE SHEET

AS AT 31 DECEMBER 2014

Liabilities	Note	2014	2013
		£'m	£'m
Reserves			
Share capital	9	5.0	5.0
Other reserves	10	66.3	66.3
Profit and loss account	10	(3,885.3)	(3,922.0)
Shareholders' funds attributable to equity interests	11	(3,814.0)	(3,850.7)
Technical provisions			
Claims outstanding	3	3,111.1	3,221.8
Provisions for other risks and charges	12(b)	31.1	28.6
Creditors			
Other creditors		1.2	0.6
Scheme creditors	2	846.4	764.2
		847.6	764.8
Accruals and deferred income		0.9	1.0
Total liabilities		176.7	165.5

Approved by the board on 10 September 2015



B V Strickland
Director



W J Cain
Director

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1 Accounting policies

Basis of presentation

The financial statements have been prepared under the historical cost convention and comply with applicable accounting standards. They also comply with the guidance on Accounting for Insurance Business issued by the Association of British Insurers in November 2003.

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.

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.

Investments

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

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1 Accounting policies (continued)

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.

Taxation

Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax balances are not discounted.

The reduction in the main rate of corporation tax included in the March 2013 Budget to 20 per cent from 1 April 2015 was substantially enacted in the Finance Bill 2013. Deferred tax assets and liabilities with balance sheet dates on or after 2 July 2013 are measured as being realised or settled based on the new 20 per cent rate.

Deferred tax assets are recognised to the extent they are regarded as recoverable. Assets are regarded as recoverable when it is more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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 BIS. 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:

	2014	2013
	£'m	£'m
Notified outstanding claims	487.4	451.5
Incurred but not reported claims	2,518.8	2,658.5
	3,006.2	3,110.0
Claims handling provision	104.9	111.8
	3,111.1	3,221.8

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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. However, during the last few years there has also been a very significant increase in the volume of new deafness claims.

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 initial payment percentage to 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 £104.9m (2013: £111.8m). 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 ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2014

4 Run-off expenses

	2014 £'000	2013 £'000
Included in run-off expenses are:		
Auditors' remuneration		
- Audit services	35	30
- Other services	3	3
Directors' emoluments (see note 4.1)	50	50

4.1 Directors' emoluments

	2014 £'000	2013 £'000
Aggregate emoluments	50	50

Aggregate emoluments of highest paid Director

	2014 £'000	2013 £'000
Aggregate emoluments	22	22

4.2 Employment costs

	2014 £'000	2013 £'000
Wages and salaries	50	50
Social security costs	2	4
	52	54

4.3 Average number of employees

The average number of employees during the year was 3 (2013: 3).

5 Operating expenses

	Note	2014 £'m	2013 £'m
Increase in run-off provision	12(b)	4.5	0.6
		4.5	0.6

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2014

6 Investment income

	2014	2013
	£'m	£'m
Income from investments	5.7	4.9
Realised gains on investments	3.2	10.4
	<u>8.9</u>	<u>15.3</u>

7 Taxation

	2014	2013
	£'m	£'m
Current tax		
UK corporation tax	-	-

Factors affecting tax charge for period

Profit/(loss) on ordinary activities before tax	36.7	(121.2)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax of 21% (2013: 23%)	7.9	(28.2)
Effects of:		
Losses utilised	(7.9)	-
Unutilised trading losses carried forward	-	28.2
Current tax charge for the year	-	-

8 Other financial investments

	Current Value		Cost	
	2014	2013	2014	2013
	£'m	£'m	£'m	£'m
Listed investments				
Debt securities and other fixed income securities	170.3	160.5	158.3	163.4

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2014

9 Share capital

	2014 £'m	2013 £'m
Allotted, called up and fully paid		
5,000,002 ordinary shares of £1 each	5.0	5.0

10 Reserves

	Other reserves £'m	Profit & loss account £'m	Total £'m
2014			
At 1 January	66.3	(3,922.0)	(3,855.7)
Retained profit for the financial year	-	36.7	36.7
At 31 December	66.3	(3,885.3)	(3,819.0)

	Other reserves £'m	Profit & loss account £'m	Total £'m
2013			
At 1 January	66.3	(3,800.8)	(3,734.5)
Retained loss for the financial year	-	(121.2)	(121.2)
At 31 December	66.3	(3,922.0)	(3,855.7)

11 Reconciliation of movement in shareholders' equity interests

	2014 £'m	2013 £'m
At 1 January	(3,850.7)	(3,729.5)
Profit/(loss) for the financial year	36.7	(121.2)
At 31 December	(3,814.0)	(3,850.7)

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2014

12 Provisions for other risks and charges

a) Deferred taxation

There is an unrecognised deferred tax asset of £765m (2013: £772m) in respect of trading losses. Deferred tax has not been recognised as it is unlikely that there will be sufficient suitable profits in future periods to recover the losses.

b) Provision for run-off expenses

	2014	2013
	£'m	£'m
Balance at 1 January	28.6	30.0
Utilisation of provision	(2.0)	(2.0)
Increase in provision	4.5	0.6
Balance at 31 December	<u>31.1</u>	<u>28.6</u>

The provision for run-off expenses totals £31.1m (2013: £28.6m). 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 1.6% (2013: 2.57%), a rate justified by anticipated investment income. No further deduction for anticipated investment income has been made. The undiscounted provision is £37.9m (2013: £39.1m). The average settlement period assumed in discounting this provision is 11.8 years (2013: 11.2 years).

13 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 10-18 Union Street, London SE1 1SZ.

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2014

14 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.

15 Related party transactions

In the opinion of the Directors, the following may be considered to be Related Parties in terms of Financial Reporting Standard No. 8 (FRS 8) "Related Party Disclosures", the value of transactions with who are required to be disclosed:

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

Amounts paid in cash book during the year:	2014	2013
	£'m	£'m
PricewaterhouseCoopers LLP		
- Scheme administration fees	1.6	1.9
- Other services and fees	0.3	0.2
Capita Insurance Services Limited	7.1	6.6
Amounts included in accruals at 31 December:	2014	2013
	£'m	£'m
PricewaterhouseCoopers LLP	0.1	0.1
Capita Insurance Services Limited	0.8	0.9
Amounts included in prepayments at 31 December:	2014	2013
	£'m	£'m
Capita Insurance Services Limited	1.6	1.5

CHESTER STREET INSURANCE HOLDINGS LIMITED
(In Scheme of Arrangement)

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2014

15 Related party transactions (continued)

Amounts included in provisions at 31 December:

The discounted run-off provision of £31.1m (2013: £28.6m) and undiscounted claims handling provision of £104.9m (2013: £111.8m)

	2014	2013
	£'m	£'m
PricewaterhouseCoopers LLP *	27.9	25.6
Capita Insurance Services Limited	104.9	111.8

* This excludes unrelated fees for IT, audit, Directors', D&O insurance and other consultancy

The Company has taken advantage of the exemption under FRS 8 not to disclose transactions with other group companies where 90% or more of the voting rights are controlled within the group.

16 Contingent asset

Under the terms of the Scheme, the Company is required to pay all elective defence costs. Where these exceed the payment dividend payable by the Company, the excess can be set off against future payment dividends 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 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 2014, the Company had a contingent asset comprising the value of elective defence costs paid in excess of payment dividends. 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. The repayment of defence costs by the FSCS following the Geologistics judgment will reduce the value of the contingent asset.

17 Segmental reporting

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

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 8 to 20, which have been prepared on a break-up basis and the accounting policies set out on pages 12 and 13.

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 6 and 7, 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 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. 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 2014 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 £3,006.2m (2013: £3,110.0m). 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 £104.9m (2013: £111.8m). 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 £31.1m (2013: £28.6m) 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 12(b) on page 18.

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 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.

Matters on which we are required to report by exception

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.

Wilkins Kennedy LLP

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

10 September 2015