

# **TABLE OF CONTENTS**

SUMMARY	2
DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF THE SOLVENCY AND FINANCIAL CONDITION REPORT ("SFCR")	4
A. BUSINESS AND PERFORMANCE A.1 Business A.2 Underwriting performance A.3 Investment performance A.4 Performance of other activities A.5 Any other information	5 5 12 14 14
B. SYSTEM OF GOVERNANCE B. I General information on the system of governance B. 2 Fit and proper requirements B. 3 Risk management system including the own risk and solvency assessment B. 4 Internal control system B. 5 Internal audit function B. 6 Actuarial function B. 7 Outsourcing B. 8 Any other information	15 15 23 24 32 35 36 37 37
C. RISK PROFILE  C. I Underwriting risk  C.2 Market risk  C.3 Credit risk  C.4 Liquidity risk  C.5 Operational risk  C.6 Other material risks  C.7 Any other information	38 39 39 40 40 40
D. VALUATION FOR SOLVENCY PURPOSES D.1 Assets D.2 Technical provisions D.3 Other liabilities D.4 Alternative methods for valuation D.5 Any other information	46 46 57 65 70
E. CAPITAL MANAGEMENT  E.1 Own funds  E.2 Solvency Capital Requirement and Minimum Capital Requirement  E.3 Use of the duration-based equity risk sub-module in the calculation of the Solvency Capital Requirement  E.4 Differences between the standard formula and any internal models used  E.5 Non-compliance with the MCR and significant non-compliance with the SCR  E.6 Any other information	<b>71</b> 71 77 79 79 79
F. GLOSSARY OF TERMS	80
G. ANNEX – QUANTITATIVE REPORTING TEMPLATES  S.02.01.02 - Balance Sheet  S.05.01.02 - Premiums, claims and expenses by line of business  S.05.02.02 - Premiums, claims and expenses by country  S.23.01.22 - Own funds  S.25.01.22 - Solvency Capital Requirement – for undertakings on Standard Formula  S.32.01.22 - Undertakings in the scope of the group	81 81 83 84 85 87

# **SUMMARY**

#### **BACKGROUND**

This Solvency and Financial Condition Report ('SFCR') has been prepared for the Chesnara plc group ('Chesnara', 'the group'), for the year ended 31 December 2018. This report has been prepared for the benefit of policyholders and other parties who have an interest in the solvency and financial condition of the group. In accordance with the Solvency II framework, this report follows a standardised structure and includes specific content to meet the detailed reporting requirements of the framework.

During 2018, the PRA issued PS25/18 "Solvency II: External audit of the public disclosure requirement". This policy statement states that companies are no longer required to have an external audit of the SFCR should the company's financial position be below certain thresholds that are correlated to the size of the company. This extends to groups, in which every UK Solvency II firm meets the criteria for exemption under PS25/18. The only UK solvency II firm in the group is Countrywide Assured plc, which falls below the threshold for a mandatory audit. Therefore, the group has elected not to have the group SFCR audited.

A summary of this report has been provided below. It focuses on key messages and highlights key changes during 2018 that have been reported in the main body of the report. To aid the reader, the summary has been prepared to follow the structure of the main body of the report.

#### A. BUSINESS AND PERFORMANCE

This section of the report provides background information on the group and its performance. Chesnara plc is a listed life insurance and pension consolidator holding company and has its shares admitted for trading on the London Stock Exchange. The Chesnara group has life insurance and pensions operations in the UK, Sweden and the Netherlands and a fund management company based in Luxembourg. The UK division and Dutch-based Waard Group are substantially closed to new business. Open-book operations consist of the Swedish division and the Dutch business, Scildon. Key highlights for the group's business performance during the year include:

- Group solvency of 158% at 31 December, an improvement from the prior year end, which was 148%;
- The group underwriting performance, taken as being the IFRS profit before tax as included in the group's financial statements, of £27.0m (2017: £89.6m); and
- FCA investigation in the UK closed without further actions.

#### **B. SYSTEMS OF GOVERNANCE**

This section of the report provides information on the overall governance structure of the group and its risk management and internal control system. It details the Chesnara board's overall responsibilities and how it delivers these through the use of its subcommittees and interaction with the boards operating in each of its divisions. The Chesnara board sets the culture and values of how the group operates and it is the Chesnara board's responsibility to ensure that this is implemented across the group. It manages this through the utilisation of group and divisional corporate governance maps. This section of the report also provides insight into the remuneration practices and policies of the group and how these promote management behaviours that are aligned with its strategic aims. The key item to note is that we have further aligned the governance within Scildon with that of the wider group, including the appointment of John Deane to Scildon's Supervisory Board.

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

#### C. RISK PROFILE

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

# **SUMMARY** (CONTINUED)

#### D. VALUATION FOR SOLVENCY PURPOSES

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

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

A summary of the group's assets and liabilities at 31 December 2018 and 31 December 2017 has been provided below:

	31 December 2018	31 December 2017
	£m	£m
Assets	7,390.0	8,069.6
Net technical provisions	(6,510.7)	(6,968.9)
Other liabilities	(300.9)	(439.3)
Assets less liabilities	578.4	661.4

#### E. CAPITAL MANAGEMENT

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

During 2018, there have been no significant changes in the way the group and its divisions and business units manage their capital. The board approved capital management policies that are implemented across the group, underpin any capital related decisions and have remained materially unchanged over the reporting period.

The group and its subsidiaries have not utilised any aspects of the longer-term guarantee package when calculating their solvency positions and the group's solvency position at 31 December 2018 remains above the board's minimum requirements.

	31 December 2018	31 December 2017
	£m	£m
Assets less liabilities	578.4	661.4
Own shares (held directly or indirectly)	_	(0.1)
Foreseeable dividends	(20.2)	(19.6)
Restricted own funds in ring fenced funds	(5.7)	(26.5)
Own funds	552.5	615.2
Solvency Capital Requirement (SCR)	349.6	421.8
Surplus own funds over SCR	202.9	193.4
Ratio of eligible own funds to SCR	158.0%	145.8%

- The group has own funds (representing the net assets and liabilities of the group as measured on a Solvency II basis) that exceed the capital requirements of the group by £202.9m (31 December 2017: £193.4m).
- The closing surplus in the ring-fenced funds was £5.7m. The movement since the prior year reflects a £26.8m transfer to the shareholder funds, This transfer was subject to regulatory approval in order to confirm that it was not to the detriment of policyholders.
- The group has a solvency ratio of 158.0% at 31 December 2018 (31 December 2017: 145.8%), stated after the 2018 final dividend of £20.2m, which is due to be paid on 24 May 2019.
- All of the group's own funds are classified as Tier 1 capital, consisting of shareholders' equity and retained earnings.

# DIRECTORS' RESPONSIBILITY STATEMENT IN RESPECT OF THE SOLVENCY AND FINANCIAL CONDITION REPORT

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

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

Each director certifies that:

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

By order of the board:

Spelo

John Deane Chief Executive Officer

23 May 2019

**David Rimmington** Finance Director

23 May 2019

#### A. BUSINESS AND PERFORMANCE

#### A.I Business

#### A.1.1 Name and legal form

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

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

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

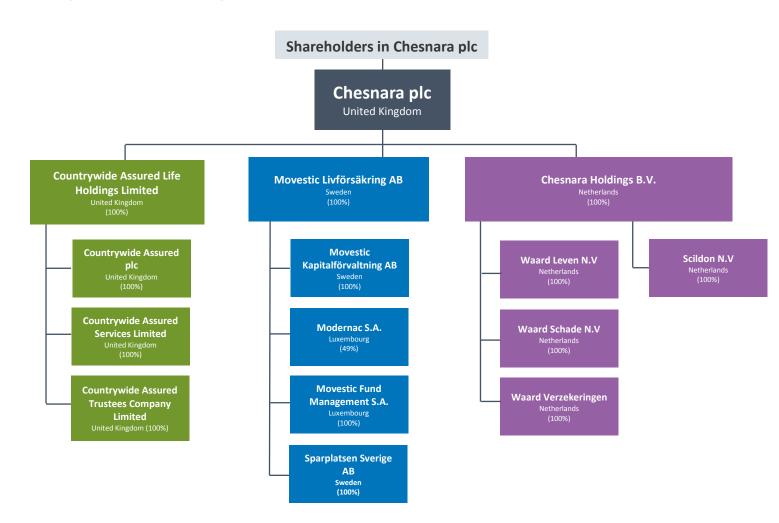
#### A.1.3 Name and contact details of external auditor

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

Deloitte LLP is the group's appointed external auditor, responsible for the audit of the group's IFRS financial statements. Previously, Deloitte were also responsible for the audit of this report, however this is no longer the case as the group has utilised an exemption from the requirement to have the SFCR audited, which was applied in 2018 following new rules issued by the PRA.

#### A.1.4 Shareholders and position within the group

The organisational structure of the group is shown below as at 31 December 2018.



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

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

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

# A.I Business (continued)

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

**Movestic (Swedish business)**: Movestic Livforsakring AB is the Swedish business which is open to new business and writes life assurance and pension business. Movestic Kapitalforvaltning AB is an investment fund management company and subsidiary of Movestic Livforsakring. Sparplatsen Sverige AB is software company used to automate the investment advisory tool, which is a subsidiary of Movestic Livforsakring was acquired during 2018. Modernac SA is a Luxembourg based reinsurance company, in which Movestic Livforsakring AB has 49% share.

**Waard (Dutch closed-book business)**: Chesnara Holdings BV acts as an intermediate holding company for the Dutch businesses. Waard Leven NV, and Waard Schade are both insurance companies that are closed to new business. Waard Verzekeringen NV is a service company, providing administrative services to the other businesses in the Waard group and outsourced administration services to unrelated third parties.

**Scildon (Dutch open-book business)**: Chesnara Holdings BV is also the intermediate holding company of Scildon NV (previously called Legal & General Nederland NV), which writes new business and sells protection, individual savings and group pensions.

# A.1.5 Material lines of business and material geographical areas where business is carried out A.1.5.1 Management segments:

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

- 'Countrywide Assured': This segment is the group's UK life insurance and pensions run-off portfolio and comprises the following historical businesses:
  - o the original business of Countrywide Assured plc, the group's principal UK operating subsidiary.
  - the business of City of Westminster Assurance Company Limited which was acquired in 2005 and transferred into Countrywide Assured plc during 2006.
  - o the 'Save & Prosper' business which was purchased by the Chesnara plc group in 2010. The business was transferred into Countrywide Assured plc during 2011. This business consists mostly of life and pension business, the vast majority of which is pension-related. Some of this business is with-profits in nature. There are maturity guarantees on all of this with-profits business, including guaranteed minimum pensions and guaranteed minimum fund values. This business also contains index-linked and unit-linked insurance.
  - the business of Protection Life Limited, which was purchased during 2013 and transferred into Countrywide Assured plc on 31 December 2014.

This business consists of index-linked and unit-linked insurance which makes up the vast majority of life insurance business managed by CA plc. The business mainly consists of endowment contracts, whole life assurance contracts and pension contracts, and also includes some term assurance, annuity and health insurance contracts. This business also contains some with-profits business, which is 100% re-insured with ReAssure Limited;

- 'Movestic': This segment comprises the group's Swedish life and pensions business, Movestic Livförsäkring AB ('Movestic') and its subsidiary and associated companies, which are open to new business and which are responsible for conducting both unit-linked pensions and savings business and providing some life and health product offerings. Within the Swedish division, Movestic's subsidiary, Movestic Kapitalförvaltning AB, performs investment fund management services, for which it receives related investment management fees. Movestic also has a 49% stake in an associate company, Modernac S.A., which is a Luxembourg based reinsurance operation.
- 'Waard Group': This segment represents the group's closed-book Dutch life and general insurance business, which was acquired in 2015 and comprises the two insurance companies Waard Leven N.V. and Waard Schade N.V., and a servicing company, Waard Verzekering. The Waard Group is closed to new business and its policy base is predominantly made up of term life policies, although also includes unit-linked policies and some non-life policies, covering risks such as occupational disability and unemployment.
- 'Scildon': this segment, which was acquired in April 2017, consists of the group's Dutch open-book life and pensions company, which is responsible for writing and conducting protection, savings and group pension 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.

#### A.1.5.2 Significant intra group transactions

Chesnara plc undertakes centralised administration functions (predominantly for the UK Business), the costs of which it charges back to its operating subsidiaries as an expense recovery at zero mark-up. During the years ended 31 December 2018 and 31 December 2017, the company recharged £4.0m and £3.3m respectively to its operating subsidiaries.

Movestic undertakes reinsurance transactions with its associate company, Modernac. During 2018 and 2017, net reinsurance payments to Modernac amounted to £4.4m and £6.7m respectively. Amounts outstanding in relation to these transactions at 31 December 2018 were £2.7m (31 December 2017: £2.4m).

# A.I Business (continued)

# A.1.5 Material lines of business and material geographical areas where business is carried out (continued) A.1.5.3 Solvency II lines of business:

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

	Net technical provisions (SII measurement basis) 2018						
Line of business	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total	
Geographical area	UK	Sweden	Netherlands	Netherlands	UK		
	£'000	£'000	£'000	£'000	£'000	£'000	
Life insurance:							
With-profits insurance business	286,083	_	_	_	_	286,083	
Index-linked and unit-linked insurance	1,520,256	2,603,668	16,517	1,340,730	34,914	5,516,085	
Other life insurance	140,654	1,870	48,248	280,397	_	471,169	
Total life insurance	1,946,993	2,605,538	64,765	1,621,127	34,914	6,273,337	
Health insurance:							
Health insurance	210,992	22,904	3,446	_	_	237,342	
Total health insurance	210,992	22,904	3,446	-	-	237,342	
Total	2,157,985	2,628,442	68,211	1,621,127	34,914	6,510,679	

	Net technical provisions (SII measurement basis) 2017						
Line of business	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total	
Geographical area	UK	Sweden	Netherlands	Netherlands	UK		
	£'000	£'000	£'000	£'000	£'000	£'000	
Life insurance:							
With-profits insurance business	304,434	_	_	_	_	304,434	
Index-linked and unit-linked insurance	1,783,586	2,680,059	24,889	1,396,354	26,037	5,910,925	
Other life insurance	148,985	2,021	55,885	274,542	_	481,433	
Total life insurance	2,237,005	2,682,080	80,774	1,670,896	26,037	6,696,792	
Health insurance:							
Health insurance	241,733	25,927	4,428	_	_	272,088	
Total health insurance	241,733	25,927	4,428	_	_	272,088	
Total	2,478,738	2,708,007	85,202	1,670,896	26,037	6,968,880	

	Net premiums earned (IFRS measurement basis)* 2018						
Line of business	Countrywide Assured	Movestic	Waard Group	Scildon	Total		
Geographical area	UK	Sweden	Netherlands	Netherlands			
	£'000	£'000	£'000	£'000	£'000		
Life insurance							
With-profits insurance business	1,514	_	_	2,906	4,420		
Index-linked and unit-linked insurance	13,495	397,022	721	105,877	517,115		
Other life insurance	9,841	6,300	1,050	61,208	78,399		
Total life insurance	24,850	403,322	1,771	169,991	599,934		
Health insurance							
Health insurance	12,384	7,872	(73)	_	20,183		
Total health insurance	12,384	7,872	(73)	_	20,183		
Total	37,234	411,194	1,698	169,991	620,117		

# A.I Business (continued)

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

A.1.5.3 Solvency II lines of business (continued):

	Net premiums earned (IFRS measurement basis)* 2017						
Line of business	Countrywide Assured	Movestic	Waard Group	Scildon	Total		
Geographical area	UK	Sweden	Netherlands	Netherlands			
	£'000	£'000	£'000	£'000	£'000		
Life insurance							
With-profits insurance business	1,765	_	_	2,634	4,399		
Index-linked and unit-linked insurance	15,882	379,602	1,109	65,578	462,171		
Other life insurance	10,930	6,550	1,279	52,411	71,170		
Total life insurance	28,577	386,152	2,388	120,623	537,740		
Health insurance							
Health insurance	13,938	8,889	(161)	_	22,666		
Total health insurance	13,938	8,889	(161)	_	22,666		
Total	42,515	395,041	2,227	120,623	560,406		

<sup>\*</sup> Net premiums earned as reported in the above table reflect premiums received on all policies in force during the year. This includes premiums on certain unit-linked savings and pensions policies that are categorised as "investment contracts" for IFRS reporting purposes in the group's Annual Report & Accounts. Where products are classified as "investment contracts" for IFRS reporting purposes the premiums received on such products are "deposit accounted" for, which means the premiums are not reported in the income statement. Consequently the premiums reported above do not agree to those reported in the company's 2018 IFRS financial statements.

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

#### Product mix within the material line of business

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

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

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

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

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

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

		MAXIMISE	VALUE FI BUSINE		existing	ENHANCE VALUE THR	OUGH	ACQUIRE LIFE AND PENSIONS		
i	MODEL	Capital and value management	Custor		Governance	PROFITABLE NEW BUS	SINESS		BUSINESSES	
	SUSINESS N	CULTURE & VALUES								
BUS	BASED			R TREATMENT O CUSTOMERS	COMPETITIVE RETURN TO SHAREHOLDER	ROBUST REGULATORY COMPLIANCE		MAINTAIN ADEQUATE FINANCIAL RESOURCES		

# A.I Business (continued)

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

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

#### Strategic focus:

AREA OF FOCUS	Summary for 2018
	UK
	<ul> <li>Cash generation of £55.8m emerged during the year despite volatile equity markets, including £26.8m arising from a transfer of surplus capital from the company's with-profit funds following approval by the Financial Conduct Authority.</li> <li>Proposed final dividend to Chesnara of £59.0m.</li> <li>Looking through the impact of dividends, the EcV of the division reduced by £8m since the start of the year, largely as a result of the fall in equity markets in 2018.</li> <li>IFRS pre-tax profits of £28.2m generated in the period.</li> </ul>
	SWEDEN
	<ul> <li>Cash of £19.4m has been generated, on constant exchange rates (£18.1m post foreign exchange retranslation).</li> <li>IFRS profit of £9.3m.</li> </ul>
	<ul> <li>Assets under management resilient despite investment market drop in the period, on constant exchange rates.</li> </ul>
	<ul> <li>The transfer market remains intense. Movestic reflects the market trend with transfers in at a similar level to outgoing transfers.</li> </ul>
	<ul> <li>The division has implemented an operational change programme, designed to improve efficiencies and</li> </ul>
Capital and value management	<ul> <li>reduce costs within the business and hence combat the impact of price pressure.</li> <li>The Swedish Krona has weakened against sterling by 3.2% during the year, resulting in retranslation losses being reported in EcV and cash generation. During 2017, the Swedish Krona strengthened by 0. 6%.</li> </ul>
	<ul> <li>Equity markets developed negatively during the fourth quarter resulting in a negative investment return for the full year.</li> </ul>
	NETHERLANDS
	<ul> <li>During 2018, Waard and Scildon paid dividends to Chesnara of £12.9m and £21.7m respectively and ended the period with healthy solvency ratios of 624% and 203%. Further combined distributions of £8.4m are due in 2019 in respect of 2018.</li> </ul>
	<ul> <li>Including the impact of foreign exchange, Scildon has reported an EcV loss of £30.0m with Waard delivering a profit of £2.3m. The loss in Scildon is primarily driven by adverse asset valuation movements from widening credit spreads on corporate and certain government bonds together with updated mortality</li> </ul>
	assumptions to reflect the latest industry data.  - Cash utilisation of £10.0m, represents a £7.8m gain from Waard primarily due to SCR reductions, offset
	by a cash loss of £17.8m from Scildon.  - IFRS profit of £1.7m reflects a £2.8m profit in Waard offset by a £1.1m loss in Scildon.
	<ul> <li>Progressed a focused plan for Scildon to drive improvements in new business development, cost management and organisational structure.</li> </ul>
	<ul> <li>Aligned some functions between the two Dutch businesses to provide operational efficiencies.</li> </ul>
	Capital and value

Note 1: Economic value (EcV) is a financial metric that is used by the group as in indicator of its commercial value at a given point in time. Economic value is closely linked to the group's Solvency II own funds but includes certain adjustments that, in the group's view, are required to provide a more commercially meaningful valuation as compared with Solvency II own funds. Further information on economic value can be found in the glossary of terms.

Note 2: Cash generation is a financial metric that is used by the group to articulate how much additional distributable surplus capital has been generated in the period. Further information on the cash generation definition can be found in the glossary of terms.

# A.I Business (continued)

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

	AREA OF FOCUS	Summary for 2018
		UK
	Customer outcomes	<ul> <li>On 19 September 2018, the FCA announced that it had closed its investigation, without further action, into whether CA had failed to meet the standards expected of it regarding the fair treatment of long-standing customers.</li> <li>The division's customer strategy implementation plan has continued to be progressed during the year. Key items of delivery have included:         <ul> <li>Reviewing key event communications with customers and making sure they meet the expected standards. This work will continue into 2019.</li> <li>Updating the CA website to improve the accessibility of information that customers may wish to refer to. A second phase roll-out to provide more information on fund unit prices and performance, as well as enhanced information on savings and protection products, was progressed during 2018 and went live in 2019.</li> </ul> </li> <li>The business has continued its programme to stay in touch with customers through its "goneaways" programme.</li> <li>Good customer services standards have been maintained throughout the year.</li> <li>SWEDEN</li> <li>Policyholder average investment return of -6.0 % in the year (2017: +8.2%), ahead of the Swedish stock</li> </ul>
MAXIMISE VALUE FROM EXISTING BUSINESS		market return of -7.7%.  Fees have been lowered in Movestic's funds to strengthen its customer proposition.  Movestic was elected as one of the unit linked providers in the procurement of the collective agreement ITP, where 2 million clients have their occupational pension solution. The offering was made available on 1 October and was combined with our digital investment advisory tool MAIA. This is the first time that this kind of solution was made available for this group of clients. It should be noted that this represents low margin business.  NETHERLANDS  Updated the Scildon service desk to enhance the 'customer journey' for IFAs and consumers.  Scildon has again received an award from Afdiz, the Dutch broker organisation. In 2018, the business was awarded "Best occupational pension insurer" and was rated second for term insurance.  The annual performance research for consumers shows high scores.
MAXIMISE VA	Governance	Group-wide  A critical aspect of managing the value of the group is ensuring compliance with rules and regulations. As such, a key focus of the management teams across the group was the continued delivery of Solvency II, which came into force on 1 January 2016. All companies within the group successfully met all requirements during the year. Furthermore, preparation for the implementation of IFRS 17 "Insurance Contracts"; a new insurance accounting standard which was issued in May 2017 and has an effective date of 1 January 2022, has progressed well in the year. During the period, we delivered our GDPR readiness programmes, for the new rules which were effective from 25 May 2018.  UK  The division has started a programme to enhance its operational resilience following the Bank of England's paper entitled "Building the UK financial sector's operational resilience" which was issued in July 2018.  Positive engagement with all regulators has continued during the year.  SWEDEN  Movestic has successfully implemented the first phase of the Insurance Distribution Directive (IDD), which applied from 1 October 2018.  NETHERLANDS  Scildon has aligned its governance and risk management framework to Chesnara practices.  Scildon strengthened its governance framework during 2018 through changes in structure and personnel.

# A.I Business (continued)

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

#### Summary for 2018

#### **SWEDEN**

- Movestic continues to operate within its target market range.
- Annual premium equivalent of new contracts sold increased by 3% compared with 2017, although gross margin rates have deteriorated slightly, reflecting the pricing pressures that exist in the market.
- Overall profits from new contracts have remained broadly consistent with 2017 despite price pressure. A
  reassessment of the profitability of increments to existing policies has however driven a reduction in overall
  new business profit.
- Movestic are redesigning their organisation for a digital world to increase business efficiency and reduce cost. As part of this process outsourcing of some IT operations capability was completed in the year.
- Included within the direct business reinsured by Movestic's 49%-owned reinsurance undertaking, Modernac S.A., was the group contract with Akademikerforsakring AB. As of 1 January 2019, this contract has been terminated.

#### ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

#### **NETHERLANDS**

- Scildon generated new business profits of £1.7m. This is in line with expectations and shows marginal
  increases since acquisition but it is not currently generating sufficient new business profits and this is
  therefore a focus of our improvement plans.
- As part of those plans, Scildon successfully launched a new mortgage term product in 2018, which was well received by the market.
- A Scildon management team is in place which is strategically aligned with the group, including the
  appointment of a new Finance Director and interim Chief Operating Officer.
- Market share for the core protection business is within the 5.0%-10.0% target range but we have further work to do to strengthen the proposition and reduce costs.
- The number of policies increased by 4% over the year.
- Scildon updated the group pension offering to maximise value transfers and premium levels.

ACQUIRE LIFE AND PENSIONS BUSINESS

#### Summary for 2018

During the year, we finalised arrangements to form a broader debt syndicate and this, together with increases in solvency surplus, means we are in a strong position to fund future acquisitions where they meet our assessment criteria.

#### Culture and values:

	AREA OF FOCUS	Summary for 2018
	Responsible risk- based management	<ul> <li>Further aligned the governance within Scildon with that of the wider group, including the appointment of John Deane to their Supervisory Board and the appointment of a CRO.</li> <li>Continued to enhance our Own Risk and Solvency Assessments (ORSAs), further supporting the group and divisions in making informed risk-based decisions.</li> <li>Delivered our continuous improvement regime regarding how we manage risk across the group, supported by our annual systems of governance review.</li> </ul>
JRE & VALUES	Fair treatment of customers	<ul> <li>Across the group, we have continued to deliver a good standard of customer service.</li> <li>The UK division is implementing its customer strategy in support of regulatory guidelines and during 2018 delivered a new customer website and enhanced its customer communications. The UK's administrative outsource service partners have delivered within stringent service level requirements.</li> <li>Service standards in Sweden remain strong, as evidenced by external surveys of brokers undertaken by independent organisations.</li> <li>Unit-linked policy returns remain competitive based on both fund benchmarks and external unit-linked policy performance surveys.</li> <li>Where complaints do arise across the group, we continue to manage them in accordance with best regulatory practice.</li> <li>We closely monitor any regulatory developments to ensure we continue to treat our customers fairly in accordance with regulatory requirements.</li> </ul>
CULTURE	Competitive return to shareholders	<ul> <li>Continued our dividend strategy of increasing our dividend each year, even during turbulent investment market conditions.</li> <li>Maintained a robust solvency position in all divisions and at group level which supports the continued dividend strategy.</li> </ul>
	Robust regulatory compliance	<ul> <li>Maintenance of robust levels of solvency throughout the group and all divisions throughout the year.</li> <li>Continued to place a high priority on compliance and maintaining an open dialogue with our regulators.</li> <li>During the year the FCA announced that it had closed its investigation, without further action, into whether Countrywide Assured had failed to meet the standards expected of it regarding the fair treatment of long-standing customers.</li> <li>Ensured we have complied with the FCA's Senior Managers and Certifications regime, which came into force from 10 December 2018.</li> </ul>
	Maintain adequate financial resources	The group has maintained adequate financial resources over the year and had a post-dividend solvency ratio of 158% at 31 December 2018. This remains well above the board's "dividend paying limit" which has been set at a solvency ratio of 110%, at which point a dividend would cease to be paid. Further information on the solvency position of the group at 31 December 2018 can be found in Section E "Capital management".

# A.2 Underwriting performance

#### A.2.1 Introduction

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

#### A.2.2 Underwriting performance

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

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

	Underwriting performance 2018							
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total		
	£'000	£'000	£'000	£'000	£'000	£'000		
Premiums earned	37,234	411,194	1,698	169,991	_	620,117		
Claims incurred	(241,800)	(220,931)	(12,470)	(186,438)	_	(661,639)		
Changes in other technical provisions	328,863	(15,081)	16,891	51,346	_	382,019		
Expenses incurred	(24,100)	(47,577)	(3,249)	(26,284)	(3,367)	(104,577)		
Other expenses	_	1,304	(1)	(1,907)	(3,063)	(3,667)		
Investment performance (section A.3 for detail)	(112,960)	(165,091)	629	(57,870)	257	(335,035)		
Other operating income	12,798	22,044	_	_	_	34,842		
Fee & commission income	28,143	23,421	19	50,055	_	101,638		
Consolidation adjustments	_	_	_	_	(6,686)	(6,686)		
Underwriting performance (IFRS profit before tax)	28,178	9,283	3,517	(1,107)	(12,859)	27,012		

	=	Underwriting performance 2017				
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Premiums earned	42,515	395,041	2,227	120,623	_	560,406
Claims incurred	(250,906)	(177,947)	(19,105)	(154,858)	_	(602,816)
Changes in other technical provisions	(11,063)	(429,212)	18,054	(12,366)	_	(434,587)
Expenses incurred	(23,999)	(47,267)	(3,401)	(20,660)	(10,514)	(105,841)
Other expenses	(5)	(4,034)	222	_	(2,345)	(6,162)
Investment performance (section A.3 for detail)	251,040	223,310	7,350	50,016	101	531,817
Other operating income	13,985	1,198	(158)	_	_	15,025
Fee & commission income	29,009	48,732	_	35,664	_	113,405
Gain on acquisitions	_	_	_	_	20,319	20,319
Consolidation adjustments	_	_	_	_	(1,964)	(1,964)
Underwriting performance (IFRS profit before tax)	50,576	9,821	5,189	18,419	5,597	89,602

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

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

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

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

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

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

# A.2 Underwriting performance (continued)

#### A.2.2 Underwriting performance (continued)

Other operating income: This line item mainly consists of other investment related income (i.e. investment management fee rebate).

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

Gain on acquisitions: The 2017 balance represents the day one profit arising from the acquisition of Scildon.

Consolidation adjustments: This represents the parent company transactions and also includes consolidation and elimination adjustments.

#### A.2.3 Overall results commentary

The group has reported pre-tax profit of £27.0m, significantly lower than prior year. This was largely driven by the adverse economic conditions during the final quarter of the year of a loss of £15.5m. However, this was offset by strong operating profits of £42.5m, the foundation of the result. The 2017 result included the day one profit arising from the acquisition of Scildon, of £20.3m.

#### UK

The CA plc result remains strong but is lower than 2017. The year on year movement emerges within the more variable S&P book. This is mainly reflective of the positive economic factors in 2017 which have not been repeated in the current period, resulting in overall economic profits being circa £23m lower year on year. Operating profits of £27.1m are in line with the prior year. Within the operating profit total, there is a £4.3m profit as a result of a general improvement in UK mortality tables.

#### **SWEDEN**

Movestic continues to contribute positively to the overall group IFRS result despite a small reduction in profits when compared to the same period in 2017. Lower investment returns due to adverse market factors, together with a fall in the profits generated by its associate, Modernac, were the main drivers.

#### **NETHERLANDS**

The Waard Group result is in line with expectations, with profits emerging in line with the run-off book profile.

Scildon's IFRS loss for the year of £1.1m compares with a profit of £18.4m in the prior year. Scildon has delivered a strong operating profit driven mainly by positive mortality experience. Within the Netherlands, new mortality tables suggest less positive future mortality improvements. This however, because of our reserving policy, has no impact on the IFRS results. The operating profit is more than offset by economic losses of £16.5m, largely driven by the widening of credit spreads which have caused valuation losses in its bond portfolio.

#### **OTHER GROUP ACTIVITIES**

The Chesnara result largely represents holding company expenses. The current year loss is significantly lower than last year largely due to 2017 including larger one-off items, such as a foreign exchange loss of £2.6m in respect of the Euro denominated loan taken out to part-fund the Scildon acquisition coupled with the impact of providing for the group's IFRS 17 programme.

The prior year results also reported a one-off gain of £20.3m arising on the acquisition of Scildon.

Consolidation adjustments relate to items such as the amortisation of intangible assets. These are higher than last year largely due to a full year impact of the Scildon acquisition and an adjustment to the impairment of acquisition costs within Movestic.

# A.3 Investment performance

#### A.3.1 Investment performance

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

	-		Investment per	formance 2018		
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Dividend income	29,969	_	794	16,522	-	47,285
Interest income	16,487	2	2,320	12,596	257	31,662
Rental income from investment properties	7	_	_	70	_	77
Net fair value gains and losses: Equity securities designated as at fair						
value through income on initial recognition	(129,509)	(165,007)	(1,659)	(68,986)	-	(365,161)
Debt securities designated as at fair value through income on initial recognition	(26,694)	(86)	(826)	(19,363)	-	(46,969)
Derivative financial instruments	(3,220)	_	_	1,203	_	(2,017)
Investment properties	_	_	_	88	_	88
Total	(112,960)	(165,091)	629	(57,870)	257	(335,035)

	-		Investment per	formance 2017		
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Dividend income	27,163	_	1,151	11,541	-	39,855
Interest income	17,867	9	2,536	13,676	101	34,189
Rental income from investment properties	10	_	_	5	_	15
Net fair value gains and losses:						
Equity securities designated as at fair value through income on initial	194,610	222,770	4,075	20,990	_	442,445
recognition  Debt securities designated as at fair	,	•	,	,		,
value through income on initial recognition	4,880	531	(412)	1,242	-	6,240
Derivative financial instruments	6,510	_	_	2,496	_	9,006
Investment properties	_	_	_	66	_	66
Total	251,040	223,310	7,350	50,016	101	531,817

The key reasons for the movement in investment return during the year include a fall in the value of bond holdings as a result of increasing credit spreads and poor equity returns driven by adverse equity market movements (in particular in the last quarter of 2018).

#### A.3.2 Investment in securitisation

The UK division has immaterial exposures to securitised assets within the Save & Prosper Pension (SPP) with-profits fund via the fund's investments in certain collective investment schemes. These schemes, as part of their overall portfolio of investments, include some holdings in securitised assets. As at 31 December 2018, out of a total UK division investment portfolio of £2,421m (2017: £2,826m), £1.5m (2017: £1.6m) was invested in securitised assets via the holdings in these collective investment schemes.

#### A.4 Performance of other activities

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

# A.5 Any other information

There is no other information required to be disclosed regarding the performance of the group business.

## B. SYSTEM OF GOVERNANCE

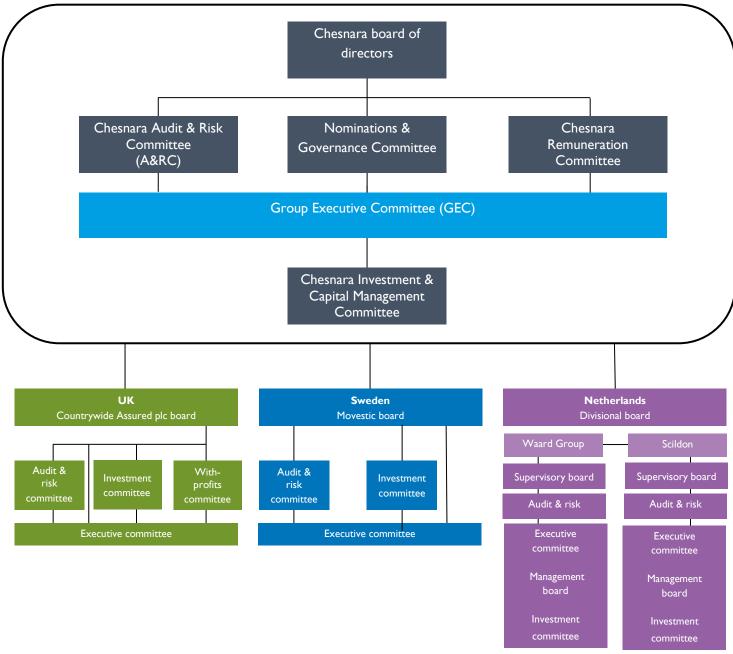
# B. I General information on the system of governance

#### **B.1.1 Governance structure**

#### Overview

The overarching structure for Chesnara's systems of governance consists of the board, board committees and executive committees. Chesnara maintains a group governance map which documents the detailed implementation of the system of governance. This includes the terms of reference of committees and detailed roles and responsibilities of key functions.

The group governance structure is summarised in the diagram below:



#### Notes:

 Each divisional board has a reporting line to the Chesnara board and each divisional Audit & Risk Committee has a reporting line to the Chesnara Audit & Risk Committee.

#### Chesnara board responsibilities

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

# **B.** I General information on the system of governance (continued)

#### **B.1.1 Governance structure (continued)**

#### **Sub-committees**

The Chesnara board operates the following board committees:

- Chesnara Audit & Risk Committee: The responsibilities of the committee include but are not limited to:
  - monitoring the integrity of the financial statements of the group;
  - reviewing the adequacy and effectiveness of the group's internal control ad risk management systems;
  - monitoring risk exposures across the group;
  - monitoring the use of capital;
  - reviewing and challenging risk information and the treatment of risks;
  - challenging the quarterly risks reported;
  - advising the group board on proposed changes to the groups risk appetite statement where this is deemed appropriate,
     taking account of the current and prospective macroeconomic and financial environment;
  - reviewing and recommending to the board the disclosures to be include in the Annual Report in relation to internal control, accounting policies, risk management and the viability statement;
  - reviewing risk management responsibilities across the group;
  - making recommendations to the board about approving the remuneration and terms of engagement of the external auditor;
  - monitoring and reviewing the independence and effectiveness of the external auditor;
  - in respect of a major proposed acquisition or disposal, oversee a due diligence appraisal of the proposition prior to the board taking a decision to proceed with a view to ensuring that the board is aware of all material risks associated with the proposal; and
  - to meet with the group CRO at least once a year, without management being present, to discuss their remit and any issues arising from the risk work carried out.

#### Chesnara Remuneration Committee: This is responsible for:

- ensuring that remuneration practices are appropriate;
- implementing the Chesnara remuneration policy;
- approving the design of, and determine targets for, any performance related pay schemes operated within the group and approving the total annual payments made under such schemes;
- determining the policy for and scope of pension arrangements and other benefits; and
- approving service agreements and any termination payments made under them.
- Chesnara Nominations and Governance Committee: The role of the Nominations and Governance Committee is to ensure
  appointments are appropriate and that board members and executive committee members are 'fit and proper'. Its
  responsibilities include:
  - ensuring that there is a formal, transparent and rigorous procedure for appointments to the board;
  - evaluating the skills, knowledge and experience of the board;
  - ensuring the board's composition and balance are appropriate for the group's governance arrangements; and
  - giving full consideration to succession planning for directors and senior executives.

#### Chesnara also operates the following non-board committees:

- Group Executive Committee (GEC): This is the principal body to assist the Group CEO to carry out those responsibilities
  assigned by the board. Responsibilities include:
  - recommending strategy and objectives for the group having regard to the interests of customers;
  - agreeing guidelines for divisions and business units based on approved group strategy;
  - developing and reviewing divisional and business unit objectives, plans and budgets;
  - contributing to succession plans for senior roles and addressing key organisational skill gaps;
  - reviewing business performance;
  - ensuring the control, co-ordination and monitoring within the group of capital, risk and internal controls;
  - ensuring the ongoing adoption and appropriateness of the group risk management framework (GRMF) and group policies within it, including their annual review;
  - ensuring appropriate levels of authority are delegated to senior management throughout the group;
  - reviewing the governance structures across divisions;
  - safeguarding the integrity of management information and financial reporting systems;
  - proposing to the board and monitoring the group risk appetite;
  - examining investments, divestments and major capital expenditure proposals and the recommendation to the board of those which in a group context are material either by nature or by cost; and
  - monitoring the on-going capital and liquidity position of the group.

#### Group Investment & Capital Management Committee: This is responsible for:

- setting out any high level investment and capital management strategic matters to apply throughout the group;
- investment management for Chesnara plc or group holding companies;
- high-level oversight of investment strategy used by authorised subsidiaries within the three divisions;
- oversight of group level capital management strategy and action planning:
- reviewing and ensuring that the group is setting an investment strategy that is appropriate for shareholder needs and Chesnara's risk appetite; and
- overseeing implementation and performance of the shareholder funds and ensuring that Chesnara's shareholder investment governance framework is effective.

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

#### **B.1.1 Governance structure (continued)**

Chesnara group divisional or business unit boards and committees:

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

#### Senior management responsibilities

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

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

## **B.** I General information on the system of governance (continued)

#### **B.1.1 Governance structure (continued)**

- Chesnara Senior Independent Director: As well as performing the role of a NED, the Senior Independent Director is required to:
  - act as 'deputy' to the Chairman of the board as and when required;
  - meet with the other NEDs, without the Chairman being present at least once a year to appraise the Chairman's performance and on such other occasions as are deemed appropriate;
  - be available to shareholders in case they have concerns which cannot, or should not, be addressed by the Chairman or Chesnara executive directors;
  - act on the results of any performance evaluation of the Chairman;
  - maintain sufficient contact with major shareholders, when requested, to understand their issues and concerns thereby assisting the board to develop a balanced understanding;
  - attend the Chesnara's AGM and be available for discussion with shareholders; act as a sounding board for the Chairman;
     and
  - act as a focal point through whom the NEDs, individually or collectively, may express any concerns.
- Group Chief Executive Officer (group CEO): The board has delegated to the group CEO the management of the group, apart from those matters reserved to the board. The group CEO reports directly to the board and is a member of the board as well as the GEC and Investment and Capital Management Committee. The group CEO's main responsibilities are: business strategy and management; investment and financing; risk management and controls; and ensuring effective communication with employees, regulators, financial institutions, investors, government bodies, industry bodies, third-party advisors and the media.
- Group Finance Director (group FD): The group FD oversees all financial aspects of group strategy and financial
  management and ensures the flow of financial information to the group CEO, the GEC, the board and, where necessary,
  external parties such as investors or financial institutions. The group FD is a member of the board and the GEC.
- Group Chief Risk Officer (group CRO): The group CRO operates with independence within the group's businesses and oversees group-wide risk management processes and systems of reporting to the group's governance committees, in particular the Chesnara A&RC, on the group's risk exposures relative to its risk appetite and tolerance, and the extent to which the risks inherent in any proposed business strategy and plans are consistent with the board's risk appetite and tolerance. The group CRO attends the Chesnara board and Chesnara A&RC and is a member of the GEC and Investment and Capital Management Committee.
- Group Chief Actuary: The Group Chief Actuary oversees all actuarial aspects of group strategy and financial management, including providing relevant information to the group CEO, the GEC and the board. The Group Chief Actuary attends meetings of the Chesnara board and A&RC and is a member of the GEC and Investment and Capital Management Committee.
- Company Secretary: Responsible for:
  - ensuring the smooth running of the activities of the board and board committees, advising on board procedures and ensuring the board follows them;
  - keeping under close review all legislative, regulatory and corporate governance developments that might affect the group's
    operations and ensuring the board and its committees are fully briefed on these and that it has regard to them when taking
    decisions:
  - ensuring, where applicable, that all required standards and/or disclosures are observed and, where required, reflected in the Annual Report & Accounts;
  - inducting new board directors into the business, their roles and their responsibilities;
  - making arrangements for, and managing the whole process of, the Annual General Meeting and establishing, with the board's agreement, the items to be considered at the Annual General Meeting;
  - actioning all regulatory announcements as required; and
  - ensuring the website content is accurate, complete and compliant with all internal and external requirements.
- Chairman of the Audit & Risk Committee: The committee chairman reports formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities and also formally reports to the board on how it has discharged its responsibilities. This report includes: the significant issues that it has considered in relation to the financial statements and how these were addressed; the assessment of the effectiveness of the external audit process and its recommendations on the appointment or re-appointment of the external auditor; and any other issues on which the board has requested the opinion of the committee.
- Chairman of the Remuneration Committee: The committee chairman reports formally to the board on its proceedings after each meeting on all matters within its duties and responsibilities and also formally reports to the board on how it has discharged its responsibilities. This report includes: the determination of the remuneration of the board Chairman, Chesnara executive directors and the group CEO's direct reports; the ongoing appropriateness and relevance of the Chesnara remuneration policy; the design of, and targets for, any performance related pay schemes operated within the group and the total annual payments made under such schemes; and any other issues on which the board has requested the opinion of the committee.

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

#### **B.1.1 Governance structure (continued)**

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

#### **B.1.2 Material changes in the systems of governance**

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

#### **B.1.3 Information on the remuneration policy**

#### **B.1.3.1 Group remuneration principles**

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

#### Group remuneration principles:

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

#### B.1.3.2 Chesnara directors' remuneration policy

The directors' remuneration policy has been summarised on the following pages. It was developed having full regard to the group's remuneration principles and also the remuneration requirements imposed on the company as a result of being listed on the London Stock Exchange. The summaries on the subsequent pages reflects the policy that was included in the group's annual report and accounts for the year ended 31 December 2018. Section B.1.3.3 has been used to summarise how the remuneration policies applying to other staff members across the group differ to this policy.

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

#### B.1.3 Information on the remuneration policy (continued)

B.1.3.2 Chesnara directors' remuneration policy (continued)

Executive director remu	ineration policy:	
Purpose and link to strategy	Operation	Performance measures and maximum
Base salary (fixed compo	nent of pay)	
To recruit and retain individuals with the skills and experience needed for the role and to contribute to the success of the group.	In setting salaries for new executive roles or reviewing the salaries for existing roles, the remuneration committee will take into account, as it considers appropriate, some or all of the following factors:  - assessment of the responsibilities of the role;  - the experience and skills of the jobholder on commencement of the role and their development at the review point;  - the group's salary budgets and results;  - the jobholder's performance with the use of periodic benchmarking;  - assesses, the external market for roles of a similar size and accountability;  - inflation and salaries across the company; and  - balance between fixed and variable pay to help ensure good risk management.  Where a new appointment is made, pay may be initially below that applicable to the role and then may increase over time subject to satisfactory performance.  Salaries are usually reviewed annually. There may be reviews and changes during the year in exceptional circumstances (such as new appointments to executive positions or significant changes in the jobholder's	Changes to responsibilities, increased complexity of the organisation, personal and group performance is taken into consideration when deciding whether a salary increase should be awarded.
Tayable banefits (fixed as	responsibilities).	
Taxable benefits (fixed co		No performance measures attached
individuals with the skills and experience needed for the role and to contribute to the success of the group and to minimise the potential of ill health to undermine executive's performance.	Executive directors receive life assurance, a company car, fuel benefit and private medical insurance. A cash equivalent may be paid in lieu of a car and fuel benefit.  Benefits may be changed in response to changing circumstances whether personal to an executive director or otherwise subject to the cost of any changes being largely cost neutral.	No performance measures attached.
Pensions (fixed compone		No newformance management of the de-
To recruit and retain individuals with the skills and experience needed for the role and to contribute to the success of the group and to	The executive directors can participate in a defined contribution pension scheme with employer contributions being 9.5% of basic salary. If pension limits are reached, the executive may elect to receive the balance of the contribution as cash.	No performance measures attached.

#### provision for retirement. Short-term incentive (STI) scheme (variable component of pay)

To drive and reward achievement of the group's business plan and key performance indicators. To help retention and align the interests of executive directors with those of shareholders.

encourage responsible

The amounts reported as annual bonuses in 2018 Annual Report and Accounts derive from awards made under the discretionary 2014 STI. Awards are based on the remuneration committee's assessment and judgement of performance against specific targets and objectives in support of the group's business plan which are assessed over a financial year.

Provided the minimum performance criteria is judged to have been achieved then an award will be granted in two parts; at least 35% into deferred share awards in the shape of nil cost options which will vest after a three-year deferral period and the balance in cash.

Dividend equivalents accrue in cash with interest thereon in respect of the deferred share awards between the date the share award is granted and the date the options are exercised.

It is the intention of the remuneration committee to grant awards annually and the performance criteria will be set out in the annual report and accounts.

The STI scheme includes malus and clawback provisions.

Performance is measured based on the financial results of the group and its strategic priorities, together with the performance of the executives in relation to specific objectives. The main weighting is given to financial results - typically 80%.

The targets may include, but are not limited to, costs, IFRS pre-tax profit, EcV operating profit, cash generation, group strategic objectives and personal performance.

STI scheme targets are commercially sensitive and therefore, not disclosed. Actual targets and results will be disclosed in the group's Annual Report immediately following each performance period.

The remuneration committee may substitute, vary or waive the performance measures in accordance with the scheme rules.

The maximum award is 100% of basic salary with each participant being assigned a personal maximum which will be disclosed in the annual report and accounts with each award made.

# **B.** I General information on the system of governance (continued)

#### B.1.3 Information on the remuneration policy (continued)

Purpose and link to	Operation	Performance measures and maximum
strategy		
Long-term incentive (LTI)	scheme (variable component of pay)	
To incentivise the delivery of the longer-term strategy by the setting of stretching targets based on	The amounts reported as share awards in the 2018 Annual Report and Accounts derive from awards made under the discretionary 2014 LTI. Awards are made under a performance share plan, with no exercise price. The right to receive shares awarded will be based on	Vesting is dependent on two weighted performance measures which the remuneration committee weights equally but may vary the weighting and the Index as it considers appropriate in future years:
shareholder value, and to help retain key executives and increase their share ownership in the company.	achievement of performance conditions over a minimum three-year period.  It is the intention of the remuneration committee to grant awards annually and the performance criteria will be set out in the corresponding Remuneration Report.	1. Total Shareholder Return: Performance conditions are based on total shareholder return of the company when compared to that of the companies comprising the FTSE 350 Higher Yield Index. No payout of this element will be made unless the company achieves at least median performance. Full vesting will be achieved if the company is at the upper quartile compared to the peer group.
	The LTI scheme includes malus and	
	clawback provisions.	2. Group Economic Value: This target is commercially sensitive and therefore, not disclosed upfront. Actual targets and results will be disclosed in the Annual Report for the year in which an award vests. The assumptions underpinning the calculations are subject to independent actuarial

The remuneration committee may substitute, vary or waive the performance measures in accordance with the Scheme Rules.

The maximum award is up to 100% of basic salary, with each participant being assigned a personal maximum to be disclosed in the annual report and accounts with each award made.

#### Non-executive directors' remuneration:

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

#### Why these performance measures were chosen and how performance targets are set

STI scheme – The performance measures for the STI scheme reflect the main financial contributors to sustaining returns for shareholders and the group strategic objectives to ensure that management is incentivised on the important projects needed to support the business plan and strategy. The Remuneration Committee determines the measures, their weighting and the targets for each financial year. The measures will be based upon the most relevant taken from a selection of measures which may include, but are not limited to, costs, IFRS pre-tax profit, EcV operating profit, cash generation, group objectives and personal performance. The maximum potential award requires significant outperformance of budgeted targets.

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

In setting targets for both schemes, the remuneration committee exercises its judgement to try and ensure that there is a balance between stretch in the targets and the company's risk appetite. Full details of the performance measures, weightings and targets and the corresponding potential awards are set out in the group's annual report and accounts.

# **B.I General information on the system of governance (continued)**

#### **B.1.3 Information on the remuneration policy (continued)**

B.1.3.2 Chesnara directors' remuneration policy (continued)

#### Why these performance measures were chosen and how performance targets are set (continued)

The remuneration policy tables above note that all the financial targets for the STI Scheme are commercially sensitive as is one of the measures for the LTI Scheme. The remuneration committee has considered whether it could reasonably use transparent targets but concluded that transparency should not be sought at the expense of choosing the right ones for the alignment of executive director and shareholder interests even if these are not capable of being disclosed upfront.

#### STI scheme

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

#### LTI scheme

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

#### Minimum shareholding requirement

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

#### **Expenses**

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

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

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

group.	
Remuneration element	Difference in policy
Base salary	There are no differences in policy. The committee takes into account the company's overall salary budget and percentage increases made to other employees.
Taxable benefits	There are no differences in policy although the benefits available vary by personnel and jurisdiction and with job role. For example, cars and health insurance benefits are broadly consistent with the equivalent benefits when offered to UK non-director personnel. Executive directors receive fuel allowances which is a benefit not offered to other grades receiving a car allowance.
Annual bonus	This is an integral part of the group's philosophy with all UK employees below board level being eligible to participate in a bonus scheme which is based on personal performance and achievement of financial targets. Senior managers in Sweden participate in annual bonus schemes which reflect the achievement of business targets and personal goals. In line with Swedish regulations, part of the payment of this bonus is deferred. Other employees in Sweden participate in a scheme based on the achievement of company-wide business goals. The remuneration to employees within the Waard Group is fixed and does not include any bonus element. Scildon has a fixed and variable remuneration package for key individuals.
Long-term plans	Only executive directors are currently entitled to participate in the long-term plans as these are the roles which have most influence on and accountability for the strategic direction of the business and the delivery of returns to shareholders. This may be reviewed as appropriate in the light of growth in the company.
Pension	The level of contribution made by the company to executive directors is the same as that offered to other UK employees.

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

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

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

#### Transactions with persons who have significant influence on the group:

The company has deemed that the people who have significant influence on the group is limited to those directors who are members of the Chesnara plc board. The transactions in the year can be summarised as follows, which includes non-executive directors fees as well.

	2018 £'000	2017 £'000
Short-term employee benefits	1,347	1,677
Long-term post employee benefits	509	430
Post-employment benefits	68	66
Total	1,924	2,173

#### Transactions with shareholders

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

	2018	2017
	£'000	£'000
Dividends paid	30,384	29,484

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

A full assessment was performed in the second half of 2018. The Chesnara board concluded that the Chesnara system of governance is considered to be fit for purpose for Solvency II and other applicable regulations. The review identified areas where improvement was desirable but not essential and recommended that these should be prioritised appropriately alongside other business requirements.

# **B.2** Fit and proper requirements

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

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

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

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

# B.3 Risk management system including the Own Risk and Solvency Assessment

#### **B.3.1 Risk management system**

Overview

Chesnara group has defined its risk management system for application at group, divisional and business unit levels.

The risk management system is summarised in the diagram below:

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

Risk management system review and development

Clear accountabilities and responsibilities



The risk management **strategy** contains the objectives and principles of risk management and the approved tolerance limits and **risk appetite statement** with supporting **risk preferences** and **risk tolerance limits**.

The risk management **policies** implement the risk management strategy and provide a set of principles (and mandated activities) for control mechanisms that take into account the materiality of risks.

The risk management **processes** provide more systematic risk management mechanisms, which give additional assurance that the risks are identified, measured/ assessed, monitored and reported to support decision making.

The risk management **reports** deliver information on the material risks faced by the business and evidence that principal risks are actively monitored and analysed and managed against risk appetite.

# B.3 Risk management system including the Own Risk and Solvency Assessment (continued)

### **B.3.1 Risk management system (continued)**

#### Risk universe

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

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

Level 1	Insurance	Market & liquidity	Counterparty default	Strategy	Strategic acquisition	Operational	Information systems
	Expense	Interest rates	Reinsurer	Design	Capability	Conduct	Infrastructure failure
	Mortality	Equity	Outsourcer	Execution	Execution	Regulatory breach	Cyber attack
	Morbidity	Property	Supplier	External change	Benefits realisation	People	Policyholder data security
	Longevity	Credit spread	Bank deposit	Internal change		Execution/ process	Corporate Data security
	Income protection	Market concentration	Corporate			Financial crime	
Level 2	Disability	Currency	Government (Domestic)			Physical resources	
	Lapse	Liquidity	Government (Non-domestic)			Industry standards breach	
	Unemployment	Inter- dependency	Derivative			Business continuity plan failure	
	Revision	Reinvestment	Counterparty concentration				
	Catastrophe						

#### Risk management strategy

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

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

Chesnara group and its divisions have a defined risk strategy and supporting risk appetite framework (an overview is shown below). The group's risk appetite framework enables the board to articulate the amount of risk the group is willing to take and provides boundaries to when potentially too much, or too little, risk is being taken. This provides guidance to enable management to take-on "appropriate" risks and the "appropriate" amount of risk as part of the pursuit of its strategic objectives.

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

# B.3 Risk management system including the Own Risk and Solvency Assessment (continued)

#### **B.3.1 Risk management system (continued)**

Risk management strategy

# Primary Objective Single board approved statement describing overall appetite for risk, covering all risk categories Risk Appetite Statements Statements articulating the appetite for risk exposure aligned to key business performance measures Risk Preference Statements to define preferences towards risk exposure on a rsik by risk basis Risk Tolerances Quantification of the upper and lower boundaries of risk that the board is willing to accept

#### **Business decision making**

For other strategic and operational decisions, so that all business decisions are risk-informed on a forward looking basis, each division and business unit carries out processes such that:

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

#### Risk management policies

Chesnara has group-wide risk management policies that are annually reviewed and approved by the board and which cover the risks that the group is potentially exposed to through group or divisional activity. These are:

- (a) capital management policy;
- (b) liquidity policy; and
- (c) concentration risk policy.

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

These policy documents clearly articulate the principles and practices for the management of risks including:

- (a) objectives;
- (b) reporting procedures;
- (c) roles and responsibilities; and
- (d) processes and key controls.

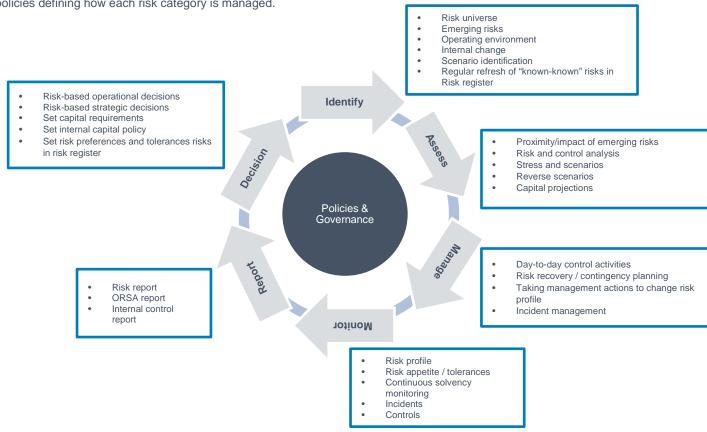
Each policy is owned by an allocated member of the group, division or business unit executive committee member who is responsible for attesting to policy compliance on an annual basis.

# B.3 Risk management system including the Own Risk and Solvency Assessment (continued)

#### **B.3.1 Risk management system (continued)**

#### Risk management processes

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



Each division and business unit maintains a risk register, which intends to comprehensively list risks, which might create, enhance, accelerate, prevent, degrade or delay the achievement of the objectives, along with the key controls to manage those risks. The group maintains a risk register of risks which, are specific to its activity and reports these, along with the principal risks of each division and business unit, to the Chesnara Audit & Risk Committee on at least a quarterly basis. An aggregate risk register is not maintained

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

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

Each board must approve at least annually the materiality criteria to be applied in the risk scoring and in the determination of what is considered to be a principal risk.

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

#### Risk management information and communication

On a quarterly basis, the group risk team produces a quarterly risk report which presents the group-level risk information, supplemented by the appropriate escalations from divisional and business unit risk reports. These quarterly group risk reports are presented to the Chesnara A&RC and include:

- A summary of the principal risks identified within the risk register by risk category;
- Consideration of significant changes in the risk profile including emerging risks;
- Monitoring against approved risk appetite tolerances;
- Evidence of continuous compliance with solvency requirements;
- Forward looking considerations; and
- Information on incidents / crystallised risk events.

# B.3 Risk management system including the Own Risk and Solvency Assessment (continued)

#### **B.3.1** Risk management system (continued)

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

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

#### Risk management responsibilities

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

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

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

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

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

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

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

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

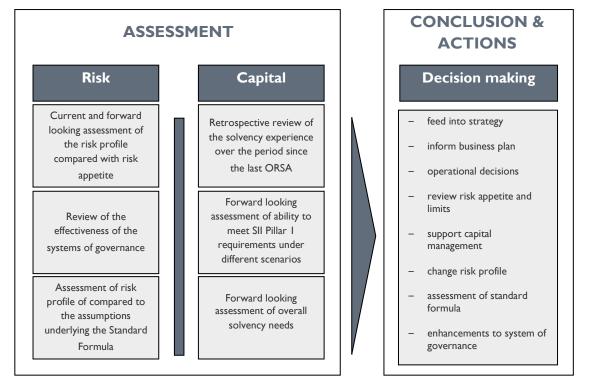
The ORSA follows a defined ORSA process which is documented in the ORSA policy. This policy is reviewed on annual basis and approved by the board. The ORSA process is described in more detail below, and incorporates several key processes to manage risk and capital.

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

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

# B.3 Risk management system including the Own Risk and Solvency Assessment (continued)

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



#### Assessment of risk profile compared with risk appetite

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

- a summary of the principal risks, across the group as identified by risk owners, and documents the controls in place to limit the
  potential impact or likelihood of occurrence;
- An illustration of the group risk capital split by major risk categories and, for those significant risk categories containing a number of risks, a further breakdown (e.g. equity, property, interest within market risk);
- A summary of the emerging risks identified by the business and any analysis performed to understand their potential impact;
- A summary of the principal strategic risks facing the organisation

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

The group ORSA report will include a retrospective, current and forward looking review of the risk profile compared with the board's approved group risk appetite and tolerance limits.

#### Review of the effectiveness of the system of governance

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

#### Assessment of risk profile compared to the Standard Formula

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

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

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

# B.3 Risk management system including the Own Risk and Solvency Assessment (continued)

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

#### Retrospective review of solvency experience

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

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

#### Assessment of ability to meet regulatory solvency requirements

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

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

The base projections are based on best estimate assumptions including real-world (rather than risk-free) investment returns, include appropriate levels of new business (where relevant), and take account of all significant business decisions (for example, any anticipated changes in outsourcing costs or arrangements). All elements of the Solvency II balance sheet are projected, using a Board-approved methodology suitable for each element, with a summary of the Solvency II balance sheet as at the end of each year of the business planning period presented in the ORSA Report.

All key assumptions are approved by the Board in advance of the ORSA process

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

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

#### Forward looking assessment of overall solvency needs

The purpose of the Own Solvency Needs Assessment ("OSNA") is for the company to form its own view of its solvency needs over the business planning horizon, taking into account factors such as:

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

# B.3 Risk management system including the Own Risk and Solvency Assessment (continued)

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

Should this assessment determine that OSNA would likely result in the group being in a worse solvency position than that assessed under Solvency II, then a more robust quantitative assessment will be carried out and conclude with a robust quantitative analysis of the capital implications of the factors described above.

Otherwise, the Solvency II position will be determined as the key driver of capital and the group's solvency needs will be based on this, alongside the buffer specified in the group capital management policy.

The time horizon will be considered and justified as part of the assessment, but would ordinarily be the same as the business planning time horizon.

#### **Group ORSA report – decision making**

The board and GEC take account of results and insights from the ORSA process for the purpose of capital management and business planning. Hence, the ORSA process has explicit consideration at both executive and board level of the conclusions and potential insights and actions.

In practice, the ORSA process and business planning process, and their underlying sub-processes, run continuously throughout the year but with formal overall summary reports less frequent. Therefore, alignment of the two processes, including feeding key conclusions and outcomes from one to the other, is achieved largely by ensuring that regular risk and solvency information is considered alongside business performance and planning information at the regular GEC meetings. Information, considerations and conclusions are escalated to the board as appropriate.

## **B.4** Internal control system

#### **B.4.1 Description of internal control system**

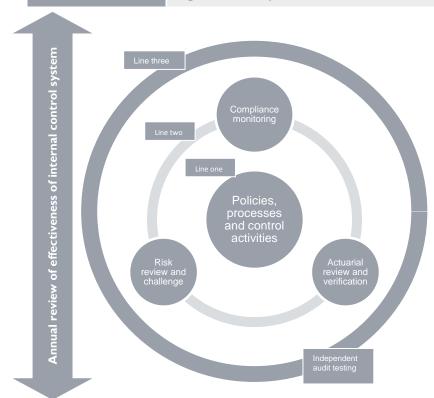
#### Overview

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

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

Internal control system

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



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

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

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

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

#### Three lines of defence model for internal control

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

# **B.4** Internal control system (continued)

#### **B.4.1 Description of internal control system (continued)**

1st Line iness functions

- · Ownership of risk management policies defining key controls
- Operation of business processes including control activities
- Governance of outsourcers processes and controls

2nd Line Risk functions

- Develop risk managment system principles and practices
- Review and challenge of risk management policies and adequacy of control environment

3rd Line Audit function

- Independent testing of control activities
- Provide an independent perspective and challenge the process

#### Internal control system 1st line procedures

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

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

#### Internal control system 2nd line procedures

#### Risk review and challenge

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

#### Compliance monitoring

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

#### Actuarial review and verification

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

#### Internal control system 3rd line procedures

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

#### Internal control system reporting

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

- directors statement of the adequacy of the risk management and internal controls system;
- description of the internal control system
- description of monitoring and reporting activity undertaken in the reporting period;
- results of monitoring activity including audit findings and attestations; and
- description of any significant changes to the control environment over the reporting period.

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

# **B.4** Internal control system (continued)

#### **B.4.2 Implementation of compliance function**

#### B.4.2.1 Overview

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

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

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

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

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

#### **B.4.2.2 Reporting lines**

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

#### **B.4.2.3 Responsibilities**

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

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

<sup>&</sup>lt;sup>1</sup> This responsibility falls to the legal department in Movestic

<sup>&</sup>lt;sup>2</sup> Conduct risk is not reviewed separately in Movestic, it is included as part of the annual assessment of all compliance risks.

<sup>&</sup>lt;sup>3</sup> Anti money laundering does not have a separate report in the Waard Group but is included in the general compliance assessment reporting. For Movestic anti-money laundering is the responsibility of the legal department

# **B.4** Internal control system (continued)

#### **B.4.2 Implementation of compliance function (continued)**

#### **B.4.2.4 Reporting**

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

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

#### **B.5** Internal audit function

#### **B.5.1 Overview**

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

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

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

#### **B.5.2 Reporting lines**

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

#### **B.5.3 Responsibilities**

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

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

#### **B.5.4 Reporting**

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

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

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

# B. SYSTEM OF GOVERNANCE (CONTINUED)

### **B.6 Actuarial function**

#### **B.6.1 Overview**

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

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

#### **B.6.2 Reporting lines**

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

#### **B.6.3 Responsibilities**

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

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

#### **B.6.4 Reporting**

The Group Chief Actuary attends meetings of the Chesnara board and Chesnara A&RC and is a member of the GEC.

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

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

# B. SYSTEM OF GOVERNANCE (CONTINUED)

### **B.7 Outsourcing**

#### **B.7.1 Overview**

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

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

#### **B.7.2 Responsibilities**

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

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

Critical services	Countrywide Assured	Movestic Livförsäkring	Waard Group	Scildon
Administration of life and pensions policies including call centre operations	X	-	-	-
Actuarial services including valuations of technical provisions	Χ	Χ	-	-
Investment of assets or portfolio management including unit pricing	Х	-	X	Х
Claims handling	X	-	-	-
Compliance	Χ	-	-	-
Internal audit	-	Х	_	-
Financial reporting	Х	-	-	-
Provision of IT support including cloud services, data storage and information security	Х	Х	Х	-

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

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

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

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

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

# **B.8** Any other information

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

### C. RISK PROFILE

### Introduction

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

- Quantitative risk profile: Section C.7.1 illustrates the quantitative risk profile of the group at 31 December 2018 using the risk capital requirements calculated when applying the "standard formula". The standard formula does not require all of the risks that are covered in sections C.1 to C.6 below to have capital held against them. Section C.7.1 shows how the risk profile, and any concentrations of risk, at 31 December 2018 compares with the position at 31 December 2017.
- Risk mitigation: Section C.7.2 sets out the techniques used for mitigating risks and the processes used for monitoring their continued effectiveness.
- Stress and scenario testing: Section C.7.3 provides a description of the methods used, the assumptions made and the
  outcome of the stress and scenario testing carried out for the material risks.

Chesnara is partly closed to new business and therefore also seeks growth through acquisitions. As a result, Chesnara is exposed, over the longer term, to the risk of not achieving future acquisitions, potentially due to a lack of availability of attractive deals, or as a result of factors affecting Chesnara's ability to compete or execute deals (e.g. regulatory constraints, inability to raise sufficient funding etc).

The risk profile is as would be expected for an international insurance business. Over the course of the year, the following new factors have contributed to our assessment of the risk profile:

- The new EU GDPR regulations become effective on 25 May 2018. The group (and its subsidiaries) were materially ready for this, albeit further activity was identified/planned in relation to monitoring customer behaviour and further system enhancements mainly related to data retention/ implementation of data minimisation requirements.
- During July 2018, the Bank of England, PRA and FCA collaboratively released a discussion paper on Operational Resilience (DP01/18). The paper encouraged firms to consider the services that they provide and their dependency upon processes and (IT) infrastructure, and to link this to their appetite for failure/ downtime for those services. Chesnara carried out a detailed gap analysis against the paper and used it as input into a wider group operational resilience survey conducted during 2018 Q3/4.
- During July 2018, the PRA published PS17/18, providing the long awaited feedback on CP38/16 (Solvency II: Group Supervision), and the final resulting Supervisory Statement (SS9/15 Solvency II: Group Supervision). The most pertinent aspect of this for Chesnara was the change to the original wording in CP38/16. SS9/15 clarified that, unless a formal assessment is made by the PRA, firms are expected to assume that all group own funds are to be counted as available.
- During July 2018, CP13/18 (Solvency II: Equity release mortgages) was issued by the PRA with very material adverse implications for insurers with a significant interest in that market, which was reflected in the share prices of those organisations. Whilst Chesnara does not have such business on the books, the consultation is a noteworthy reminder of the potential capital implications of changes in regulation.
- In May 2018, SS4/18 Financial Management and Planning by insurers was issued by the PRA. This supervisory statement has been considered by the company in the context of its articulation of risk appetite and how this translates into the policies and procedures that govern how the company manages its capital. Whilst the supervisory statement has resulted in some amendments to the company's capital management policy, the associated risk appetite statements, and some underlying work that supports these statements and policies, it has not fundamentally changed the way in which the company manages its capital.
- A Swedish general election took place on 9 September 2018 resulting in a hung parliament. On 25 September the Prime Minister Stephan Lofven received a vote of no confidence against him. He has subsequently secured a second term after a four month political deadlock, with a new minority government.
- A poor year for equity markets globally with values falling by c10% through 2018, most of which occurred in the last quarter.
- Yields remained fairly stable through the year, though the bank of England base rate was increased from 0.5% to 0.75% in Q3-2018.
- Sterling remained at low value compared to the Euro throughout the year, starting the year at 1.13 and ending the year at 1.11.
- Swedish Krona reduced in value (even compared to the depressed value of sterling) with the £/SKR rate increasing from 11.08 at the start of 2018 to 11.8 at 30 June and falling back to 11.3 by the end of 2018.
- Increasing political tension in Italy resulted in high volatility in Italian government bond yields with 2-year yields (for example) increasing from near zero to 2.5% during June 2018 following a large scale sell-off, and subsequently rising as high as 3% at the end of 2018.

At the time of finalising this report, there remains a high level of uncertainty regarding the outcome of Brexit. After failing to agree upon an exit deal with the EU, the UK agreed a six-month extension to the Brexit deadline, to 31 October 2019.

There are a number of possibilities for Brexit at this point, including:

- The UK exiting the EU no exit deal agreed with the EU;
- A revised exit deal being agreed; or
- A further UK referendum.

Chesnara has considered and is prepared for any of the potential outcomes.

# **Introduction (continued)**

#### Assets invested in accordance with the prudent person principle

Each insurance company within the group has in place a board-approved investment policy which incorporates the requirements of the prudent person principle. The general requirements of the prudent person principle regarding invested assets are that assets should be invested such that:

- they are appropriate to meet the liabilities that they are designed to match;
- an appropriate level of liquidity should be maintained and forecast to be maintained having regard to the maturity profile of the liabilities they are designed to match;
- the asset portfolio should not be overly concentrated in any particular area, such as counterparty, particular industry etc.; and
- they are in the best interest of policyholders and beneficiaries.

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

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

# C.I Underwriting risk

#### C.1.1 Qualitative review of risk profile

#### Underwriting risk

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

**Mortality/morbidity risk** arises in all divisions of Chesnara on contracts that pay out in the event of death or sickness. The risk is that deaths/sickness experience being higher than expected, resulting in higher than expected claims pay-outs. This can arise due to trend risk (e.g. changes in experience over time) or catastrophe risk (e.g. one off events or pandemics). Much of this risk is controlled through; the use of reinsurance, regular experience investigations and industry analysis, to support best estimate assumptions and identify trends, and options on certain products to vary premiums in the light of adverse experience.

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

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

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

#### C.2 Market risk

### C.2.1 Qualitative review of risk profile

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

# C.3 Credit risk

#### C.3.1 Qualitative review of risk profile

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

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

### C.4 Liquidity risk

#### C.4.1 Qualitative review of risk profile

Liquidity risk is the risk that adequate liquid funds are not available to settle liabilities as they fall due and is managed by forecasting cash requirements, including timing and amounts of intra-group cash flows, and by adjusting investment and cash management strategies to meet those requirements. Other liquidity issues could arise from counterparty failures, a large spike in the level of claims or other unexpected expense. The group's objective regarding the management of liquidity risk is to ensure a high level of confidence of an adequate level of liquidity in the business.

#### C.4.2 Expected profit included in future premiums

The expected profit in future premiums as at 31 December 2018 was £289.9m (31 December 2017: £265.8m).

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

### C.5 Operational risk

#### C.5.1 Qualitative review of risk profile

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

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

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

#### C.6 Other material risks

#### C.6.1 Qualitative review of risk profile

#### Counterparty default risk

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

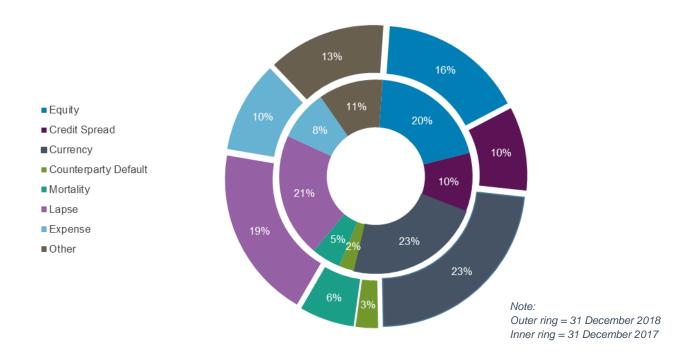
#### Conduct risk

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

# C.7 Any other information

#### C.7.1 Risk profile (quantitative)

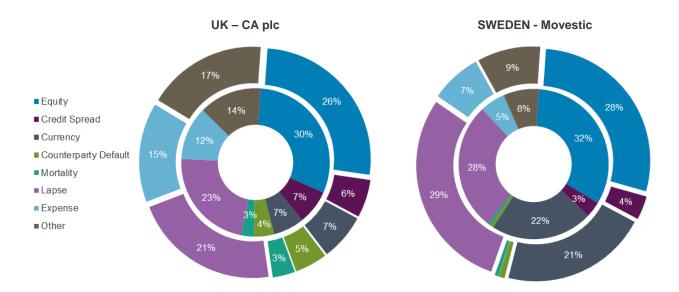
- This section considers the risk profile of Chesnara using the risk capital requirements calculated by the standard formula as at 31 December 2018.
- Chesnara has a well-diversified risk portfolio at a group level, with no large risk concentrations. This risk profile is as would be
  expected for an international insurance business, has been stable during 2018, is well understood, and is not currently
  iexpected to significantly change.



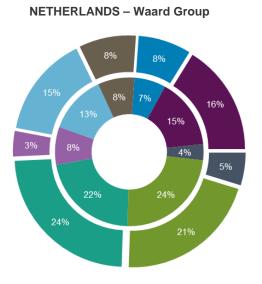
# C.7 Any other information

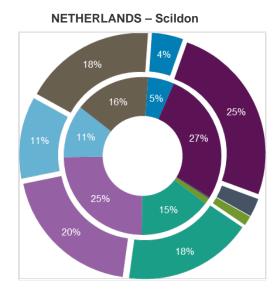
### C.7.1 Risk profile (quantitative) (continued)

The charts below illustrate the risk profiles at a divisional level using the risk capital requirements calculated by the standard formula as at 31 December 2018.



Outer rings show the 2018 position Inner rings show the 2017 position





# C.7 Any other information (continued)

#### C.7.2 Risk mitigation techniques and monitoring

#### Risk assessment

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

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

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

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

#### **Risk mitigation**

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

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

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

### **C.7** Any other information (continued)

#### C.7.3 Stress and scenario testing

#### C.7.3.1 Overview

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

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

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

	Stress
1	All yields fall (parallel)
2	Equity asset values fall
3	Sterling appreciates v all other currency
4	Bond yields fixed, swap rates fall
5	Credit spreads widen
6	Mortality & Morbidity increase
7	Mass Lapse
8	Expense / inflation increase
9	Largest bond defaults
10	New business closure
11	'1987 Market Crash'
12	'1992 European Currency Crisis'
13	'EIOPA 2018 Yields up, assets down and mass lapse test'
14	'2008 Financial Crisis'

#### C.7.3.2 Methodology

The ORSA has a base date of 30 June 2018. The base capital position uses the same methodology and assumptions as the 30 June 2018 Solvency II financial reporting, but updated to take account of the draft expense modelling work to support the 2019 business plan.

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

In quantifying the financial impact of each stress, the balance sheet is projected forward to 31 December 2018 and it is assumed that each stress occurs immediately after, with no subsequent recovery during the projection period.

After applying the stress, risk capital is recalculated in accordance with the standard formula in order to re-establish the regulatory capital requirements.

### C.7 Any other information (continued)

#### C.7.3 Stress and scenario testing (continued)

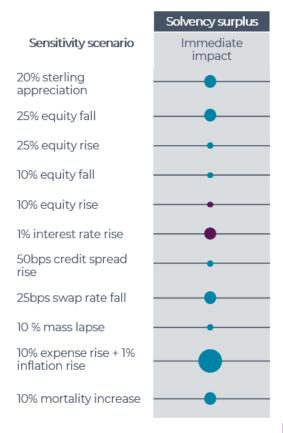
#### C.7.3.3 Outcomes from the stress and scenario testing

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

The analysis concluded that the free assets at 31 December 2018 were sufficient to withstand all of the stresses and scenarios approved by the board, and continue to meet its regulatory capital requirements with the exception of the '2008 Financial Crisis' scenario which reduced the solvency ratio to 90%.

The detailed results from the stresses and scenarios outlined above are included in the ORSA report, which is subsequently approved by the board and privately submitted to the Prudential Regulation Authority.

As part of the financial year end process undertaken at 31 December 2018, a range of sensitivities are also performed to show the impact on Chesnara's key financial metrics, with summary results disclosed in the Chesnara Group Annual Report & Accounts. The table below summaries the main results from this exercise and shows the impact from a range of stresses and scenarios on the solvency position.





Whilst the sensitivities above provide a useful guide, in practice, how the position reacts to changing conditions is complex and the exact level of impact can vary due to the interactions of events and the starting position.

# D. VALUATION FOR SOLVENCY PURPOSES

### **D.I** Assets

#### Introduction

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

		31 Decem	31 December 2018		nber 2017
		Solvency II value	Statutory accounts value	Solvency II value	Statutory accounts value
	Section reference	£'000	£'000	£'000	£'000
Assets	Section D1	7,390,031	7,565,063	8,069,627	8,254,225
Net technical provisions	Section D2	(6,510,679)	(6,817,151)	(6,968,880)	(7,378,377)
Other liabilities	Section D3	(300,929)	(302,296)	(439,345)	(424,191)
Assets less liabilities		578,423	445,616	661,402	451,657

Below is the build up from the divisional values to the overall group position for both the statutory and solvency values.

	Solvency II value 31 December 2018								
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total			
	£'000	£'000	£'000	£'000	£'000	£'000			
Assets	2,437,015	2,895,434	129,400	1,869,542	58,640	7,390,031			
Net technical provisions	(2,157,985)	(2,628,442)	(68,211)	(1,621,127)	(34,914)	(6,510,679)			
Other liabilities	(88,623)	(56,980)	(9,473)	(82,436)	(63,417)	(300,929)			
Assets less liabilities	190,407	210,012	51,716	165,979	(39,691)	578,423			

	Statutory accounts value 31 December 2018								
	Countrywide Assured Movestic W		Waard Group Scildon		Other group activities	Total			
	£'000	£'000	£'000	£'000	£'000	£'000			
Assets	2,449,730	2,983,945	132,314	1,940,434	58,640	7,565,063			
Net technical provisions	(2,203,868)	(2,834,159)	(79,974)	(1,698,650)	(500)	(6,817,151)			
Other liabilities	(86,312)	(58,432)	(5,285)	(83,136)	(69,131)	(302,296)			
Assets less liabilities	159,550	91,354	47,055	158,648	(10,991)	445,616			

	Solvency II value 31 December 2017								
	Countrywide Movestic		Waard Group	Scildon	Other group activities	Total			
	£'000	£'000	£'000	£'000	£'000	£'000			
Assets	2,882,236	3,001,775	157,635	1,983,216	44,765	8,069,627			
Net technical provisions	(2,478,738)	(2,708,007)	(85,202)	(1,670,896)	(26,037)	(6,968,880)			
Other liabilities	(178,269)	(63,085)	(11,188)	(102,353)	(84,450)	(439,345)			
Assets less liabilities	225,229	230,683	61,245	209,967	(65,722)	661,402			

	Statutory accounts value 31 December 2017								
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total			
	£'000	£'000	£'000	£'000	£'000	£'000			
Assets	2,899,849	3,095,651	160,545	2,053,514	44,666	8,254,225			
Net technical provisions	(2,556,762)	(2,941,572)	(95,916)	(1,782,127)	(2,000)	(7,378,377)			
Other liabilities	(172,155)	(63,877)	(7,247)	(92,119)	(88,793)	(424,191)			
Assets less liabilities	170,932	90,202	57,382	179,268	(46,127)	451,657			

# **D.I** Assets (continued)

### **Introduction (continued)**

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

		31 Decem	ber 2018	31 Decem	ber 2017
	Note	Solvency II value £'000	Statutory accounts value £'000	Solvency II value £'000	Statutory accounts value £'000
Assets					
Deferred acquisition costs	1.01	_	65,039	_	61,858
Intangible assets	1.02	_	112,183		125,163
Property, plant & equipment held for own use	1.03	4,963	4,963	5,199	5,199
Investments (other than assets held for index-linked and unit-linked contracts)		1,840,771	1,840,072	2,053,814	2,053,606
Property (other than own use)		1,054	1,054	954	954
Holdings in related undertakings, including participations	1.04	8,940	8,241	8,928	8,720
Bonds		1,409,402	1,409,402	1,517,111	1,517,111
Government bonds	1.05	856,692	856,692	939,976	939,976
Corporate bonds	1.05	552,239	552,239	576,743	576,743
Collateralised securities	1.05	471	471	392	392
Collective investments undertakings	1.05	393,968	393,968	400,609	400,609
Derivatives <sup>1</sup>	1.06	104	104	88,485	88,485
Deposits other than cash equivalents	1.05	27,303	27,303	37,727	37,727
Assets held for index-linked and unit-linked contracts	1.07	5,328,489	5,328,489	5,771,961	5,771,961
Loans and mortgages		44,030	42,594	51,703	49,647
Loans on policies	1.08	561	561	657	657
Loans and mortgages to individuals	1.09	42,764	41,328	50,349	48,294
Other loans and mortgages	1.10	705	705	697	697
Insurance and intermediaries receivables	1.11	22,237	22,237	23,956	23,956
Reinsurance receivables	1.12	21,908	21,853	25,521	25,460
Receivables (trade, not insurance)	1.13	20,140	20,140	27,975	27,975
Own shares (held directly)	1.14	_	_	98	_
Cash and cash equivalents	1.15	100,682	100,682	103,238	103,238
Any other assets, not elsewhere shown	1.16	6,811	6,811	6,162	6,162
Total assets		7,390,031	7,565,063	8,069,627	8,254,225

<sup>&</sup>lt;sup>1</sup>There was a change in presentation during 2018. Derivatives are now netted off against each contract and therefore the asset and liability values have reduced in comparison to the prior year. There has been no change to the valuation methodology.

# **D.I Assets (continued)**

### **Introduction (continued)**

Below is the build up from the divisional values to the overall group position for both the statutory and solvency values.

	Solvency II value 31 December 2018							
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total		
	£'000	£'000	£'000	£'000	£'000	£'000		
Assets						_		
Deferred acquisition costs	_	_	-	_	_	_		
Intangible assets	_	_	_	_	_	_		
Property, plant & equipment held for own use	-	113	141	4,709	-	4,963		
Investments (other than assets held for index-linked and unit-linked contracts)	636,643	57,404	48,347	1,051,089	47,288	1,840,771		
Assets held for index-linked and unit-linked contracts	1,740,747	2,784,571	15,346	787,825	-	5,328,489		
Loans and mortgages	_	705	42,764	561	_	44,030		
Insurance and intermediaries receivables	1,871	17,155	356	2,855	-	22,237		
Reinsurance receivables	20,841	_	1,067	_	_	21,908		
Receivables (trade, not insurance)	11,052	_	519	5,471	3,098	20,140		
Own shares (held directly)	_	_	_	_	_	_		
Cash and cash equivalents	24,756	31,569	20,831	15,417	8,109	100,682		
Any other assets, not elsewhere shown	1,105	3,917	29	1,615	145	6,811		
Total assets	2,437,015	2,895,434	129,400	1,869,542	58,640	7,390,031		

		Statut	ory accounts va	lue 31 Decembe	r 2018	
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Deferred acquisition costs	2,053	55,031	_	7,955	_	65,039
Intangible assets	10,662	34,179	4,405	62,937	_	112,183
Property, plant & equipment held for own use	-	113	141	4,709	-	4,963
Investments (other than assets held for index-linked and unit-linked contracts)	636,643	56,705	48,347	1,051,089	47,288	1,840,072
Assets held for index-linked and unit-linked contracts	1,740,747	2,784,571	15,346	787,825	-	5,328,489
Loans and mortgages	_	705	41,328	561	_	42,594
Insurance and intermediaries receivables	1,871	17,155	356	2,855	_	22,237
Reinsurance receivables	20,841	_	1,012	_	_	21,853
Receivables (trade, not insurance)	11,052	_	519	5,471	3,098	20,140
Own shares (held directly)	_	_	_	_	_	_
Cash and cash equivalents	24,756	31,569	20,831	15,417	8,109	100,682
Any other assets, not elsewhere shown	1,105	3,917	29	1,615	145	6,811
Total assets	2,449,730	2,983,945	132,314	1,940,434	58,640	7,565,063

# **D.I Assets (continued)**

**Introduction (continued)** 

	_	S	olvency II value	31 December 20	017	_
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Deferred acquisition costs	_	_	-	_	-	_
Intangible assets	_	_	_	_	_	_
Property, plant & equipment held for own use	-	220	172	4,807	_	5,199
Investments (other than assets held for index-linked and unit-linked contracts)	778,071	54,820	54,452	1,137,380	29,091	2,053,814
Assets held for index-linked and unit-linked contracts	2,048,226	2,891,216	23,836	808,683	-	5,771,961
Loans and mortgages	32	697	50,349	625		51,703
Insurance and intermediaries receivables	2,128	19,839	645	1,344	_	23,956
Reinsurance receivables	24,433	_	1,088	_	_	25,519
Receivables (trade, not insurance)	10,510	_	(52)	14,036	3,481	27,975
Own shares (held directly)	_	_	_	_	98	98
Cash and cash equivalents	17,717	31,118	27,103	15,315	11,985	103,238
Any other assets, not elsewhere shown	1,119	3,866	42	1,026	109	6,162
Total assets	2,882,236	3,001,776	157,635	1,983,213	44,764	8,069,627

		Statutor	y accounts valu	ie 31 December	2017	
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						_
Deferred acquisition costs	2,455	55,198	_	4,205	_	61,858
Intangible assets	15,158	38,885	5,027	66,093	_	125,163
Property, plant & equipment held for own use	-	220	172	4,807	-	5,199
Investments (other than assets held for index-linked and unit-linked contracts)	778,071	54,612	54,452	1,137,380	29,091	2,053,606
Assets held for index-linked and unit-linked contracts	2,048,226	2,891,216	23,836	808,683	-	5,771,961
Loans and mortgages	32	697	48,293	625	_	49,647
Insurance and intermediaries receivables	2,128	19,839	645	1,344	_	23,956
Reinsurance receivables	24,433	_	1,027	_	_	25,460
Receivables (trade, not insurance)	10,510	_	(52)	14,036	3,481	27,975
Own shares (held directly)	-	_	_	_	_	_
Cash and cash equivalents	17,717	31,118	27,103	15,315	11,985	103,238
Any other assets, not elsewhere shown	1,119	3,866	42	1,026	109	6,162
Total assets	2,899,849	3,095,651	160,545	2,503,514	44,666	8,254,225

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

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

Further detail by material asset class has been provided below.

### **D.I Assets (continued)**

#### D.1.01 Deferred acquisition costs (DAC)

#### Basis and methods for IFRS valuation

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

Assumptions and judgements (including future estimates and major sources of estimate uncertainty) for IFRS valuation Judgement is applied in deciding the amount of direct costs that are incurred in acquiring the rights to the policyholder contract. Judgement is also applied in establishing the amortisation of the assets representing these contractual rights. Estimates are applied in determining the lifetime of the policyholder contracts and in determining the recoverability of the contractual rights assets by reference to expected future income and expense levels.

#### Inputs for IFRS valuation

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

#### Solvency II valuation

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

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

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

#### D.1.02 Intangible assets:

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

#### Basis and methods for IFRS valuation

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

#### Assumptions and judgements (including future estimates and major sources of estimate uncertainty)

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.

The acquired value of in-force business is amortised on a basis that reflects the expected profit stream arising from the business acquired at the date of acquisition. Acquired value of in-force business is tested for recoverability by reference to expected future income and expense levels. Such impairment testing requires a degree of estimation and judgement. In particular, the value is sensitive to the rate at which future cash flows are discounted and to the rates of return on invested assets.

#### Inputs

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

#### Solvency II valuation

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

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

#### b. Acquired value of customer relationships (AVCR)

#### Basis and methods for IFRS valuation

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

### **D.I Assets (continued)**

### D.1.02 Intangibles assets (continued)

#### Assumptions and judgements (including future estimates and major sources of estimate uncertainty)

The acquired value of customer relationships arising from business combinations is measured at fair value at the time of acquisition. This comprises the discounted cash flows relating to new insurance and investment contracts which are expected to arise from existing customer relationships. This is sensitive to the rate at which future cash flows are discounted and to the rates of return on invested assets.

#### **Inputs**

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

#### Solvency II valuation

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

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

During the year, there were no changes made to either the recognition or valuation basis or estimation processes.

#### c. Software assets

#### Basis and methods for IFRS valuation

Software assets in respect of internal development software costs are stated at cost less accumulated depreciation and impairment losses. Software assets are amortised on a straight-line basis over their estimated useful life, which typically varies between three and five years.

#### Assumptions and judgements (including future estimates and major sources of estimate uncertainty)

A software asset is only recognised if all of the following conditions are met:

- I. An asset is created that can be identified;
- II. It is probable that the asset created will generate future economic benefits; and
- III. The development costs of the asset can be measured reliably.

#### Input:

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

#### Solvency II valuation

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

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

During the year, there were no changes made to either the recognition or valuation basis or estimation processes.

#### D.1.03 Property, plant & equipment held for own use

#### Basis and methods for IFRS valuation

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

Depreciation is charged 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 to 5 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.

#### Solvency II valuation

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

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

During the year, there were no changes made to either the recognition or valuation basis or estimation processes.

### **D.I Assets (continued)**

### D.1.04 Holdings in related undertakings, including participations

#### Basis and methods for IFRS valuation

Holdings in related undertakings, including participations are accounted for under IFRS using the "equity method". This means that the associate is initially carried at cost, and then subsequently adjusted by post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments.

#### Assumptions and judgements (including future estimates and major sources of estimate uncertainty)

The impairment of an existing holding in a related undertaking.

#### Inputs

Movement in the value of net assets of the associate.

#### Solvency II valuation

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

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

During the year, there were no changes made to either the recognition or valuation basis or estimation processes.

#### **D.1.05 Non-linked investment assets**

#### Basis and methods for IFRS valuation

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

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

#### Inputs for IFRS valuation

Observable market prices.

#### Solvency II valuation

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

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

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

#### **D.1.06 Derivatives**

#### **Basis and methods**

Derivative financial instruments are measured at fair value and comprise forward exchange contracts. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

#### Assumptions and judgements (including future estimates and major sources of estimate uncertainty)

No significant assumptions or judgements are made in the valuation of these assets, as they are based upon market observable inputs.

#### Inputs

Observable market prices.

#### Solvency II valuation

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

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

During the year, there were no changes made to the recognition or valuation basis of derivatives. However, for SII purposes, derivatives are now being disclosed in the balance sheet on a net basis whereas in 2017 the asset and liability legs were shown separately. The 2018 balance sheet presentation is now in line with IFRS.

### **D.I Assets (continued)**

#### D.1.07 Assets held for index-linked & unit-linked funds

#### Basis and methods for IFRS valuation

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

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

#### Inputs for IFRS valuation

Observable market prices.

#### Solvency II valuation

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

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

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

#### D.1.08 Loans on policies

#### Basis and methods for IFRS valuation

Loans on policies are measured at fair value.

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

#### Inputs for IFRS valuation

Observable market prices.

#### Solvency II valuation

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

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

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

#### D.1.09 Loans and mortgages to individuals

#### Basis and methods for IFRS valuation

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

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

#### Inputs for IFRS valuation

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

### **Solvency II valuation**

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

#### Inputs for Solvency II valuation

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

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

### **D.I Assets (continued)**

#### D.1.10 Other loans and mortgages

Basis and methods for IFRS valuation

Other loans and mortgages are measured at fair value.

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

### Inputs for IFRS valuation

Observable market prices.

#### Solvency II valuation

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

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

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

#### D.1.11 Insurance & intermediaries receivables

#### Basis and methods for IFRS valuation

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

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

#### Inputs for IFRS valuation

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

#### Solvency II valuation

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

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

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

#### **D.1.12 Reinsurance receivables**

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

#### Basis and methods for IFRS valuation

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

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

#### Inputs for IFRS valuation

Reinsurance accounts prepared in accordance with the provisions contained within the underlying reinsurance treaties.

#### Solvency II valuation

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

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

### **D.I Assets (continued)**

#### D.1.13 Receivables (trade, not insurance)

#### Basis and methods for IFRS valuation

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

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

#### Inputs for IFRS valuation

Invoices that reflect the initial recognition value.

#### Solvency II valuation

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

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

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

#### D.1.14 Own shares

#### Basis and methods for IFRS valuation

Own shares held are not recognised as an asset under IFRS, but recognised as part of equity.

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

#### Inputs for IFRS valuation

Number of own shares held and price paid for the shares.

#### Solvency II valuation

There are no differences between the IFRS and SII valuation methods. Under Solvency II, own shares are recognised on the market value balance sheet as an asset..

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

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

#### D.1.15 Cash and cash equivalents

#### Basis and methods for IFRS valuation

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

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

#### Inputs for IFRS valuation

- Bank and term deposit statements.
- Bank reconciliation timing differences.

#### Solvency II valuation

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

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

### **D.I Assets (continued)**

### D.1.16 Any other assets, not elsewhere shown

#### Basis and methods for IFRS valuation

This category of assets only includes prepayments. Prepayments are valued by spreading the up-front cost of an asset or service over the time period over which the service is received / time period over which the asset is consumed.

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

#### Inputs for IFRS valuation

The initial prepaid cost and spreading profile.

#### **Solvency II valuation**

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

#### Changes made to the recognition and valuation bases used or on estimations made during the period

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

#### Lease arrangements

#### Chesnara plc

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

#### UK

The UK division is not party to any lease arrangements.

#### **Netherlands**

The Netherlands divisions are not party to any lease arrangements.

#### Sweden

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

There are no material finance leases within the group.

# **D.2 Technical provisions**

#### D.2.1 Value of technical provisions

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

	31 Decem	ber 2018	31 Decem	ber 2017
	Solvency II value £'000	Statutory accounts value £'000	Solvency II value £'000	Statutory accounts value £'000
Net technical provisions:				
Health (similar to non-life):				
Best Estimate / statutory accounts value	26,716	30,729	29,415	27,737
Risk margin	306		405	
Reinsurance recoverables	(18,302)	(21,904)	(20,444)	(19,846)
Total	8,720	8,825	9,376	7,891
Health (similar to life):				
TP calculated as a whole <sup>1</sup>	212,062		_	
Best Estimate / statutory accounts value	31,469	275,277	280,277	77,449
Risk margin	4,389		5,757	,
Reinsurance recoverables	(19,298)	(30,025)	(23,322)	(33,364)
Total	228,622	245,252	262,712	44,085
Life (ex-health and index-linked and unit-linked):				
Best Estimate / statutory accounts value	741,430	1,062,423	767,418	1,151,159
Risk margin	42,589	1,002,420	40,327	1,101,100
Reinsurance recoverables	(26,767)	(125,410)	(21,878)	(122,524)
Total	757,252	937,013	785,867	1,028,635
Index-linked and unit-linked:				
TP calculated as a whole <sup>1</sup>	5,175,822		-	
Best estimate / statutory accounts value	336,077	5,696,414	5,923,136	6,393,962
Risk margin	49,139		57,019	
Reinsurance recoverables	(44,953)	(70,353)	(69,230)	(96,196)
Total	5,516,085	5,626,061	5,910,925	6,297,766
Total net technical provision	6,510,679	6,817,151	6,968,880	7,378,377

<sup>&</sup>lt;sup>1</sup>At 31 December 2018 the presentation of the Technical Provisions in the table above (and in the applicable QRTs) have been updated to reflect PRA guidance that the unit part of unit-linked gross BEL should be shown as 'Technical Provisions as a whole'. At 31 December 2017 the unit part of the unit-linked gross BEL was shown as 'Best Estimate'. Solvency II technical provisions for the Chesnara group consist of the best estimate liabilities ('BEL') and the risk margin. This section considers the BEL and risk margin separately, describing the basis, methods and main assumptions. Where relevant, this section highlights differences in basis, methods and main assumptions between the lines of business.

#### **BEL** basis and methodology

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

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

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

For Scildon, per-policy data for all business (including the group pension business) is used to create grouped policy data, which is used to calculate the best estimate.

# **D.2 Technical provisions (continued)**

### **D.2.1 Value of technical provisions (continued)**

### Policyholder cash-flows

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

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

Below is the build up from the divisional values to the overall group position for both the statutory and solvency values.

		S	olvency value 31	December 2018	}	
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Net technical provisions:						
Health (similar to non-life):						
Best Estimate	_	26,716	_	_	_	26,716
Risk margin	_	306	_	_	_	306
Reinsurance recoverables	_	(18,302)	_	_	_	(18,302)
Total	_	8,720	-	_	_	8,720
Health (similar to life):						
TP calculated as a whole	212,062					212,062
Best Estimate	(7,328)	34,397	4,400			31,469
Risk margin	3,853	393	143	_	_	4,389
Reinsurance recoverables	2.405	(20,606)	(1,097)	_	_	(19,298)
Total	210,992	14,184	3,446	_	_	228,622
Total	210,002	,	0,110			220,022
Life (ex-health and index-linked and unit-linked):						
Best Estimate	513,265	4,413	45,830	177,922	_	741,430
Risk margin	12,411	33	2,445	27,700	_	42,589
Reinsurance recoverables	(98,939)	(2,576)	(27)	74,775	_	(26,767)
Total	426,737	1,870	48,248	280,397	-	757,252
Index-linked and unit-linked:						
TP calculated as a whole	1,569,825	2,803,039	16,691	786,267		5,175,822
Best estimate	(15,304)	(232,656)	(192)	549,315	34,914	336,077
Risk margin	12,784	32,448	18	3,889	_	49,139
Reinsurance recoverables	(47,049)	837	_	1,259	_	(44,953)
Total	1,520,256	2,603,668	16,517	1,340,730	34,914	5,516,085
Total net technical provision	2,157,985	2,628,442	68,211	1,621,127	34,914	6,510,679

# **D.2 Technical provisions (continued)**

D.2.1 Value of technical provisions (continued)

		S	tatutory value 31	December 2018		
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Net technical provisions:						
Health (similar to non-life):						
Statutory accounts value	_	30,729	-	_	-	30,729
Risk margin						
Reinsurance recoverables	-	(21,904)	-	_	-	(21,904)
Total	-	8,825	-	-	-	8,825
Health (similar to life):						
Statutory accounts value	220,071	47,402	7,804	_	_	275,277
Risk margin						
Reinsurance recoverables	1,738	(27,962)	(3,801)	_	-	(30,025)
Total	221,809	19,440	4,003	_	-	245,252
Life (ex-health and index-linked and unit-linked):						
Statutory accounts value	604,387	6,164	59,278	392,594	_	1,062,423
Risk margin						
Reinsurance recoverables	(122,045)	(3,306)	-	(59)	-	(125,410)
Total	482,342	2,858	59,278	392,535	_	937,013
Index-linked and unit-linked:						
Statutory accounts value	1,570,070	2,803,036	16,693	1,306,115	500	5,696,414
Risk margin	.,0.0,010	2,000,000	. 5,000	.,555,110	000	3,333,111
Reinsurance recoverables	(70,353)	_	_	-	_	(70,353)
Total	1,499,717	2,803,036	16,693	1,306,115	500	5,626,061
Total net technical provision	2,203,868	2,834,159	79,974	1,698,650	500	6,817,151

	•	S	olvency II value 3	1 December 20	17	_
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Net technical provisions:						
Health (similar to non-life):						
Best Estimate	_	29,415	_	_	_	29,415
Risk margin	_	405	_	_	_	405
Reinsurance recoverables	-	(20,444)	_	_	_	(20,444)
Total	-	9,376	_	-	_	9,376
Health (similar to life):						
Best Estimate	233,467	41,076	5,734	_	_	280,277
Risk margin	4,986	561	210	_	_	5,757
Reinsurance recoverables	3,280	(25,086)	(1,516)	_	_	(23,322)
Total	241,733	16,551	4,428	_	-	262,712
Life (ex-health and index-linked and unit-linked):						
Best Estimate	541,054	5,251	52,812	168,301	_	767,418
Risk margin	12,432	40	3,100	24,755	_	40,327
Reinsurance recoverables	(100,067)	(3,270)	(27)	81,486	_	(21,878)
Total	453,419	2,021	55,885	274,542	_	785,867
Index-linked and unit-linked:						
Best estimate	1,838,160	2,642,992	24,836	1,391,111	26,037	5,923,136
Risk margin	16,540	36,502	53	3,924	_	57,019
Reinsurance recoverables	(71,114)	565	_	1,319	_	(69,230)
Total	1,783,586	2,680,059	24,889	1,396,354	26,037	5,910,925
Total net technical provision	2,478,738	2,708,007	85,202	1,670,896	26,037	6,968,880

# **D.2 Technical provisions (continued)**

#### D.2.1 Value of technical provisions (continued)

		Statut	ory accounts va	lue 31 Decembe	r 2017	
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Net technical provisions:						
Health (similar to non-life):						
Statutory accounts value	_	27,737	_	_	_	27,737
Risk margin						
Reinsurance recoverables	_	(19,846)	_	_	_	(19,846)
Total	_	7,891	-	_	_	7,891
Health (similar to life):						
Statutory accounts value	18,569	49,800	9,080			77,449
Risk margin	10,509	49,000	9,000	_	_	77,449
Reinsurance recoverables	238	(29,216)	(4,386)	_	_	(33,364)
Total	18,807	20,584	4,694	_		44,085
Ισιαι	10,007	20,304	4,034	_		44,003
Life (ex-health and index-linked and unit-linked):						
Statutory accounts value	665,096	8,734	66,585	410,744	_	1,151,159
Risk margin						
Reinsurance recoverables	(116,535)	(5,088)	(27)	(874)	_	(122,524)
Total	548,561	3,646	66,558	409,870	_	1,028,635
Index-linked and unit-linked:						
Statutory accounts value	2,085,590	2,909,451	24,664	1,372,257	2,000	6,393,962
Risk margin	2,000,000	2,000,401	2-1,00-1	1,012,201	2,000	0,000,002
Reinsurance recoverables	(96,196)	_	_	_	_	(96,196)
Total	1,989,394	2,909,451	24,664	1,372,257	2,000	6,297,766
Total net technical provision	2,556,762	2,941,572	95,916		2,000	7,378,377

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

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

#### **Probability weighting**

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

### BEL description of main assumptions

#### **Discount rates**

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

#### **Demographic assumptions**

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

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

### **D.2 Technical provisions (continued)**

#### D.2.1 Value of technical provisions (continued)

BEL description of main assumptions (continued)

Demographic assumptions (continued)

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

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

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

#### **Expense assumptions**

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

#### Policyholder behaviour - lapse and surrender assumptions

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

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

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

#### Risk margin

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

The Chesnara group risk margin is calculated as the sum of the individual divisions' risk margins (i.e. CA, Movestic, Waard Group and Scildon).

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

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

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

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

#### **Group adjustments**

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

- appropriate allowance for contributions to the group SCR owing to investments held at a Group level;
- group level expenses not recharged out to the individual entities;
- additional currency risk associated with the own funds value of overseas divisions being subject to exchange rate movements;
- removal of any potential double-stressing of GBP denominated assets in underlying entity SCR components when consolidating at a group level.

#### D.2.2 Level of uncertainty within the technical provisions

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

### **D.2 Technical provisions (continued)**

# D.2.3 Comparison of technical provisions valuation methods, bases, assumptions and values for Solvency purposes and IFRS

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

		31 December 2018								
		Countrywide Assured	Movestic	Waard Group	Scildon	Chesnara plc	Group Total			
	Note	£'000	£'000	£'000	£'000	£'000	£'000			
IFRS technical provisions	1	2,203,868	2,834,159	79,974	1,698,650	500	6,817,151			
Allow negative provisions	2	(71,093)	_	_	(31,192)	-	(102,285)			
Changes to assumptions	3	(13,600)	_	(17,045)	(153,617)	-	(184,262)			
Contract boundary restrictions	4	13,225	_	_	(5,778)	-	7,447			
Other adjustments for SII	5	(3,463)	(238,897)	2,676	81,475	34,414	(123,795)			
SII BEL		2,128,937	2,595,262	65,605	1,589,538	34,914	6,414,256			
SII risk margin	6	29,048	33,180	2,606	31,589	-	96,423			
SII technical provisions		2,157,985	2,628,442	68,211	1,621,127	34,914	6,510,679			

		31 December 2017								
		Countrywide Assured	Movestic Livförsäkring	Waard Group	Scildon	Chesnara plc	Group Total			
	Note	£'000	£'000	£'000	£'000	£'000	£'000			
IFRS technical provisions	1	2,556,762	2,941,572	95,916	1,782,127	2,000	7,378,377			
Allow negative provisions	2	(106,670)	_	_	(64,606)	-	(171,276)			
Changes to assumptions	3	3,129	_	(16,948)	(158,006)	-	(171,825)			
Contract boundary restrictions	4	14,577	_	_	(1,963)	-	12,614			
Other adjustments for SII	5	(23,018)	(271,073)	2,871	84,665	24,037	(182,518)			
SII BEL		2,444,780	2,670,499	81,839	1,642,217	26,037	6,865,370			
SII risk margin	6	33,958	37,508	3,363	28,679	-	103,508			
SII technical provisions		2,478,738	2,708,007	85,202	1,670,896	26,037	6,968,880			

# D.2.3 Comparison of technical provisions valuation methods, bases, assumptions and values for Solvency purposes and IFRS (continued)

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

- Note 1: IFRS technical provisions continue to be largely based on the respective Solvency I regimes in the UK, Sweden and the Netherlands. The main difference between IFRS and the Solvency I regime is the inclusion of an additional cost of guarantee ('CoG') reserve in each of the with-profit funds in CA plc which aims to better model the guarantees to which the funds are exposed.
- Note 2: Negative technical provisions are not allowed under IFRS, but are permitted under SII. For some divisions this is a clear source of difference.
- Note 3: Many demographic assumptions are modelled under IFRS with a margin of prudence above the corresponding SII assumption. This is of particular relevance to the Waard Group and Scildon, where the majority of IFRS insurance contract provisions are calculated on a tariff basis, which is based on historic assumptions. Under SII these historical assumptions are replaced with best-estimate assumptions based on recent experience and current market data, as required.
- Note 4: Under Solvency II it is a requirement to establish contract boundaries to determine whether an insurance obligation or reinsurance obligation is to be treated as existing or future business (with only existing business considered in scope for the calculation of technical provisions). The impact shown above primarily relates to products with reviewable premiums, whereby premiums are assumed to cease at the next review date for the purposes of calculating technical provisions under Solvency II.
- Note 5: This represents the impact of other changes in methodology that have been introduced under Solvency II. For example, under IFRS the unit-linked reserves are calculated as the sum of a unit reserve and a sterling reserve and the non-linked reserves are calculated using a net premium approach, whereas in both cases the Solvency II BEL is calculated using a discounted cash flow approach. Of particular relevance to Movestic, the IFRS technical provision for investment contracts is equal to the value of underlying investments, whereas the corresponding SII technical provision is generally lower because allowance can be made for the expected future profits.
- Note 6: The risk margin does not exist under IFRS and so is an additional technical provision under Solvency II.

# **D.2 Technical provisions (continued)**

#### D.2.4 Use of long term guarantee package

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

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

#### **D.2.5** Reinsurance recoverables

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

#### Value of reinsurance recoverables

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

#### Methodology and assumptions

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

#### Adjustment for expected default

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

#### Methodology

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

#### Assumptions

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

### **D.2 Technical provisions (continued)**

#### **D.2.6 Changes in assumptions**

The methodology for setting the assumptions for the Solvency II calculations as at 31 December 2018 is unchanged from the valuation as at 31 December 2017.

Solvency II regulations require a probability-weighted basis for the experience assumptions. To achieve this, the assumptions have taken account of:

- experience in recent years,
- trends observed in recent years, and
- any other known or likely factors that may affect future behaviour.

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

Key assumption changes over 2018 include:

Assumption	Division	Description
Economic	All	Updated EIOPA yield curves utilised plus updates to inflation parameters.
Mortality / morbidity		Mortality assumptions have been reviewed to take account of recent investigations, resulting in the following across the divisions:
	CA	Minor changes to mortality assumptions have been applied to more closely reflect recent experience.
	Waard Group	Minor impact following updates for applicable products (unit-linked) to use the revised Dutch Actuarial Society mortality tables which were published in the second half of 2018 (although the impact isn't material at Group level).
	Movestic	Mortality assumptions have been reviewed to take account of recent investigations, resulting in a small weakening of assumptions (i.e. small benefit).
	Scildon	Mortality assumptions have been reviewed to take account of recent investigations and the revised Dutch Actuarial Society tables, resulting in fairly significant strengthening to both the parameter and future improvement assumptions.
Persistency		Persistency assumptions have been reviewed to take account of recent investigations resulting in the following across the divisions:
	CA	Minor changes to persistency assumptions have been applied to more closely reflect recent experience.
	Waard Group	Persistency assumptions have been reviewed to take account of recent investigations resulting in a lower lapse assumption for single premium policies, and a higher lapse assumption for unit-linked policies and non-linked savings mortgage cases.
	Movestic	Transfer assumptions have been reviewed to take account of recent investigations, resulting in revised assumptions (which vary by book of business). No changes have been applied for surrender rates, though the paid-up rates assumption has been updated to reflect improvements in experience.
	Scildon	Persistency assumptions for lapses, conversions of older term assurance to new tariff business and paid-up rates have been updated following experience investigations.
Expenses	All	Expense assumptions have been updated to reflect the latest management assessment of projected costs. This has resulted in a strengthening of assumptions for Movestic, Waard and Chesnara Plc. For Scildon, following review there has been a change in the number of new business cases (which contributes to the denominator in the unit cost calculation), resulting in a slight weakening of expense assumptions relative to 2017. For CA, the impact of the removal of VAT on outsourcer expenses has resulted in a slight weakening of expense assumptions, which is offset to some extent by refinements to the wider expense model.

# **D.3 Other liabilities**

#### Introduction

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

		31 Decem	nber 2018	31 Decen	nber 2017
	Note	Solvency II value £'000	Statutory accounts value £'000	Solvency II value £'000	Statutory accounts value £'000
Other liabilities	74010	2 000	2 000	2 000	2 000
Provisions other than technical provisions	3.1	365	365	582	582
Deferred tax liabilities	3.2	23,925	19,463	43,061	22,794
Derivatives	3.3	22,724	22,724	110,431	110,431
Debts owed to credit institutions	3.4	70,804	70,556	90,013	89,457
Financial liabilities other than debts owed to credit institutions	3.5	36,455	39,386	38,171	40,598
Insurance & intermediaries payables	3.6	102,716	102,624	108,424	108,316
Reinsurance payables	3.7	6,758	5,815	6,179	4,578
Payables (trade, not insurance)	3.8	37,182	37,182	42,483	42,483
Any other liabilities, not elsewhere shown	3.9	_	4,181	_	4,951
Total liabilities		300,929	302,296	439,345	424,191

Below is the build up from the divisional values to the overall group position for both the statutory and solvency values.

		Se	olvency II value	31 December 20	18	
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Other liabilities						
Provisions other than technical provisions	32	333	_	_	_	365
Deferred tax liabilities	8,761	802	4,271	16,341	(6,250)	23,925
Derivatives	1,239	_	_	21,485	_	22,724
Debts owed to credit institutions	975	_	_	_	69,829	70,804
Financial liabilities other than debts owed to credit institutions	-	36,455	_	_	_	36,455
Insurance & intermediaries payables	58,713	2,604	2,440	38,959	_	102,716
Reinsurance payables	463	5,036	-	1,259	_	6,758
Payables (trade, not insurance)	18,440	11,750	2,762	4,392	(162)	37,182
Any other liabilities, not elsewhere shown	_	_	_	_	-	_
Total liabilities	88,623	56,980	9,473	82,436	63,417	300,929

# **D.3 Other liabilities (continued)**

**Introduction (continued)** 

	Statutory accounts value 31 December 2018					
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Other liabilities						
Provisions other than technical provisions	32	333	_	_	_	365
Deferred tax liabilities	2,566	266	176	17,040	(585)	19,463
Derivatives	1,239	_	_	21,485	-	22,724
Debts owed to credit institutions	975	_	_	_	69,581	70,556
Financial liabilities other than debts owed to credit institutions	-	39,386	-	_	-	39,386
Insurance & intermediaries payables	58,713	2,604	2,347	38,960	_	102,624
Reinsurance payables	463	4,093	-	1,259	_	5,815
Payables (trade, not insurance)	18,440	11,750	2,762	4,392	(162)	37,182
Any other liabilities, not elsewhere shown	3,884	-	-	_	297	4,181
Total liabilities	86,312	58,432	5,285	83,136	69,131	302,296

	Solvency II value 31 December 2017					
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Other liabilities						
Provisions other than technical provisions	24	558	_	_	_	582
Deferred tax liabilities	14,349	337	4,288	29,294	(5,207)	43,061
Derivatives	88,000	_	_	22,431	-	110,431
Debts owed to credit institutions	_	_	_	_	90,013	90,013
Financial liabilities other than debts owed to credit institutions	-	36,271	1,900	_	-	38,171
Insurance & intermediaries payables	55,667	7,439	2,478	42,840	_	108,424
Reinsurance payables	516	5,663	_	_	-	6,179
Payables (trade, not insurance)	19,713	12,817	2,522	7,788	(356)	42,483
Any other liabilities, not elsewhere shown	-		_	_	-	
Total liabilities	178,269	63,085	11,188	102,353	84,450	439,345

### **D.3 Other liabilities (continued)**

**Introduction (continued)** 

	Statutory accounts value 31 December 2017					
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Other liabilities						
Provisions other than technical provisions	24	558	-	_	_	582
Deferred tax liabilities	3,560	303	455	19,060	(584)	22,794
Derivatives	88,000	_	_	22,432	_	110,432
Debts owed to credit institutions	_	_	_	_	89,457	89,457
Financial liabilities other than debts owed to credit institutions	-	38,698	1,900	_	-	40,598
Insurance & intermediaries payables	55,667	7,439	2,370	42,840	-	108,316
Reinsurance payables	516	4,062	_	_	-	4,578
Payables (trade, not insurance)	19,713	12,817	2,522	7,787	(356)	42,483
Any other liabilities, not elsewhere shown	4,675	_	-		276	4,951
Total liabilities	172,155	63,877	7,247	92,119	88,793	424,191

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

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

Further detail by material liability class has been provided below.

#### D.3.1 Provisions other than technical provisions

#### Basis and methods for IFRS valuation

Provisions other than technical provisions represent small residual balances held in respect of historical complaint redress provisions and are measured at fair value. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditure expected to be required to settle the obligation.

Assumptions and judgements (including future estimates and major sources of estimate uncertainty) for IFRS valuation An estimation of future costs required to settle the obligation is required, together with an estimate of the future economic benefits to be derived from the contracts under-pinning the need for a provision.

#### Inputs for IFRS valuation

Net present value of future cash flows calculation.

#### Solvency II valuation

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

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

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

#### **D.3.2 Deferred tax liabilities**

#### Basis and methods for IFRS valuation

Deferred tax liabilities are recognised in the IFRS balance sheet in accordance with IAS12. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

Assumptions and judgements (including future estimates and major sources of estimate uncertainty) for IFRS valuation. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

### **D.3 Other liabilities (continued)**

#### D.3.2 Deferred tax liabilities (continued)

#### Inputs for IFRS valuation

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

#### Solvency II valuation

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

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

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

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

#### **D.3.3 Derivatives**

#### **Basis and methods**

Derivative financial instruments are measured at fair value and comprise forward exchange contracts. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

#### Assumptions and judgements (including future estimates and major sources of estimate uncertainty)

No significant assumptions or judgements are made in the valuation of these assets, as they are based upon market observable inputs.

#### Inputs

Observable market prices.

#### Solvency II valuation

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

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

During the year, there were no changes made to the recognition or valuation basis of derivatives. However, for SII purposes, derivatives are now being disclosed in the balance sheet on a net basis (net of both cash flow legs of the derivative) rather than in 2017, where the asset and liability legs were shown separately. The 2018 balance sheet presentation is now in line with IFRS.

#### D.3.4 Debts owed to credit institutions

#### Basis and methods for IFRS valuation

Borrowings are recognised initially at fair value, less transaction costs, and are subsequently measured at amortised cost using the effective interest rate method. Also, includes bank overdraft and unpaid cheques.

# Assumptions and judgements (including future estimates and major sources of estimate uncertainty) None.

#### Inputs

- Effective interest rate calculation model.
- Bank and term deposit statements.
- Bank reconciliation timing differences.

#### Solvency II valuation

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

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

### **D.3 Other liabilities (continued)**

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

Basis and methods for IFRS valuation

Financial liabilities other than debts owed to credit institutions are all valued at amortised cost.

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

#### Inputs

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

#### Solvency II valuation

For SII valuation purposes amounts of financial liabilities other than debts owed to credit institutions are valued at fair value.

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

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

#### D.3.6 Insurance and intermediaries payables

#### Basis and methods for IFRS valuation

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

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

#### Inputs for IFRS valuation

The actual amount of the outstanding liability or the best estimate of the liability to be settled.

#### **Solvency II valuation**

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

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

### **D.3 Other liabilities (continued)**

#### D.3.7 Reinsurance payables

#### Basis and methods for IFRS valuation

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

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

#### Inputs for IFRS valuation

Reinsurance accounts prepared in accordance with the provisions contained within the underlying reinsurance treaties.

#### Solvency II valuation

Reinsurance payables are valued in Solvency II on the same basis as for IFRS, except for the Movestic reinsurance payables. Unlike IFRS, the Solvency II value for those reinsurance payables includes future reinsurance premiums cash flows for which Movestic is required to pay.

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

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

#### D.3.8 Payables (trade, not insurance)

#### Basis and methods for IFRS valuation

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

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

#### Inputs for IFRS valuation

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

#### **Solvency II valuation**

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

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

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

#### D.3.9 Any other liabilities, not elsewhere shown

#### Basis and methods for IFRS valuation

Other liabilities, not elsewhere shown are measured at fair value, taken as the carrying value at the balance sheet date. For IFRS reporting purposes, this balance represents "Reinsurers' share of deferred acquisitions costs" and "Deferred income".

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

#### Inputs for IFRS valuation

Invoices, statements or valuations of the liability as at the balance sheet date.

#### Solvency II valuation

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

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

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

### **D.4 Alternative methods for valuation**

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

# **D.5** Any other information

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

### E. CAPITAL MANAGEMENT

#### E.I Own funds

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

#### **Background**

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

#### **Objectives**

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

#### i) Business strategy consistency

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

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

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

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

#### ii) Risk appetite:

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

#### iii) Risk tolerances:

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

#### Policies

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

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

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

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

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

## E.I Own funds (continued)

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

**Processes and controls** 

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

### Internal reporting:

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

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

### **Business planning**

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

The most recent business plan, being the 2019 to 2021 plan, does not anticipate any material changes to the structure of own funds over the planning horizon.

## E.I Own funds (continued)

## **E.1.2** Analysis of own funds

The below table provides information, split by tier, on the structure, amount and quality of own funds at the end of 2018 and 2017, including an analysis of any significant changes in each tier over the year:

	31 December 2017	Movement in year	Transfers	31 December 2018
	£'000	£'000	£'000	£'000
Tier 1:				
Ordinary share capital	43,766	1	-	43,767
Share premium account related to ordinary share capital	141,983	70	-	141,983
Total ordinary share capital & share premium	185,749	71	-	185,820
Reconciliation reserve before deductions	475,578	(63,396)	(19,579)	392,603
Own shares (held directly and indirectly)	(98)	98	-	_
Foreseeable dividends	(19,579)	(20,181)	19,579	(20,181)
Restricted own funds in ring fenced funds	(26,543)	(5,929)	26,800	(5,672)
Total reconciliation reserve	429,358	(89,408)	26,800	366,750
Total eligible own funds eligible to meet SCR	615,182	(89,407)	26,800	552,570
SCR	421,809	(72,184)	-	349,625
Ratio of eligible own funds to SCR	145.8%			158.0%
Total eligible own funds eligible to meet MCR*	613,674	(89,531)	26,800	550,943
MCR	107,531	(18,343)	-	89,188
Ratio of eligible own funds to MCR	570.7%			617.7%

<sup>\*</sup> When assessing group own funds for the purpose of meeting the MCR, it is not permitted to include the own funds of companies in the group that are in other financial sectors. For the purpose of the Chesnara group at 31 December 2018 there were £1.627m (31 December 2017: £1.507m) of such own funds, which related to the fund management company in Sweden.

Below is the build up from the divisional values to the overall group position.

	31 December 2018							
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total		
	£'000	£'000	£'000	£'000	£'000	£'000		
Excess assets over liabilities	190,407	210,012	51,716	165,979	(39,691)	578,423		
Restricted own funds in ring fenced funds	(5,672)	_	_	_	_	(5,672)		
Own shares (held directly and indirectly)	_	_	_	_	_	_		
Foreseeable dividends	(59,000)	(2,894)	(3,237)	(5,157)	50,107	(20,181)		
Total eligible own funds eligible to meet SCR	125,735	207,118	48,479	160,821	10,416	552,570		
SCR	96,591	119,070	7,775	79,163	47,026	349,625		
Ratio of eligible own funds to SCR	130.2%	173.9%	623.6%	203.2%	n/a	158.0%		

	31 December 2017							
	Countrywide Assured	Movestic	Waard Group	Scildon	Other group activities	Total		
	£'000	£'000	£'000	£'000	£'000	£'000		
						_		
Excess assets over liabilities	225,229	230,683	61,244	209,967	(65,722)	661,402		
Restricted own funds in ring fenced funds	(26,543)	-	_	_	_	(26,543)		
Own shares (held directly and indirectly)	_	_	_	_	(98)	(98)		
Foreseeable dividends	(32,000)	(2,843)	(13,043)	(22,183)	50,491	(19,579)		
Total eligible own funds eligible to meet SCR	166,686	227,840	48,201	187,784	(15,329)	615,182		
SCR	128,060	149,045	9,989	81,414	53,301	421,809		
Ratio of eligible own funds to SCR	130.2%	152.9%	482.5%	230.7%	n/a	145.8%		

## E.I Own funds (continued)

### E.1.2 Analysis of own funds (continued)

#### Own funds analysis:

- Own funds of the group comprise tier 1 share capital and the reconciliation reserve.
- Share capital and the reconciliation reserve have been classified as tier 1 as they are fully available to be able to absorb losses.
- There were no changes in classification of own funds during the year.
- The group does not have any non-tier 1 own funds items, either at the start or the end of the year.
  - Movements in eligible own funds during the year have arisen from:
  - Own funds deficit: Own funds surplus or deficit can emerge over time as follows:
    - New business: New policies are sold in the Movestic and Scildon divisions and this can create extra own funds.
    - Existing policies at the start of the year: Surpluses or deficits can emerge from the policies that were on the books at the start of the year. Surpluses or deficits can arise from experience differing to what was assumed in the opening valuation
  - Foreign exchange: As a result of the group having operations in Sweden and the Netherlands foreign exchange rate
    movements between Swedish Krona and the Euro against Sterling results in movements in the portion of group own funds
    arising from the Swedish and Dutch divisions.
  - Movements in ring fenced funds restrictions: The group has two ring fenced funds which subside within the UK division. Surpluses in these funds are restricted, and therefore, as the surpluses move, this affects the amount of Own Funds available to meet the SCR and MCR. During 2018, a capital transfer of £26.8m from with profit ring fenced funds (SPI £0.8m and SPP £26.0m) to the non profit fund took place. This improved the capital position in the year. After the capital transfer, a further £5.7m of surplus arose in the ring fenced funds.
  - Foreseeable dividends and dividend distributions: As dividends are foreseen and subsequently paid, this reduces the own funds of the group. For the year ended 31 December 2018 the following dividends have affected the own funds of the group:
    - Interim dividend: During 2018 an interim dividend amounting to £10.8m was paid in September 2018; and
    - Final dividend: A £20.2m foreseeable dividend was recognised in the year end solvency position in relation to the year end 2018 proposal. This will be paid on 24 May 2019.

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

	2018	2017
	£'000	£'000
Tier 1 own funds at 1 January	615,182	505,386
Underlying movement in own funds (arising from new business and from in-force business at the start of the year)	(52,496)	155,797
Dividends:		
<ul> <li>Interim dividend paid</li> </ul>	(10,806)	(10,482)
<ul> <li>Foreseeable dividend</li> </ul>	(20,181)	(19,579)
With profit transfer	26,800	_
Movements in ring fenced funds restrictions	(5,929)	(15,940)
Tier 1 own funds at 31 December	552,570	615,182

#### Own funds to cover SCR:

The table on the previous page shows that the group, which only has tier 1 capital, has £552.6m (2017: £615.2m) of available own funds to be able to meet the group's SCR of £349.6m (2017: £421.8m) at 31 December 2018, resulting in an SCR coverage ratio of 158% (2017: 146%).

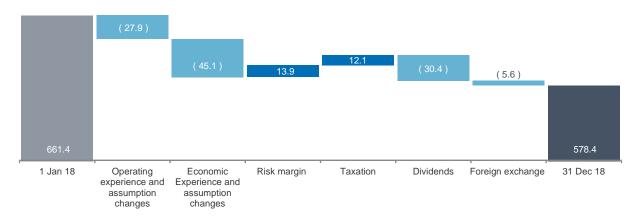
### Own funds to cover MCR:

The table on the previous page shows that the company, which only has tier 1 capital, has £552.6m (2017: £615.2m) of available own funds to be able to meet the company's MCR of £89.2m (2017: £107.5m), resulting in a MCR coverage ratio of 617.78% (2017: 570.7%).

## E.I Own funds (continued)

### E.1.2 Analysis of own funds (continued)

Assets less liabilities movement during the year (£m)



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

- Operating experience and assumption changes: This relates to how the underlying performance of the company differs to
  the expectations of that performance. The negative performance is driven from various sources including a strengthening of
  mortality assumptions for Scildon, combined with a strengthening of transfer and expense assumptions for Movestic.
- Economic experience and assumption changes: This relates to the performance of assets and liabilities as a result of market factors, such as investment return on the assets that are held by the company. There was a significant reduction in Scildon's own funds due to a large fall in the value of bond holdings as a result of increasing credit spreads. In addition, the poor performance of equity markets over 2018 has led to a reduction in the expected future value of fund-based charges for Movestic and in CA.
- Risk margin: This reflects the release of risk margin, which is partly driven by a reduction in capital requirements during the
  year and partly driven by improvements to the projection of capital requirements in the risk margin calculation.
- **Taxation:** This reflects the corporation tax as per the balance sheet.
- Dividends paid: This reflects the dividend that was paid during the year.

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

The below table analyses the difference between the equity in the financial statements and the excess of assets over liabilities as calculated for solvency purposes at 31 December 2018 and 31 December 2017:

	31 Decemb £'00		31 Decemb £'00	
Equity per the IFRS financial statements:				
Share capital	43,767		43,766	
Share premium	142,053		141,983	
Retained earnings and other reserves	259,796		265,908	
Total equity as reported in the Chesnara plc IFRS financial statements		445,616		451,657
Adjustments between IFRS financial statements and excess of assets over liabilities for solvency purposes:				
Adj 1: Net valuation difference between IFRS and SII for technical provisions	306,900		409,997	
Adj 2: Removal of intangible assets included in IFRS valuation	(177,200)		(187,021)	
Adj 3: Net valuation difference between IFRS and SII for assets	8,600		8,686	
Adj 4: Adjustments to deferred tax	(4,400)		(20,268)	
Adj 5: Other adjustments	(1,093)		(1,649)	
Total adjustments between IFRS financial statements and excess of assets over liabilities for solvency purposes		132,812		209,745
Excess of assets over liabilities for solvency purposes (reconciliation reserve before deductions plus ordinary share capital):		578,423		661,402

## E.I Own funds (continued)

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

Explanations of adjustments:

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

## E.1.4 Items deducted from own funds

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

	31 December 2018 £'000	31 December 2017 £'000
Assets less liabilities	578,423	661,402
Adjustments for:		
Own shares (held directly or indirectly)	-	(98)
Surplus in ring-fenced funds	(5,672)	(26,543)
Foreseeable dividends	(20,181)	(19,579)
Own funds	552,570	615,182

There are three items deducted from own funds. These are:

- Own shares (held directly or indirectly)
  - Solvency II requires own shares to be recognised as assets on the balance sheet and then deducting from the own funds.
- Surplus in ring-fenced funds in accordance with Article 81 of delegated acts

The group has two ring-fenced funds: Save & Prosper Insurance (SPI) and Save & Prosper Pensions (SPP). Under Solvency II rules the surpluses within these funds cannot contribute to the overall solvency assessment. At 31 December 2018, the surplus in each of these funds was: SPI – £nil (2017: £0.9m) and SPP – £5.7m (2017: £25.7m).

### - Foreseeable dividends

Solvency II requires dividends to be recognised as a deduction to own funds when they are "foreseeable". At 31 December 2018 and 2017, foreseeable dividends, representing the dividend that will be/was paid in May 2019 and May 2018 respectively, were recognised within the Solvency II valuation.

## E.2 Solvency Capital Requirement and Minimum Capital Requirement

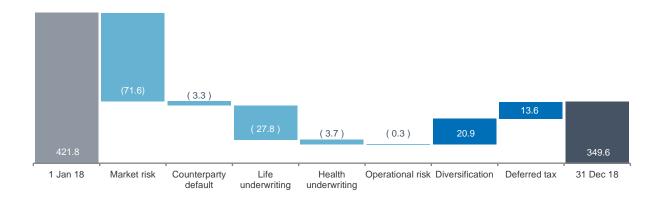
#### E.2.1 SCR and MCR analysis

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

- The group, and all companies within the group, have applied the standard formula in calculating the solvency capital requirement, both at the start and the end of the year;
- The group does not use any simplified calculations in any risk modules or sub-modules and the group does not use any undertaking-specific parameters.
- No capital add-ons have been imposed on Chesnara by the PRA.
- Chesnara's group solvency is calculated using method 1 as defined in Article 230 of Directive 2009/138/EC. With reference to Article 336 of the Delegated Acts, the amount referred to in part (a) is shown below as the solvency capital requirement excluding capital add-on. The amount referred to in part (c) of the article is shown below as the capital requirement for other financial sectors. The amounts referred to in parts (b) and (d) are zero.
- The minimum consolidated group solvency capital requirement shown below includes a proportional share of the minimum capital requirement for Modernac, amounting to £1,853k.

		31 December 2018	31 December 2017	Changes in the year
	Note	£'000	£'000	£'000
Market risk	1	259,385	331,031	(71,646)
Counterparty default risk	2	16,467	19,813	(3,346)
Life underwriting risk	3	185,642	213,422	(27,780)
Health underwriting risk	4	15,913	19,630	(3,717)
Diversification	5	(109,286)	(130,224)	20,938
Basic Solvency Capital Requirement		368,121	453,672	(85,551)
Operational risk	6	13,863	14,164	(301)
Loss-absorbing capacity of deferred taxes	7	(32,664)	(46,321)	13,658
Solvency Capital Requirement excluding capital add-on		349,320	421,515	(72,194)
Capital requirement for other financial sectors	8	305	295	10
Solvency capital requirement		349,625	421,809	(72,184)
Notional SCR for remaining part	9	326,920	387,252	(60,332)
Notional SCR for ring fenced funds	10	22,705	34,557	(11,852)
Minimum consolidated group solvency capital requirement	11	89,188	107,531	(18,343)

### SCR movement during the year (in £m)



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

### E.2.1 SCR and MCR analysis (continued)

Below is the build up from the divisional values to the overall group position for both the statutory and solvency values.

	31 December 2018						
	Country wide Assured	Movestic	Waard Group	Scildon	Chesnara	Diversific ation	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Market risk	63,697	78,254	4,325	51,437	95,221	(33,549)	259,385
Counterparty default risk	8,514	1,662	3,638	2,198	789	(334)	16,467
Life underwriting risk	55,911	63,439	5,423	66,562	6,214	(11,907)	185,642
Health underwriting risk	9,127	8,301	507	_	-	(2,022)	15,913
Diversification	(32,058)	(35,007)	(4,174)	(25,737)	(5,053)	(7,257)	(109,286)
Basic Solvency Capital Requirement	105,191	116,649	9,719	94,460	97,171	(55,069)	368,121
Operational risk	3,798	3,856	284	6,218	_	(293)	13,863
Loss-absorbing capacity of deferred taxes	(12,399)	(1,740)	(2,228)	(21,515)	-	5,218	(32,664)
Solvency Capital Requirement excluding capital add-on	96,591	118,765	7,775	79,163	97,171	(50,144)	349,320
Capital requirement for other financial sectors	-	305	-	_	-	_	305
Solvency capital requirement	96,591	119,070	7,775	79,163	97,171	(50,144)	349,625
Notional SCR for remaining part	73,886	119,070	7,775	79,163	97,171	(50,144)	326,920
Notional SCR for ring fenced funds	22,705	_	-	_	_	_	22,705
Minimum consolidated group solvency capital requirement	25,750	30,997	7,031	25,410			89,188

	31 December 2017						
	Country wide Assured	Movestic	Waard Group	Scildon	Chesnara	Diversific ation	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Market risk	95,822	106,511	5,132	56,965	111,537	(44,936)	331,031
Counterparty default risk	10,519	1,677	5,253	2,065	1,084	(785)	19,813
Life underwriting risk	69,233	71,476	6,653	71,180	4,575	(9,695)	213,422
Health underwriting risk	12,360	8,975	691	_	_	(2,396)	19,630
Diversification	(42,120)	(41,891)	(5,376)	(27,860)	(4,144)	(8,833)	(130,224)
Basic Solvency Capital Requirement	145,814	146,747	12,353	102,350	113,052	(66,645)	453,672
Operational risk	3,821	4,082	347	6,202	_	(288)	14,164
Loss-absorbing capacity of deferred taxes	(21,575)	(2,079)	(2,710)	(27,138)	-	(7,180)	(46,321)
Solvency Capital Requirement excluding capital add-on	128,060	148,751	9,990	81,414	113,052	(59,573)	421,514
Capital requirement for other financial sectors	_	295	-	_	-	-	295
Solvency capital requirement	128,060	149,056	9,990	81,414	113,052	(59,753)	421,809
Notional SCR for remaining part	93,502	149,056	9,990	81,414	113,052	(59,753)	387,252
Notional SCR for ring fenced funds	34,557	-	-	-	-	_	34,557
Minimum consolidated group solvency capital requirement	32,015	38,628	9,286	27,602			107,531

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

- Note 1 The decrease in market risk is attributable to three main impacts. Firstly, the equity risk capital decreased by £50.0m. This is mainly due to reduced equity exposure for CA and Movestic as a result of falls in equity markets over the period, in addition to a reduction in the symmetric adjustment which dampens the impact of the stress. Spread risk reduced by £15.3m, driven by a fall in corporate bond exposure and improvement in asset data for the UK and also changes in the Scildon credit portfolio (including a smaller credit asset portfolio at 31 December 2018 and a shift towards higher rated bonds). Currency risk decreased by £27.5m largely due to the fall in the value of own funds held by Movestic, Waard and Scildon (i.e. non-sterling denominations), in addition to a fall in Movestic's currency risk due to improved asset look-through data and a shift in overseas equity holding to cash. In additional, exchange rate movements further decreased the sterling value of market risk by £3.0m. The diversification benefit increased by £17.5m.
- Note 2 Counterparty default risk has decreased mainly due to CA and Waard having a reduced cash holding following the dividend payments to Chesnara.

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

## E.2.1 SCR and MCR analysis (continued)

- Note 3 The reason for the decrease in life underwriting risk is largely driven by the decrease in lapse risk of £32.7m. This is driven by equity market falls, which reduces the future profits that can be lost in a mass lapse, in addition to changes in mortality assumptions for Scildon (which reduces future profits, and in turn results in a lower mass lapse stress) and changes in surrender and transfer rates for Movestic (which in turn impacts future profits).
- Note 4 The decrease in health underwriting risk is largely due to a reduction in the lapse risk for the CA business, driven by
  equity market falls, which reduces the future profits that can be lost in a mass lapse.
- Note 5 The amount of diversification between the risk modules has decreased as a direct consequence of the decrease in the
  amount of risk capital held under each of the risk modules.
- Note 6 The change in operational risk is immaterial.
- Note 7 The loss-absorbing capacity of deferred taxes has decreased largely due to the fall in in deferred tax and corporate tax on the balance sheet for CA and revised tax rates for Scildon.
- Note 8 The change in capital requirement for other financial sectors is immaterial.
- Note 9 The decrease in the notional SCR for the remaining part is attributable to most of the points listed above. The main factors that affected existing business are the decrease in equity risk capital in CA and Movestic, the reduction in currency risk and the lapse risk reduction.
- Note 10 The decrease in the notional SCR for ring fenced funds is mainly attributable to a decrease in spread risk for CA SPP with-profit fund due to an improvement in asset data.
- Note 11 The decrease in the MCR is attributable to the points listed above for the SCR.

Although the group SCR allows for some diversification across the group within certain risk submodules, overall the group synergy is negative. This is because additional currency risk is held at the group level in respect of the value of own funds held by Movestic, Waard and Scildon, on top of any risk capital held on net assets not denominated in sterling. This additional currency risk increases the SCR by £94.3m.

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

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

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

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

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

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

## **E.6** Any other information

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

## F. GLOSSARY OF TERMS

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

# G. ANNEX – QUANTITATIVE REPORTING TEMPLATES

### S.02.01.02 - Balance Sheet

	Assets	Solvency II Value
		C0010
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	
R0050	Pension benefit surplus	
R0060	Property, plant & equipment held for own use	4,963,230
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,840,771,158
R0080	Property (other than for own use)	1,053,906
R0090	Holdings in related undertakings, including participations	8,940,361
R0100	Equities	
R0110	Equities – listed	
R0120	Equities – unlisted	
R0130	Bonds	1,409,401,531
R0140	Government Bonds	856,692,165
R0150	Corporate Bonds	552,238,566
R0160	Structured notes	
R0170	Collateralised securities	470,799
R0180	Collective Investments Undertakings	393,968,249
R0190	Derivatives	103,683
R0200	Deposits other than cash equivalents	27,303,428
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	5,328,488,633
R0230	Loans and mortgages	44,030,469
R0240	Loans on policies	561,283
R0250	Loans and mortgages to individuals	42,764,340
R0260	Other loans and mortgages	704,847
R0270	Reinsurance recoverables from:	109,319,786
R0280	Non-life and health similar to non-life	18,301,582
R0290	Non-life excluding health	
R0300	Health similar to non-life	18,301,582
R0310	Life and health similar to life, excluding index-linked and unit-linked	46,064,810
R0320	Health similar to life	19,297,888
R0330	Life excluding health and index-linked and unit-linked	26,766,922
R0340	Life index-linked and unit-linked	44,953,395
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	22,236,976
R0370	Reinsurance receivables	21,907,958
R0380	Receivables (trade, not insurance)	20,139,766
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	
R0410	Cash and cash equivalents	100,681,522
R0420	Any other assets, not elsewhere shown	6,811,396
R0500	Total assets	7,499,350,895

## S.02.01.02 - Balance Sheet (continued)

	Liabilities	Solvency II Value
R0510	Technical provisions - non-life	C0010 27,021,814
R0510	Technical provisions - non-life (excluding health)	21,021,814
R0520	TP calculated as a whole	
R0540	Best Estimate	
R0550	Risk margin	27 024 044
R0560	Technical provisions - health (similar to non-life)	27,021,814
R0570	TP calculated as a whole	20.740.204
R0580	Best Estimate	26,716,301
R0590	Risk margin	305,512
R0600	Technical provisions - life (excluding index-linked and unit-linked)	1,031,938,517
R0610	Technical provisions - health (similar to life)	247,919,942
R0620	TP calculated as a whole	212,061,602
R0630	Best Estimate	31,469,449
R0640	Risk margin	4,388,891
R0650	Technical provisions - life (excluding health and index-linked and unit-linked)	784,018,575
R0660	TP calculated as a whole	
R0670	Best Estimate	741,429,912
R0680	Risk margin	42,588,663
R0690	Technical provisions - index-linked and unit-linked	5,561,038,162
R0700	TP calculated as a whole	5,175,821,681
R0710	Best Estimate	336,077,427
R0720	Risk margin	49,139,054
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	365,327
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	23,924,864
R0790	Derivatives	22,724,189
R0800	Debts owed to credit institutions	70,804,410
R0810	Financial liabilities other than debts owed to credit institutions	36,455,349
R0820	Insurance & intermediaries payables	102,716,191
R0830	Reinsurance payables	6,758,673
R0840	Payables (trade, not insurance)	37,180,178
R0850	Subordinated liabilities	
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	
R0880	Any other liabilities, not elsewhere shown	
R0900	Total liabilities	6,920,927,676
R1000	Excess of assets over liabilities	578,423,219

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

Non-Life		reinsurance obligations	Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		
		Medical expense	Income protection		
		insurance	insurance		
		C0010	C0020	C0200	
	Premiums written				
R0110	Gross - Direct Business		7,182,626	7,182,626	
R0120	Gross - Proportional reinsurance accepted				
R0130	Gross - Non-proportional reinsurance accepted				
R0140	Reinsurers' share		4,124,798	4,124,798	
R0200	Net		3,057,828	3,057,828	
	Premiums earned				
R0210	Gross - Direct Business		7,051,763	7,051,763	
R0220	Gross - Proportional reinsurance accepted				
R0230	Gross - Non-proportional reinsurance accepted				
R0240	Reinsurers' share		4,206,088	4,206,088	
R0300	Net		2,845,675	2,845,675	
	Claims incurred		· ·		
R0310	Gross - Direct Business		6,198,203	6,198,203	
R0320	Gross - Proportional reinsurance accepted				
R0330	Gross - Non-proportional reinsurance accepted				
R0340	Reinsurers' share		4,857,536	4,857,536	
R0400	Net		1,340,667	1,340,667	
	Changes in other technical provisions		·		
R0410	Gross - Direct Business				
R0420	Gross - Proportional reinsurance accepted				
R0430	Gross - Non-proportional reinsurance accepted				
R0440	Reinsurers' share				
R0500	Net				
R0550	Expenses incurred		2,782,348	2,782,348	
R1200	Other expenses				
R1300	Total expenses			2,782,348	

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

Life		Line of	Total			
		Health insurance	Insurance with-profit participation	Index-linked and unit- linked insurance	Other life insurance	
		C0210	C0220	C0230	C0240	C0300
	Premiums written					
R1410	Gross - Direct Business	25,635,436	4,568,746	519,949,668	117,223,380	667,377,231
R1420	Reinsurers' share	8,428,936	148,998	2,833,401	38,958,963	50,370,297
R1500	Net	17,206,501	4,419,748	517,116,268	78,164,417	617,006,934
	Premiums earned					
R1510	Gross - Direct Business	25,859,349	4,567,746	519,949,668	117,886,064	668,263,827
R1520	Reinsurers' share	8,560,741	148,998	2,833,401	39,448,425	50,991,564
R1600	Net	17,298,608	4,419,748	517,116,268	78,437,639	617,272,262
	Claims incurred					
R1610	Gross - Direct Business	35,485,387	46,9696,050	556,548,223	78,620,958	720,350,618
R1620	Reinsurers' share	3,593,963	542,615	26,509,891	29,404,196	60,050,665
R1700	Net	31,891,424	49,153,435	530,038,332	49,216,762	660,299,953
	Changes in other technical provisions					
R1710	Gross - Direct Business	(33,203,581)	(25,371,163)	(304,160,149)	(42,240,646)	(404,975,539)
R1720	Reinsurers' share	(300,026)	(1,551,0800	(23,989,593)	2,883,874	(22,956,826)
R1800	Net	(32,903,554)	(23,820,082)	(280,170,557)	(45,124,520)	(382,018,713)
R1900	Expenses incurred	2,020,710	7,148,874	60,540,314	28,718,747	98,428,646
R2500	Other expenses					(1,053)
R2600	Total expenses					98,427,592

## S.05.02.01 - Premiums, claims and expenses by country

Non-Life				Total Top 5
		Home Country	SE	and home country
		C0080	C0090	C0140
	Premiums written			
R0110	Gross - Direct Business		7,182,626	7,182,626
R0120	Gross - Proportional reinsurance accepted			
R0130	Gross - Non-proportional reinsurance accepted			
R0140	Reinsurers' share		4,124,798	4,124,798
R0200	Net		3,057,828	3,057,828
	Premiums earned			
R0210	Gross - Direct Business		7,051,763	7,051,763
R0220	Gross - Proportional reinsurance accepted			
R0230	Gross - Non-proportional reinsurance accepted			
R0240	Reinsurers' share		4,206,088	4,206,088
R0300	Net		2,845,675	2,845,675
	Claims incurred			
R0310	Gross - Direct Business		6,198,203	6,198,203
R0320	Gross - Proportional reinsurance accepted			
R0330	Gross - Non-proportional reinsurance accepted			
R0340	Reinsurers' share		4,857,536	4,857,536
R0400	Net		1,340,667	1,340,667
	Changes in other technical provisions			
R0410	Gross - Direct Business			
R0420	Gross - Proportional reinsurance accepted			
R0430	Gross - Non-proportional reinsurance accepted			
R0440	Reinsurers' share			
R0500	Net			
R0550	Expenses incurred		2,782,348	2,782,348
R1200	Other expenses			
R1300	Total expenses		L	2,782,348

## S.05.02.01 - Premiums, claims and expenses by country

Life		Home Country	SE	NL	Total Top 5 and home country
		C0080	C0090	C0090	C0140
	Premiums written				
R0110	Gross - Direct Business	56,890,114	422,694,560	187,792,557	657,377,231
R0140	Reinsurers' share	19,655,708	14,611,190	16,103,399	50,370,297
R0200	Net	37,234,405	408,083,370	171,689,158	617,006,934
	Premiums earned	•			
R0210	Gross - Direct Business	56,890,114	422,694,560	187,792,557	657,377,231
R0240	Reinsurers' share	19,655,708	14,611,190	16,103,399	50,370,297
R0300	Net	37,234,405	408,083,370	171,689,158	617,006,934
	Claims incurred	•			
R0310	Gross - Direct Business	285,065,172	225,749,866	209,535,581	720,350,618
R0340	Reinsurers' share	43,264,849	6,159,253	10,626,563	60,050,665
R0400	Net	241,800,323	219,590,612	198,909,018	660,299,953
	Changes in other technical provisions				
R0410	Gross - Direct Business	(350,360,345)	15,081,195	(69,696,388)	(404,975,539)
R0440	Reinsurers' share	(21,497,461)	_	(1,459,365)	(22,956,826)
R0500	Net	(328,862,884)	15,081,195	(68,237,024)	(382,018,713)
R0550	Expenses incurred	24,100,969	44,794,593	29,533,084	98,428,646
R1200	Other expenses				(1,053)
R1300	Total expenses				98,427,592

## S.23.01.22 - Own funds

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
D0040		C0010	C0020	C0030	C0040	C0050
R0010 R0020	Ordinary share capital (gross of own shares)  Non-available called but not paid in ordinary share capital	43,767,000	43,767,000			
R0030	at group level Share premium account related to ordinary share capital	142,053,000	142,053,000			
R0040	Initial funds, members' contributions or the equivalent basic	142,055,000	142,055,000			
R0050	own-fund item for mutual and mutual-type undertakings Subordinated mutual member accounts					
R0060	Non-available subordinated mutual member accounts at					
R0070	group level Surplus funds					
R0080	Non-available surplus funds at group level					
R0090	Preference shares					
R0100	Non-available preference shares at group level					
R0110	Share premium account related to preference shares					
R0120	Non-available share premium account related to preference shares at group level					
R0130	Reconciliation reserve	366,750,412	366,750,412			
R0140 R0150	Subordinated liabilities					
R0160	Non-available subordinated liabilities at group level An amount equal to the value of net deferred tax assets					
R0170	The amount equal to the value of net deferred tax assets not available at the group level					
R0180	Other items approved by supervisory authority as basic own funds not specified above					
R0190	Non available own funds related to other own funds items approved by supervisory authority					
R0200	Minority interests (if not reported as part of a specific own					
R0210	fund item) Non-available minority interests at group level					
R0220	be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in financial and credit institutions whereof deducted according to art 228 of the Directive	1,627,731	1,627,731			
R0240	2009/138/EC Deductions for participations where there is non-availability of					
R0250	information (Article 229) Deduction for participations included by using D&A when a					
R0260	combination of methods is used					
R0270 R0280	Total of non-available own fund items Total deductions	1,627,731	1,627,731			
R0290	Total basic own funds after deductions	550,942,681	550,942,681			
	Own funds of other financial sectors					
R0410	Credit Institutions, investment firms, financial institutions, alternative investment fund manager, financial institutions	1,627,731	1,627,731			
R0420	Institutions for occupational retirement provision					
R0430	Non regulated entities carrying out financial activities					
R0440	Total own funds of other financial sectors	1,627,731	1,627,731			
	Assettable and attention asset for t					
R0520	Available and eligible own funds  Total available own funds to meet the consolidated group  SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	550,942,681	550,942,681			
R0530	Total available own funds to meet the minimum consolidated group SCR	550,942,681	550,942,681			
R0560	Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)	550,942,681	550,942,681			
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	550,942,681	550,942,681			
						<del></del>

### S.23.01.22 - Own funds

	Basic own funds before deduction for participations in other financial sector	Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
		C0010	C0020	C0030	C0040	C0050
R0590	Consolidated Group SCR	349,624,900				
R0610	Minimum consolidated Group SCR	89,187,742				
	Ratio of Eligible own funds to the consolidated Group					
R0630	SCR (excluding other financial sectors and the	157.72%				
	undertakings included via D&A )					
R0650	Ratio of Eligible own funds to Minimum Consolidated Group SCR	617.73%				
	Total eligible own funds to meet the group SCR					
R0660	(including own funds from other financial sector and	552,570,412				
110000	from the undertakings included via D&A )	332,370,412				
R0670	SCR for entities included with D&A method					
R0680	Group SCR	349,624,900				
Docoo	Ratio of Eligible own funds to group SCR including other	450.050/				
R0690	financial sectors and the undertakings included via D&A	158.05%				
	Reconciliation reserve		•			
R0700	Excess of assets over liabilities	578,423,219				
R0710	Own shares (held directly and indirectly)					
R0720	Foreseeable dividends, distributions and charges	20,180,894				
R0730	Other basic own fund items	185,820,000				
R0740	Adjustment for restricted own fund items in respect of	5,671,913				
R0760	matching adjustment portfolios and ring fenced funds Reconciliation reserve	366,750,412				
KU/00	Neconoliation reserve	300,730,412				
	Expected profits					
D.0770	Expected profits included in future premiums (EPIFP) - Life	000 000 000				
R0770	business	289,860,630				
R0780	Expected profits included in future premiums (EPIFP) - Non-					
KU/80	life business					
R0790	Total Expected profits included in future premiums (EPIFP)	289,860,630				

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

		Gross solvency		
		capital	USP	Simplifications
		requirement		
		C0030	C0040	C0040
R0010	Market risk	259,385,389		
R0020	Counterparty default risk	16,466,845		
R0030	Life underwriting risk	185,641,586		
R0040	Health underwriting risk	15,913,289		
R0050	Non-life underwriting risk	_		
R0060	Diversification	(109,286,330)		
R0070	Intangible asset risk	_		
R0100	Basic Solvency Capital Requirement	368,120,777		
	Calculation of Solvency Capital Requirement			
R0130	Operational risk	13,862,924		
R0140	Loss-absorbing capacity of technical provisions	_		
R0150	Loss-absorbing capacity of deferred taxes	(32,663,444)		
R0160	Capital requirement for business operated in accordance	_		
10100	with Art. 4 of Directive 2003/41/EC			
R0200	Solvency Capital Requirement excluding capital add-	349,320,257		
N0200	on	343,320,231		
R0210	Capital add-ons already set			
R0220	Solvency capital requirement	349,624,900		
	Other information on SCR			
D0400	Capital requirement for duration-based equity risk sub-			
R0400	module			
D0440	Total amount of Notional Solvency Capital Requirements	000 045 040		
R0410	for remaining part	326,615,812		
D0 400	Total amount of Notional Solvency Capital Requirements	00 704 440		
R0420	for ring fenced funds	22,704,446		
D0400	Total amount of Notional Solvency Capital Requirements			
R0430	for matching adjustment portfolios			
D0440	Diversification effects due to RFF nSCR aggregation for			
R0440	article 304			
R0470	Minimum consolidated group solvency capital requirement	89,187,742		
		, ,		
	Information on other entities			
DOFOO	Capital requirement for other financial sectors (Non-	004.040		
R0500	insurance capital requirements)	304,643		
	Credit institutions, investment firms and financial			
R0510	institutions, alternative investment funds managers,	304,643		
	UCITS management companies			
R0520	Institutions for occupational retirement provisions			
	Capital requirement for non- regulated entities carrying			
R0530	out financial activities			
B. 6	Capital requirement for non-controlled participation			
R0540	requirements			
R0550	Capital requirement for residual undertakings			
	Overall SCR			
R0560	SCR for undertakings included via D&A			
R0570	Solvency capital requirement	349,624,900		
110010	Contently capital requirement	3+3,024,300		

## S.32.01.22 - Undertakings in the scope of the group

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Type of undertaking	Legal form	Category (mutual/non mutual)	Supervisory Authority
C0010	C0020	C0030	C0040	C0050	C0060	C0070	C0080
GB	213800VFRMBRTSZ3SJ06	LEI	Chesnara Plc	Insurance holding company	Limited by shares	Non-mutual	
GB	5493006PBGQRFI82TX40	LEI	Countrywide Assured plc	Life insurance undertaking	Limited by shares	Non-mutual	Prudential Regulation Authority (PRA)
GB	213800DQ2ZBKOTHG2M12	LEI	Countrywide Assured Life Holdings Limited	Insurance holding company	Limited by shares	Non-mutual	
GB	213800E18ZA3OVMM5P56	LEI	Countrywide Assured Services Limited	Ancillary services undertaking	Limited by shares	Non-mutual	
GB	213800U9SDMSLYT2JS80	LEI	Countrywide Assured Trustee Company Limited	Other	Limited by shares	Non-mutual	
SE	549300L3SKPPLGYVSI02	LEI	Movestic Livförsäkring AB	Life insurance undertaking	Limited by shares	Non-mutual	Finansinspektionen
LU	2221008794NZT5CD7U61	LEI	Modernac S.A.	Reinsurance undertaking	Limited by shares	Non-mutual	Commission de Surveillance du Secteur Financier (CSSF)
LU	22210057DCXUGJZDR829	LEI	Movestic Fund Management S.A.	Credit institution, investment firm and financial institution	Limited by shares	Non-mutual	Commission de Surveillance du Secteur Financier (CSSF)
SE	5493002MRIRVRUHV4O57	LEI	Movestic Kapitalforvältning AB	Credit institution, investment firm and financial institution	Limited by shares	Non-mutual	Finansinspektionen
NL	2138007SDEM3JFUI8E22	LEI	Chesnara Holdings B.V.	Insurance holding company	Limited by shares	Non-mutual	
NL	724500M08RQQPV9C8030	LEI	Waard Leven N.V	Life insurance undertaking	Limited by shares	Non-mutual	De Nederlandsche Bank
NL	7245000HKSZJZFYQ7K89	LEI	Waard Schade N.V	Life insurance undertaking	Limited by shares	Non-mutual	De Nederlandsche Bank
NL	21380051GTWS632OP611	LEI	Waard Verzekering	Ancillary services undertaking	Limited by shares	Non-mutual	
NL	2138005TNXFN8HKJ9779	LEI	Scildon N.V	Life insurance undertaking	Limited by shares	Non-mutual	De Nederlandsche Bank
SE	Sparplatsen	Specific code	Sparplatsen Sverige AB.	Credit institution, investment firm and financial institution	Limited by shares	Non-mutual	Finansinspektionen

				Criteria of influence					
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	% capital share	% used for the establishment of consolidated accounts	% voting rights	Other criteria	Level of influence	Proportional share used for group solvency calculation
C0010	C0020	C0030	C0040	C0180	C0190	C0200	C0210	C0220	C0230
GB	213800VFRMBRTSZ3SJ06	LEI	Chesnara Plc	100.00%	100.00%	100.00%		Dominant	100.00%
GB	5493006PBGQRFI82TX40	LEI	Countrywide Assured plc	100.00%	100.00%	100.00%		Dominant	100.00%
GB	213800DQ2ZBKOTHG2M12	LEI	Countrywide Assured Life Holdings Limited	100.00%	100.00%	100.00%		Dominant	100.00%
GB	213800E18ZA3OVMM5P56	LEI	Countrywide Assured Services Limited	100.00%	100.00%	100.00%		Dominant	100.00%
GB	213800U9SDMSLYT2JS80	LEI	Countrywide Assured Trustee Company Limited	100.00%	100.00%	100.00%		Dominant	100.00%
SE	549300L3SKPPLGYVSI02	LEI	Movestic Livförsäkring AB	100.00%	100.00%	100.00%		Dominant	100.00%
LU	2221008794NZT5CD7U61	LEI	Modernac S.A.	49.00%	49.00%	49.00%		Significant	49.00%
LU	22210057DCXUGJZDR829	LEI	Movestic Fund Management S.A.	100.00%	100.00%	100.00%		Dominant	100.00%
SE	5493002MRIRVRUHV4O57	LEI	Movestic Kapitalforvältning AB	100.00%	100.00%	100.00%		Dominant	100.00%
NL	2138007SDEM3JFUI8E22	LEI	Chesnara Holdings B.V.	100.00%	100.00%	100.00%		Dominant	100.00%
NL	724500M08RQQPV9C8030	LEI	Waard Leven N.V	100.00%	100.00%	100.00%		Dominant	100.00%
NL	7245000HKSZJZFYQ7K89	LEI	Waard Schade N.V	100.00%	100.00%	100.00%		Dominant	100.00%
NL	21380051GTWS632OP611	LEI	Waard Verzekering	100.00%	100.00%	100.00%		Dominant	100.00%
NL	2138005TNXFN8HKJ9779	LEI	Scildon N.V	100.00%	100.00%	100.00%		Dominant	100.00%
SE	Sparplatsen	Specific code	Sparplatsen Sverige AB.	100.00%	100.00%	100.00%		Dominant	100.00%

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

				Inclusion in the scope of Group supervision		Group solvency calculation	
Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	YES/NO	Date of decision if art. 214 is applied	Method used and under method 1, treatment of the undertaking	
C0010	C0020	C0030	C0040	C0240	C0250	C0260	
GB	213800VFRMBRTSZ3SJ06	LEI	Chesnara Pic	Included in the scope		Method 1 – Full consolidation	
GB	5493006PBGQRFI82TX40	LEI	Countrywide Assured plc	Included in the scope		Method 1 – Full consolidation	
GB	213800DQ2ZBKOTHG2M12	LEI	Countrywide Assured Life Holdings Limited	Included in the scope		Method 1 – Full consolidation	
GB	213800E18ZA3OVMM5P56	LEI	Countrywide Assured Services Limited	Included in the scope		Method 1 – Full consolidation	
GB	213800U9SDMSLYT2JS80	LEI	Countrywide Assured Trustee Company Limited	Included in the scope		Method 1 – Full consolidation	
SE	549300L3SKPPLGYVSI02	LEI	Movestic Livförsäkring AB	Included in the scope		Method 1 – Full consolidation	
LU	2221008794NZT5CD7U61	LEI	Modernac S.A.	Included in the scope		Method 3 – Adjusted equity method	
LU	22210057DCXUGJZDR829	LEI	Movestic Fund Management S.A.	Included in the scope		Method 1 – Full consolidation	
SE	5493002MRIRVRUHV4O57	LEI	Movestic Kapitalforvältning AB	Included in the scope		Method 1 – Full consolidation	
NL	2138007SDEM3JFUI8E22	LEI	Chesnara Holdings B.V.	Included in the scope		Method 1 – Full consolidation	
NL	724500M08RQQPV9C8030	LEI	Waard Leven N.V	Included in the scope		Method 1 – Full consolidation	
NL	7245000HKSZJZFYQ7K89	LEI	Waard Schade N.V	Included in the scope		Method 1 – Full consolidation	
NL	21380051GTWS632OP611	LEI	Waard Verzekering	Included in the scope		Method 1 – Full consolidation	
NL	2138005TNXFN8HKJ9779	LEI	Scildon N.V	Included in the scope		Method 1 – Full consolidation	
SE	Sparplatsen	Specific code	Sparplatsen Sverige AB.	Included in the scope		Method 1 – Full consolidation	