



SOLVENCY AND
FINANCIAL CONDITION
REPORT

20
20

Chesnara

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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 2020. This report has been prepared for the benefit of the group's 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.

A summary of this report has been provided below. It focuses on key messages and highlights key changes during 2020 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. 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 156% at 31 December 2020 (31 December 2019: 155%); and
- The group underwriting performance, taken as being the IFRS profit before tax as included in the group's financial statements, of £24.6m (2019: £96.1m).

During 2020 and into 2021, the Covid-19 pandemic has had a global impact on demographic, social and economic factors. Throughout it, we have been closely assessing the impact on Chesnara and our stakeholders. Whilst the market impacts have been significant, the scale of the impact remains within the ranges we test as a matter of course within our established governance procedures. It is also useful to note that the Solvency II regime is designed specifically to ensure that we hold sufficient capital to withstand adverse conditions and stressed scenarios, such as that which we are currently experiencing. All employees have been paid in full throughout, without the use of the government furlough scheme. The company continues to be well capitalised, taking account of the payment of the 2020 final dividend, which is due to be paid on 24 May 2021. In addition, Chesnara has assessed its liquidity position and is comfortable that Covid-19 does not give rise to any liquidity concerns.

We remain focused on supporting our customers and colleagues while maintaining our financial and operational resilience. Our businesses are operating effectively under remote working conditions, with no significant or prolonged disruption to key business services experienced or anticipated.

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 sub-committees 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 and responsibilities 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.

Whilst ensuring that systems of governance were appropriate for the remote working model we adopted during 2020, there have been no significant changes in the group's overall system of governance during the year. 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.

During 2020, Peter Mason resigned as Chairman of Chesnara Holdings BV Board, and Luke Savage was appointed. The term of Nol Hoevenaars ended on 1 May 2021 and Mark Hesketh became an A-Director (from B-Director) at that time.

The two Supervisory Boards (Waard and Scildon), have maintained their memberships throughout 2020; however, Margreet Haandrikman retired on 31 December 2020 and her role was taken on by Michel van Elk from 1 January 2021.

David Brand became Chairman of Movestic from 1 January 2020 and of Countrywide Assured plc from 1 July 2020 and Eamonn Flanagan joined the Countrywide Assured Board as a non-executive director from 1 July 2020.

SUMMARY (CONTINUED)

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 gives an appropriate outcome. We apply the Volatility Adjustment ('VA') in our Dutch businesses and have applied to do so in the UK also. The application of the VA in our UK results is expected during 2021. The VA is an optional measure that is part of Solvency II's longer term guarantee package which can be used in solvency calculations to reduce volatility arising from large movements in bond spreads.

During 2020, the Covid-19 pandemic had a global impact on demographic, social and economic factors; however, there have been no fundamental changes in the overall risk profile of the group over the year. Recognising that, as we move through 2021, there is potential risk of continued operational disruption and economic volatility and so on a forward looking basis, coupled with the potential impact of post-Brexit negotiations and ongoing volatility in investment markets, the external environment continues to bring a level of uncertainty. The threat from other external factors, such as cyber risk, continues to be monitored closely by the business in order to protect the delivery of our core business services.

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 2020 and 31 December 2019 has been provided below:

	31 December 2020 £m	31 December 2019 £m
Assets	8,693.6	7,957.2
Net technical provisions	(7,855.5)	(7,076.1)
Other liabilities	(247.4)	(258.5)
Assets less liabilities	590.7	622.5

SUMMARY (CONTINUED)

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 2020, 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. We reduced the internal capital management buffer for the Dutch entities from 85% to 75% as at 31 December 2020 in line with the capital management plan of those businesses and there will be a further reduction for Waard to 35% as at 31 December 2021.

We are well capitalised at both a group and subsidiary level. We apply the VA in our Dutch businesses but have not used any other elements of the long-term guarantee package within the group.

	31 December 2020 £m	31 December 2019 £m
Assets less liabilities	590.7	622.5
Foreseeable dividends	(21.4)	(20.8)
Restricted own funds in ring fenced funds	(1.5)	(10.8)
Own funds	567.8	590.9
Solvency Capital Requirement (SCR)	363.7	380.1
Surplus own funds over SCR	204.1	210.8
Ratio of eligible own funds to SCR	156.1%	155.5%

- 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 £204.0m (31 December 2019: £210.8m).
- The closing surplus in the ring-fenced funds was £1.6m. The movement since the prior year includes a £20.0m transfer out, offset by a growth in the capital surplus of the ring-fenced funds of £10.8m. This transfer out 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 156.1% at 31 December 2020 (31 December 2019: 155.5%), stated after the 2020 final dividend of £21.4m, which is due to be paid on 24 May 2021.
- 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 Report 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:



John Deane
Chief Executive Officer
19 May 2021



David Rimmington
Finance Director
19 May 2021

A. BUSINESS AND PERFORMANCE

A.1 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, and the Netherlands. 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/pru

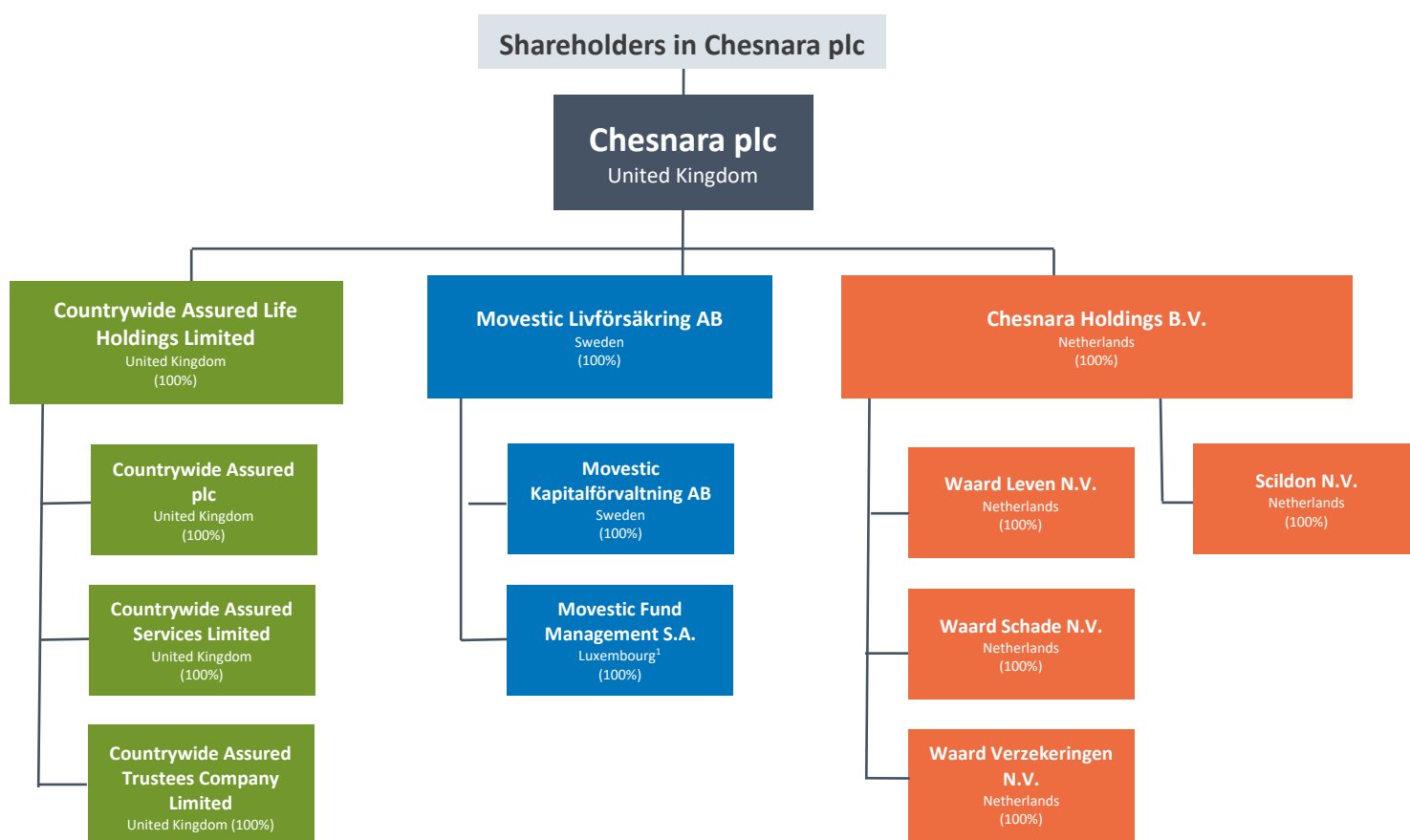
A.1.3 Name and contact details of external auditor

The group's external auditor is Deloitte LLP, Manchester, United Kingdom, and is responsible for the audit of the group's IFRS financial statements.

In 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.1.4 Shareholders and position within the group

The organisational structure of the group is shown below as at 31 December 2020.



¹ Movestic Fund Management S.A. has been put into liquidation during 2020, because the operations have transferred back to Sweden.

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

A. BUSINESS AND PERFORMANCE (CONTINUED)

A.1 Business (continued)

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

Chesnara plc has 100% ownership of Countrywide Assured Life Holdings Limited, Movestic Livförsäkring 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 operating company. 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.

Movestic (Swedish business): Movestic Livförsäkring AB is the Swedish business which is open to new business and writes life assurance and pension business. Movestic Kapitalförvaltning AB is an investment fund management company and subsidiary of Movestic Livförsäkring. Movestic also had a 49% stake in an associate company, Modernac S.A., which was a Luxembourg based reinsurance operation. Modernac was liquidated on 2 April 2020.

Waard (Dutch closed-book business): Chesnara Holdings B.V. acts as an intermediate holding company for the Dutch businesses. Waard Leven N.V., and Waard Schade N.V. are both insurance companies that are closed to new business. Waard Verzekeringen N.V. is a service company, providing administrative services to the other businesses in the Waard group and outsourced administration services to unrelated third parties. During 2020, the Waard Group completed the acquisition of a portfolio of policies from the Dutch branch of Belgian-owned Argenta Bank-en Verzekeringsgroep N.V. A further portfolio acquisition from Brand New Day, agreed at the end of 2020, and now been completed.

Scildon (Dutch open-book business): Chesnara Holdings B.V. is also the intermediate holding company of Scildon N.V., 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:

- 'Countrywide Assured': This segment is the group's UK life insurance and pensions run-off portfolio. Countrywide Assured consists of linked pension business; life insurance business, covering both index-linked and unit-linked; endowment products; whole life assurance; term assurance; annuity; health insurance; and some with-profits business. Some of the with-profits business includes maturity guarantees, including guaranteed minimum pensions and guaranteed minimum fund values.
- '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 had a 49% stake in an associate company, Modernac S.A., which was a Luxembourg based reinsurance operation. Modernac was liquidated on 2 April 2020. During 2020, Movestic Fund Management S.A. had also been put into liquidation.

A. BUSINESS AND PERFORMANCE (CONTINUED)

A.1 Business (continued)

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

A.1.5.1 Management segments (continued)

- ‘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 Verzekeringen N.V. 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 and 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 2020 and 31 December 2019, the company recharged £3.7m and £3.5m respectively to its operating subsidiaries.

Movestic undertook reinsurance transactions with its former associate company, Modernac. During 2019, net reinsurance receipts from Modernac amounted to £1.6m. Amounts outstanding in relation to these transactions at 31 December 2019 were nil as all reinsurance treaties had been closed out prior to year end in advance of Modernac’s liquidation in April 2020.

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.

Line of business Geographical area	Net technical provisions (SII measurement basis) 2020					Total
	Countrywide Assured UK	Movestic Sweden	Waard Group Netherlands	Scildon Netherlands	Other group activities UK	
	£'000	£'000	£'000	£'000	£'000	£'000
Life insurance:						
With-profits insurance business	276,467	–	–	–	–	276,467
Index-linked and unit-linked insurance	1,473,070	3,441,815	311,425	1,526,895	49,040	6,802,245
Other life insurance	137,374	2,307	54,702	341,496	–	535,879
Total life insurance	1,886,911	3,444,122	366,127	1,868,391	49,040	7,614,591
Health insurance:						
Health insurance	203,837	34,720	2,365	–	–	240,922
Total health insurance	203,837	34,720	2,365	–	–	240,922
Total	2,090,748	3,478,842	368,492	1,868,391	49,040	7,855,513

Line of business Geographical area	Net technical provisions (SII measurement basis) 2019					Total
	Countrywide Assured UK	Movestic Sweden	Waard Group Netherlands	Scildon Netherlands	Other group activities UK	
	£'000	£'000	£'000	£'000	£'000	£'000
Life insurance:						
With-profits insurance business	277,607	–	–	–	–	277,607
Index-linked and unit-linked insurance	1,556,794	3,035,196	12,321	1,411,668	35,516	6,051,495
Other life insurance	141,351	1,085	64,509	284,937	–	491,882
Total life insurance	1,975,752	3,036,280	76,830	1,696,606	35,516	6,820,983
Health insurance:						
Health insurance	217,235	35,118	2,783	–	–	255,136
Total health insurance	217,235	35,118	2,783	–	–	255,136
Total	2,192,987	3,071,399	79,613	1,696,606	35,516	7,076,120

A. BUSINESS AND PERFORMANCE (CONTINUED)

A.1 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)* 2020					
Line of business	Countrywide Assured UK	Movestic Sweden	Waard Group Netherlands	Scildon Netherlands	Total
Geographical area	£'000	£'000	£'000	£'000	£'000
Life insurance					
With-profits insurance business	1,188	–	417	1,963	3,568
Index-linked and unit-linked insurance	8,752	318,734	9,489	116,402	453,377
Other life insurance	7,058	5,556	2,282	86,277	101,173
Total life insurance	16,998	324,290	12,188	204,642	558,118
Health insurance					
Health insurance	9,644	4,067	607	–	14,318
Total health insurance	9,644	4,067	607	–	14,318
Total	26,642	328,357	12,795	204,642	572,436

Net premiums earned (IFRS measurement basis)* 2019					
Line of business	Countrywide Assured UK	Movestic Sweden	Waard Group Netherlands	Scildon Netherlands	Total
Geographical area	£'000	£'000	£'000	£'000	£'000
Life insurance					
With-profits insurance business	1,327	–	159	2,301	3,787
Index-linked and unit-linked insurance	10,800	365,927	470	115,120	492,317
Other life insurance	8,863	4,866	1,315	66,482	81,525
Total life insurance	20,990	370,793	1,944	183,903	577,630
Health insurance					
Health insurance	10,954	4,463	(2)	–	15,416
Total health insurance	10,954	4,463	(2)	–	15,416
Total	31,944	375,256	1,942	183,903	593,045

* 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 2020 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.

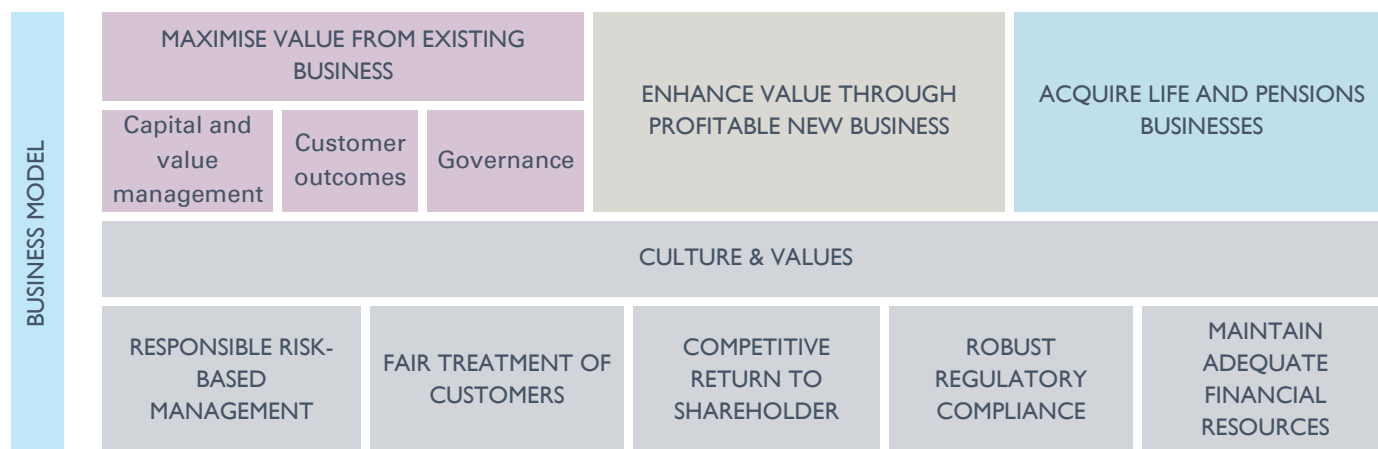
Health insurance: The vast majority of health insurance business sits in the CA plc and Movestic books of business and covers contracts for which the future benefits are primarily or wholly relating to health. Product types include critical illness and income protection contracts with most of these being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

A. BUSINESS AND PERFORMANCE (CONTINUED)

A.1 Business (continued)

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:



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

Strategic focus

AREA OF FOCUS	Summary for 2020
MAXIMISE VALUE FROM EXISTING BUSINESS	<p>UK</p> <ul style="list-style-type: none"> The division has completed its fund management rationalisation programme during the year, which has involved consolidating the vast majority of unit-linked fund management with one investment management company. This programme's purpose was to deliver a combination of cost efficiencies, whilst also continuing to provide customers with strong fund performance. The division has been investigating revising its investment approach for assets backing some of its non-linked policies, and in conjunction has been assessing the benefits of applying for the Volatility Adjustment (VA) when calculating its solvency position. An application to the PRA was made during December 2020 to apply the VA. We plan to implement this change to our investment mix at the same time as applying the Volatility Adjustment following approval from the PRA. The Economic Value¹ of the division, excluding the impact of dividend distributions, has increased over the course of the year, despite the investment market volatility arising from COVID-19. <p>SWEDEN</p> <ul style="list-style-type: none"> COVID-19 resulted in significant volatility in financial markets during the year, though Swedish equities recovered well delivering 10.8% growth in 2020. The division has completed the liquidation of Modernac as part of its corporate restructuring initiatives. This has released £1m of surplus capital. Policyholder transfers continues to be a feature of the business due to the competitive Swedish market. High transfer activity has resulted in an adverse transfer ratio, with slightly negative net client cash flows. That said, Movestic has strengthened its transfer out assumptions in light of this dynamic, resulting in an increase in reserves of £18.7m, which includes short-term cover for temporary COVID-19 related pressures. The company has also increased its focus on business retention activity. New industry-wide regulations have been introduced in order to make it easier for customers to transfer their pension funds. As part of this, further rules are expected during 2021 that limit the amount that can be charged when transferring policies, with an adverse EcV¹ impact of £3.1m. Despite turbulent financial markets FuM increased by 1.8% over the year. Continuation of dividend policy with a proposed record payment of £10.2m. As part of streamlining its fund management proposition the division closed its Luxembourg based operation and set-up 5 new funds in Sweden.
	<p>Capital and value management</p>

A. BUSINESS AND PERFORMANCE (CONTINUED)

A.1 Business (continued)

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

Strategic focus (continued)

MAXIMISE VALUE FROM EXISTING BUSINESS	AREA OF FOCUS	Summary for 2020
	Capital and value management	<p>NETHERLANDS</p> <ul style="list-style-type: none"> – Waard completed the acquisition of a portfolio of term life and savings products from Argenta Bank and has migrated the policies onto our systems. Towards the end of the year, a further portfolio acquisition was agreed (subject to regulatory approval), further strengthening Waard's position as an acquirer of small portfolios that are not core to vendors. – Despite the market turmoil caused by the COVID-19 pandemic, both businesses continue to have strong solvency positions, inclusive of the use of the Volatility Adjustment. Scildon remains strong at 178%, above the internal capital management policy of 175%. Waard continued to maintain significant solvency levels, the ratio ending the year at 438%. – Scildon has continued to optimise its risk-based return through de-risking its asset portfolio and investing into mortgage funds with c£170m held as at 31 December 2020.
MAXIMISE VALUE FROM EXISTING BUSINESS	AREA OF FOCUS	Summary for 2020
	Customer outcomes	<p>UK</p> <ul style="list-style-type: none"> – A key focus during the year has been ensuring that we continue to meet the needs of our customers during the ongoing COVID-19 pandemic. This has resulted in a need for a large proportion of the organisation, and its key outsource partners, to work from home. Despite the necessary changes, all important business services have continued to operate effectively, having adapted our processes accordingly. – During the year we have implemented changes that enable customers to contact us in new ways. – The multi-year customer strategy implementation program was successfully completed, with any revised processes having been transferred into business as usual operations. – The division's operational resilience programme has continued. This is a multi-year programme which was set up to ensure that we comply with expectations of our regulators and customers. Whilst the regulators' requirements are still at a consultation stage, we recognise the business and customer benefits of ensuring resilience in our business services. <p>SWEDEN</p> <ul style="list-style-type: none"> – Policyholder average investment return of 2.7% in the year (2019:18.9%). Despite COVID-19 the Swedish equity index rose 12.9%, however other equities and non-equity investments were less positive resulting in lower total investment returns. – Broker and customer servicing have been a key focus during the pandemic. The division has adjusted its processes accordingly in order to ensure that such servicing continues to an acceptable level. – Development of customer and broker offerings remained a focus with new transparent and personalised unit-linked pension and savings solutions as well as insurance products, delivering enhanced digital service and functionality. – The division received a rating from UNPRI (UN initiative for responsible investment) that is better than, or in accordance with its peers, while the sustainable customer fund offerings have remained a focus. <p>NETHERLANDS</p> <ul style="list-style-type: none"> – A key focus during the year has been ensuring that we continue to meet the needs of our customers during the ongoing COVID-19 pandemic. This has resulted in a need for a large proportion of the organisation to work remotely. Our processes have been adapted accordingly and we have continued to effectively operate all key business services. – Scildon continues work on the migration and digitalisation of its policy administration system. Work has focussed on development of the pension proposition with key portals going live in 2021, positioning the business well to take advantage of expected growth in the defined contribution market. The project will then move to the term product migration through 2021 and into 2022, delivering expected efficiencies and strengthening the business's market and operating position. The expected costs and benefits are included within the 2020 year end position.

Note 1: EcV is a financial metric that is derived from Solvency II Own Funds. It provides a market consistent assessment of the value of existing insurance businesses, plus adjusted net asset value of the non-insurance business within the group. Further information on economic value can be found in the glossary of terms.

A. BUSINESS AND PERFORMANCE (CONTINUED)

A.1 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 2020
MAXIMISE VALUE FROM EXISTING BUSINESS	Governance	GROUP-WIDE
		<ul style="list-style-type: none"> The IFRS 17 programme has continued to progress in line with plans. We have been working with Willis Towers Watson as the group's provider of the contractual service margin (CSM) tool.
		UK
		<ul style="list-style-type: none"> The division has continued to deliver on its business as usual governance responsibilities despite the COVID-19 situation. The organisation has transitioned to a predominantly working from home environment, both in terms of our outsourcers and the oversight governance team itself. This process was successfully implemented with no material issues. Throughout the year, especially at the start of the pandemic, the business implemented enhanced monitoring of key measures, such as claims and customer service, ensuring performance levels were maintained despite the impact of the pandemic.
		SWEDEN
		<ul style="list-style-type: none"> Dealing with the impact of COVID-19 has been a key management focus in 2020. The company has ensured that it is operating in line with local government guidelines, which essentially recommend that employees should work from home unless they cannot. In setting up these arrangements, management has focused on ensuring that the IT infrastructure, both in terms of employee usability and security resilience, can accommodate the revised working practices. Movestic has also focused on staff well-being throughout the lockdown given its significant change for many staff members. The division's digitisation programme has progressed well and was completed during the fourth quarter. The business now has a more robust platform and the ongoing enhancement to this, and our customer experience, continues as part of our core mission. The division has continued its strategic focus on strengthening relations with new and existing brokers and partners, building direct distribution capacity.
		NETHERLANDS
		<ul style="list-style-type: none"> We have engaged with the regulator throughout 2020 and the business implemented enhanced monitoring of key measures, such as claims and customer service, ensuring performance levels were maintained despite the impact of the pandemic. The division has continued to deliver on its business as usual governance responsibilities despite the COVID-19 situation. The organisation successfully and rapidly transitioned to a predominantly remote working environment.

A. BUSINESS AND PERFORMANCE (CONTINUED)

A.1 Business (continued)

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

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS	Summary for 2020 SWEDEN <ul style="list-style-type: none"> – Movestic reported commercial new business profit² of £1.6m (2019: £7.0m). The decrease compared with 2019 is largely due to reduced sales volumes and increased transfer activity with strengthened transfer out assumptions, driven by COVID-19 dynamics and the effects of price pressure on the Swedish market. – Sales volumes were affected by lower activity across the market during 2020, due to the pandemic, particularly during the second half of the year. As the Swedish market also experienced continued price pressure, the division developed its offering to increase competitiveness and build customer loyalty for the future. NETHERLANDS <ul style="list-style-type: none"> – Despite a tough and uncertain market, we continue to see increasing new business profits, with £8.8m earned in the year on our commercially realistic metric. As noted previously, we will face headwinds to maintain this progress, but we have a solid base to take advantage. – Underpinning this, the Scildon policy count continues to increase, now with in excess of 200,000 policies. Also, the term market share for Scildon term lifestyle product for the month of December 2020 has risen to 16.3%, although the market size has decreased, partly as a result of COVID-19. – We have established a white labelling relationship with Dazure (a distribution partner) as a route to market to enable us to service more of the market.
	Summary for 2020 <p>During 2020, the group entered into two transactions:</p> <ol style="list-style-type: none"> 1. On 1 September 2020, Chesnara announced the completion of an acquisition of a portfolio of life insurance business in run-off from the Dutch branch of Belgian owned Argenta Bank-en Verzekeringsgroep N.V. The transaction was both earnings and EcV accretive on completion. Chesnara estimates that the acquired portfolio will have a positive cumulative cash generation profile over its remaining life. The transaction involved the transfer of a portfolio of in excess of 40,000 term and savings policies, for a consideration of €29.2m (approximately £25m), paid in cash. The consideration represents a discount of 17% to the acquired portfolio's Solvency II Own Funds, calculated on a Chesnara-consistent basis, and delivered c£9m of incremental value. The acquired portfolio had IFRS gross assets of c.£368m (at 31 December 2020 exchange rates) and contributed growth of over 40% to the Waard Group policy count. 2. A further small Dutch insurance portfolio acquisition from Brand New Day Levensverzekeringen N.V. was agreed before the year end and was completed in April 2021. This accounts for approximately 9,000 policies.

Note 2 A more commercially relevant measure of new business profit than that recognised directly under the Solvency II regime, allowing for a modest level of return, over and above risk-free, and exclusion of the incremental risk margin Solvency II assigns to new business

A. BUSINESS AND PERFORMANCE (CONTINUED)

A.1 Business (continued)

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

Culture and values

CULTURE & VALUES	AREA OF FOCUS	Summary for 2020
	Fair treatment of customers	<ul style="list-style-type: none"> Our primary focus during 2020 was to ensure that we dealt with the challenges of COVID-19 in a robust way throughout the group. From a customer perspective this primarily involved ensuring that our key business services affecting customers continued largely unaffected whilst we transitioned to, and maintained, a largely remote working model. It is pleasing to say that this process took place with minimal business disruption. Across the group, we have continued to deliver a good standard of customer service. The UK division completed the implementation of its customer strategy in support of regulatory guidelines, embedding revised processes into business as usual operations. The UK's administrative outsource service partners have delivered within stringent service level requirements. Where complaints do arise, we continue to manage them in accordance with best regulatory practice. We closely monitor any regulatory developments to ensure we continue to treat our customers fairly in accordance with regulatory requirements.
	Responsible risk-based management	<ul style="list-style-type: none"> The ORSA process has been fully utilised in the context of providing risk oversight over the impact of the COVID-19 pandemic. Delivered our continuous improvement regime regarding how we manage risk across the group, supported by our annual systems of governance review. We have continued the journey to optimise the capital efficiency of the assets held by Scildon, having sold corporate bonds during 2019 which have been replaced by mortgage assets during 2020. We have agreed with the Dutch regulator, the DNB, to reduce the internal capital management buffer for the Dutch entities from 85% to 75% as at 31 December 2020 in line with the capital management plan of those businesses and a further reduction for Waard to 35% as at 31 December 2021. In the UK business we have applied for the Volatility Adjustment during this year, which will be implemented following approval from the PRA. During 2020 a non-regular ORSA was drafted in response to Covid-19 and demonstrated both financial and operational resilience.
	Competitive return to shareholders	<ul style="list-style-type: none"> Continued our dividend strategy of increasing our dividend each year, even during turbulent investment market conditions. Maintained a robust solvency position in all divisions and at group level which supports the continued dividend strategy. Expanded operations in the Netherlands by completing the acquisition of a portfolio of term life and savings products from Argenta Bank. A further portfolio acquisition from Brand New Day Levensverzekeringen N.V. was agreed before the year end and was completed in April 2021.
	Robust regulatory compliance	<ul style="list-style-type: none"> Maintenance of robust levels of solvency throughout the group and all divisions throughout the year. Continued to place a high priority on compliance and maintaining an open dialogue with our regulators. Progressed our ESG strategy and laid the foundations for further progress in 2021. Progressed the IFRS 17 project including the selection of a group-wide calculation engine supplier. Demonstrated our operational resilience through how we have responded to the challenges of COVID-19.
	Maintain adequate financial resources	<ul style="list-style-type: none"> The group has maintained adequate financial resources over the year and had a post-dividend solvency ratio of 156% at 31 December 2020. 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 2020 can be found in Section E "Capital management".

A. BUSINESS AND PERFORMANCE (CONTINUED)

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 2020					Total £'000
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	
Premiums earned	26,642	328,357	12,795	204,642	–	572,436
Claims incurred	(189,063)	(330,455)	(24,698)	(190,492)	–	(734,708)
Changes in other technical provisions	95,599	(80,219)	13,644	(79,551)	–	(50,527)
Expenses incurred	(18,248)	(38,041)	(3,820)	(32,512)	(8,488)	(101,109)
Other expenses	8	(4,507)	85	(9,894)	(1,087)	(15,395)
Investment performance (section A.3 for detail)	85,717	89,539	5,688	73,414	210	254,568
Other operating income	11,703	28,037	441	–	–	40,181
Fee & commission income	23,336	20,229	88	49,045	–	92,698
Gain on portfolio acquisition	–	–	–	–	388	388
Consolidation adjustments	–	–	–	–	(33,947)	(33,947)
Underwriting performance (IFRS profit before tax)	35,694	12,940	4,223	14,652	(42,924)	24,585

	Underwriting performance 2019					Total £'000
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	
Premiums earned	31,944	375,256	1,942	183,903	–	593,045
Claims incurred	(238,600)	(247,400)	(2,283)	(190,204)	–	(678,487)
Changes in other technical provisions	(71,756)	(683,107)	2,005	(176,816)	–	(929,674)
Expenses incurred	(21,495)	(39,610)	(3,612)	(30,538)	(5,695)	(100,950)
Other expenses	–	(2,938)	(4)	–	(1,362)	(4,304)
Investment performance (section A.3 for detail)	310,711	563,534	6,838	209,037	520	1,090,640
Other operating income	11,690	26,148	–	–	–	37,838
Fee & commission income	25,376	21,291	17	46,211	–	92,895
Gain on portfolio acquisition	–	–	–	–	788	788
Consolidation adjustments	–	–	–	–	(5,685)	(5,685)
Underwriting performance (IFRS profit before tax)	47,870	13,174	4,903	41,593	(11,434)	96,106

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.

A. BUSINESS AND PERFORMANCE (CONTINUED)

A.2 Underwriting performance (continued)

A.2.2 Underwriting performance (continued)

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.

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 acquisition: The 2020 balance represents a post completion gain on a portfolio acquisition. On 21 November 2019, Waard completed a deal to acquire a portfolio of term life insurance policies (TLI) and saving mortgages insurance policies (SMI) from Belgian insurance provider Argenta Assuranties N.V. (Aras). The SMI portfolio was accompanied by supporting financial assets via unit-linked investments in a client mortgage fund. Waard obtained control at the date of completion, which was 31 August 2020. The portfolios were successfully migrated on 5 September 2020 (27,664 TLI and 12,551 SMI in total policies 40,185). A post-completion gain of £0.4m was recognised in relation to this acquisition and has been reported.

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 a pre-tax profit of £24.6m (2019: £96.1m). Solid profits were delivered in each of the operating divisions, despite the challenging year and impact of COVID-19 on investment markets. During the year, the Scildon AVIF intangible asset was written down by £26.6m. The impairment was as a result of a reduction in the assessed value of the future cash flows of policies that were in force at the point of acquisition. The AVIF held within CA was also impaired by £1.0m, following a year end assessment. The group recognised a profit on acquisition in the year which represents the gain of £0.4m on acquiring the portfolio of policies from Argenta. Also impacting the result was the fact that sterling weakened against both the euro and Swedish Krona, resulting in an exchange gain of £22.6m.

UK

The CA segment has posted a strong result, albeit down on the prior year which saw strong investment related returns late in 2019. In addition to positive economic returns, the current year result also benefited from positive operational impacts arising from mortality assumption changes, expense modelling impacts and favourable policyholder tax deductions.

Sweden

Movestic continues to contribute positively to the overall group IFRS result, with profits broadly in line with the prior year. Positive investment returns, strong claims development and reduced operational expenses produced a favourable result year to date.

Netherlands

The Waard Group result reflects weaker investment performance due to investment market volatility. It has also incurred slightly higher than expected acquisition related expenditure, which includes costs in relation to the purchase of a portfolio of life insurance business in run-off from the Dutch branch of Belgian-owned Argenta Bank-en Verzekeringsgroep N.V., which completed on 31 August 2020.

Scildon has delivered a relatively strong IFRS result, despite the need for a strengthening of reserves of circa £10m in the year arising from the liability adequacy test biting. Positive investment value growth has arisen from favourable spread and interest rate movements, coupled with a positive insurance result due to favourable mortality experience.

Other group activities

The Chesnara result (excluding the consolidation adjustment) largely represents holding company expenses. The current year loss is higher than last year largely due to 2020 including larger one-off items such as project related expenditure and a foreign exchange loss in respect of the euro denominated loan that it holds.

Consolidation adjustments relate to items such as the amortisation and impairment of intangible assets. During the year a write down of the Scildon AVIF intangible asset was performed amounting to £26.6m. The impairment was as a result of a reduction in the assessed value of the future cash flows of policies that were in force at the point of acquisition. The AVIF held in respect of the Protection Life book within CA was also impaired by £1.0m, following a year end assessment. The impairments are driven by a combination of economic and operating factors.

A. BUSINESS AND PERFORMANCE (CONTINUED)

A.3 Investment performance

A.3.1 Investment performance

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

	Investment performance 2020					Total £'000
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	
Dividend income	10,197	–	289	13,071	–	23,557
Interest income	9,445	–	5,343	12,660	210	27,658
Net fair value gains and losses:						
Equity securities designated as at fair value through income on initial recognition	4,723	89,641	(935)	30,696	–	124,125
Debt securities designated as at fair value through income on initial recognition	65,463	(727)	991	16,943	–	82,670
Derivative financial instruments	(4,111)	625	–	–	–	(3,486)
Investment properties	–	–	–	44	–	44
Total	85,717	89,539	5,688	73,414	210	254,568

	Investment performance 2019					Total £'000
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	
Dividend income	23,532	–	769	13,756	–	38,057
Interest income	16,281	–	1,618	13,513	520	31,932
Rental income from investment properties	5	–	–	–	–	5
Net fair value gains and losses:						
Equity securities designated as at fair value through income on initial recognition	229,825	563,163	4,000	147,611	–	944,599
Debt securities designated as at fair value through income on initial recognition	45,360	371	451	36,097	–	82,279
Derivative financial instruments	(4,307)	–	–	(1,962)	–	(6,269)
Investment properties	15	–	–	22	–	37
Total	310,711	563,534	6,838	209,037	520	1,090,640

Some of the key movements in the investment market conditions of our divisions during the year are as follows:

- FTSE All World index increased by 14% (year ended 31 December 2019: increased by 24%);
- Swedish OMX all share index increased by 13% (year ended 31 December 2019: increased by 30%);
- The Netherlands AEX all share index increased by 4% (year ended 31 December 2019: increased by 20%); and
- 10-year UK gilt yields have decreased from 0.84% to 0.24%.

The consequence of the above is that economic earnings in 2020 are much more muted compared to 2019, with modest equity market related gains being off-set by downward pressure arising from falling yields.

A.3.2 Investment in securitisation

The UK division has immaterial exposures to securitised assets in certain collective investment schemes. As at 31 December 2020, out of a total UK division investment portfolio of £2,295m (31 December 2019: £2,419m), £10.1m (31 December 2019: £4.1m) was invested in securitised assets.

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 business.

B. SYSTEM OF GOVERNANCE

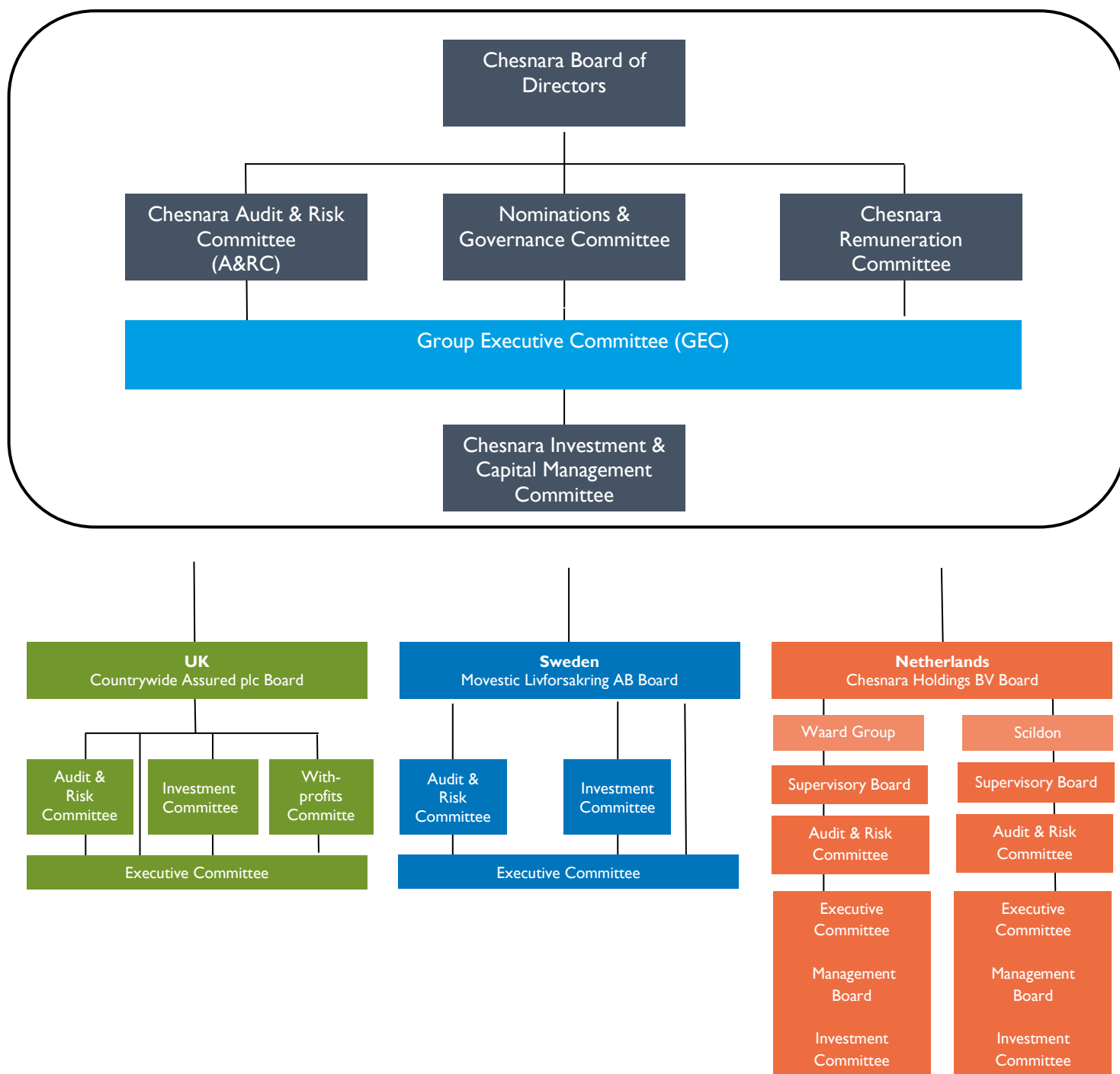
B.1 General information on the system of governance

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 of Directors has a reporting line to the Chesnara Board of Directors and each divisional Audit & Risk Committee has a reporting line to the Chesnara Audit & Risk Committee.

B. SYSTEM OF GOVERNANCE (CONTINUED)

B.1 General information on the system of governance (continued)

B.1.1 Governance structure (continued)

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.

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, including the Annual Report and Accounts;
 - reviewing the adequacy and effectiveness of the group's internal control and risk management systems, including the identification of Principal Risks;
 - monitoring risk exposures across the group, including emerging risks and the financial risks to the group from climate change, advising the Board around matters where such exposures do not appear to accord with the group's risk appetite statement;
 - monitoring the use of capital;
 - reviewing and challenging risk information and the treatment of risks;
 - challenging the quarterly risk reports produced by the Group CRO and similar reports produced by him/her in connection with a proposed acquisition or disposal;
 - advising the Group Board on proposed changes to the group's risk appetite statement where this is deemed appropriate, taking account of the current and prospective macroeconomic and financial environment;
 - review and recommend to the Board the disclosures to be included in the Annual Report in relation to internal control, 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, and monitoring and reviewing the independence and effectiveness of, the External Auditors;
 - 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 hold independent sessions with each of the external auditor, the Group CRO, the Group Chief Actuary and Internal Audit at least once a year, without management being present, to discuss their remit and any issues arising from the risk work carried out. In addition, the Group CRO and Group Chief Actuary shall be given the right of direct access to the Chairman of the Board and to the Committee.
- **Chesnara Remuneration Committee:** The responsibilities of the committee include but are not limited to:
 - implementing the Chesnara remuneration policy;
 - determining targets for performance related incentive schemes (as relevant);
 - determining the policy for and scope of pension arrangements and other benefits;
 - approving service agreements and any termination payments made under them;
 - setting remuneration principles for the group; and
 - reviewing and approving the Countrywide Assured remuneration policy.
- **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 in the development of its business within the principles determined by the Board, having regard to the interests of customers;
 - agreeing guidelines for divisions and business units based on approved group strategy;
 - reviewing group budgets and the 3-year plan prior to submission to the Board;
 - developing and reviewing Division and Business Unit objectives, plans and budgets;

B. SYSTEM OF GOVERNANCE (CONTINUED)

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

B.1.1 Governance structure (continued)

– **Group Executive Committee (GEC) (continued)**

- contributing to succession plans for senior roles as well as identifying and addressing key organisational skill gaps;
- reviewing business performance against agreed group targets and ensuring this is supported by appropriate management information. In particular, and as part of this, a sub-group of Group CEO, Group FD and Group CRO will hold Quarterly Business Reviews for each Division and Business Unit;
- 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;
- propose to the Board the group Risk Appetite and monitor compliance with that 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;
- monitoring the on-going capital and liquidity position of the group;
- sign-off of the quarterly risk report; and
- any other matter the GCEO nominates.

– **Group Investment & Capital Management Committee:** This is responsible for:

- setting any high level 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; and
- oversight of group level capital management strategy and action planning.

And also reviewing and ensuring that the group is:

- setting investment strategy that is appropriate for shareholder needs and Chesnara's risk appetite;
- overseeing implementation and performance of the shareholder funds; and
- ensuring that Chesnara's shareholder investment governance framework is effective.

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 and responsibilities 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-to-day 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.
- **Business Unit 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.
- **Business Unit Investment Committees:** Responsible for the review of investment strategy and policy across a division, and monitoring and challenging investment performance. The committees report into the divisional boards.
- **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.

B. SYSTEM OF GOVERNANCE (CONTINUED)

B.1 General information on the system of governance (continued)

B.1.1 Governance structure (continued)

Senior management responsibilities

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

- **Chairman of the Chesnara board:** Responsible for:
 - chairing Board and general meetings;
 - 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 effectively and provide 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 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, ensure 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 met.
- **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 monitor the reporting of performance; and
 - satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible.
- **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.
- **Designated workforce NED:** Provides a focal point for the Board to perform its collective activity in engaging with the UK workforce (employed both directly and indirectly). The role is primarily to help ensure that the views and concerns of the UK workforce are brought the Board and taken into account during the exercise of its duties, with a secondary focus on the non-UK workforce through discussions with HR/Executives in overseas operations. The designated workforce NED will:
 - be visible and accessible to the UK workforce;
 - understand the views and concerns of the UK workforce;
 - be aware of views and concerns arising in the non-UK workforce where these are not specific to the territory concerned;
 - articulate workforce views and concerns in board meetings
 - ensure the Board, and in particular the executive directors, take appropriate steps to evaluate the impact proposals and developments on the workforce consider what steps should be taken to mitigate any adverse impact; and
 - give consideration to the workforce concerns of both Chesnara and a potential target with regard to the group's acquisition activities.

B. SYSTEM OF GOVERNANCE (CONTINUED)

B.1 General information on the system of governance (continued)

B.1.1 Governance structure (continued)

- **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.
- **Group 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. SYSTEM OF GOVERNANCE (CONTINUED)

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.
- **Management of subsidiary companies:** The group conducts its core business activities through a number of Subsidiary legal entities, organised into separate divisions. The Board of each division will be comprised of an appropriate number and mix of executives and NEDs relevant to the business activities transacted. In addition, responsibility for apportionment of significant responsibilities amongst the division's directors and senior management, and overseeing the establishment and maintenance of systems and controls, will be allocated to an appropriate individual.

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. SYSTEM OF GOVERNANCE (CONTINUED)

B.1 General information on the system of governance (continued)

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 2020. 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.

Executive director remuneration policy

Purpose and link to strategy	Operation	Performance measures and maximum
Base salary (fixed component of pay)		
To recruit and retain individuals with the skills and experience needed for a given role in which they will contribute to the success of the group.	<p>In setting basic salaries for new executive roles, or reviewing the salaries for existing roles, the Committee will take into account, as it considers appropriate, some or all of the following factors:</p> <ul style="list-style-type: none"> – assessment of the responsibilities of the role; – the experience and skills of the jobholder on their commencement and their development in it at the review point; – the group's salary budgets and results; – the jobholder's performance; – with the use of periodic benchmarking exercises, the external market rates for roles of a similar size and accountability; – inflation and salaries across the company; and – the balance between fixed and variable pay to help ensure good risk management disciplines. <p>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 and development in the role.</p> <p>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 a jobholder's responsibilities).</p>	Changes to responsibilities, increased complexity of the organisation, personal and group performance are taken into consideration when deciding whether a salary increase should be awarded.
Taxable benefits (fixed component of pay)		
To recruit and retain individuals with the skills and experience needed for a given role in which they will contribute to the success of the group and to reduce the potential for ill health to undermine executives' performance.	<p>Executives receive life assurance, a company car, fuel benefit and private medical insurance. A cash equivalent may be paid in lieu of car and fuel benefits.</p> <p>Benefits may be changed in response to changing circumstances, whether personal to an executive or otherwise, subject to the cost of any changes being largely neutral.</p>	No performance measures attached.

B. SYSTEM OF GOVERNANCE (CONTINUED)

B.1 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 remuneration policy (continued)

Purpose and link to strategy	Operation	Performance measures and maximum
Pensions (fixed component of pay)		
To recruit and retain individuals with the skills and experience needed for a given role in which they will contribute to the success of the group and to encourage responsible provision for retirement.	To recruit and retain individuals with the skills and experience needed for a given role in which they will contribute to the success of the group and to encourage responsible provision for retirement.	No performance measures attached. Maximum pension contribution expressed as a percentage of basic salary to be the same as that awarded to other UK staff.
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 executives with those of shareholders.	<p>Approved by shareholders in 2014, the STI Scheme is discretionary. Awards are based on the Committee's assessment and judgement of personal and corporate performance against specific targets and objectives in support of the group's business plan. These are assessed over each financial year.</p> <p>Provided the minimum performance criteria is judged to have been achieved, 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 making a total of four years after the award grant; and the balance in cash.</p> <p>Dividend equivalents accrue in cash with interest thereon in respect of the deferred share awards between the date the award is granted and the date the options are exercised. It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Remuneration Report.</p> <p>The STI Scheme includes malus and clawback provisions.</p>	<p>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 personal objectives. The main weighting is given to financial results – typically 80%.</p> <p>The targets may include, but are not limited to, costs, IFRS pre-tax profit, EcV operating profit, cash generation, group strategic objectives, including consideration of Environmental, Social and Governance risks and performance, and personal performance.</p> <p>STI Scheme targets are commercially sensitive and therefore are not disclosed. Actual targets and results will be disclosed in the Annual Report immediately following each performance period.</p> <p>The Committee may substitute, vary or waive the performance measures in accordance with the scheme rules and will document its use of such discretion for the purposes of transparency.</p> <p>The maximum award is 100% of basic salary with each participant being assigned a personal maximum to be disclosed in the corresponding Remuneration Report with each award made.</p>

B. SYSTEM OF GOVERNANCE (CONTINUED)

B.1 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 remuneration policy (continued)

Purpose and link to strategy	Operation	Performance measures and maximum
Long-term incentive (LTI) scheme (variable component of pay)		
To incentivise the delivery of the longer-term strategy of the group by the setting of stretching targets based on shareholder value, and to help to retain executives and increase their share ownership in the company.	<p>Approved by shareholders in 2014, the LTI Scheme is discretionary. Awards are made under a performance share plan, with nil price. The right to receive share awards will be based on achievement of performance conditions over a minimum three-year period.</p> <p>Dividend equivalents accrue in cash with interest thereon in respect of the share awards between the date the award is granted and the date the options are exercised.</p> <p>It is the intention of the Committee to grant awards annually and the performance criteria will be set out in the corresponding Remuneration Report.</p> <p>Awards made from 2019 will not be permitted to be exercised by executives until they have held them for a further 2-year holding period beyond the 3-year performance period, making a total of five years after the grant date.</p> <p>The LTI Scheme includes malus and clawback provisions.</p>	<p>Vesting is dependent on two performance measures, the weighting of which the Committee may vary as it considers appropriate:</p> <p>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 as set-out by externally produced analysis.</p> <p>2. Group Economic Value: this target is commercially sensitive and therefore not disclosed in advance. Actual targets and results will be disclosed in the Annual Report for the year in which an award vests. The assumptions underpinning the calculations are subject to independent actuarial scrutiny.</p> <p>The Committee may substitute, vary or waive the performance measures in accordance with the Scheme rules and will document its use of such discretion for the purposes of transparency.</p> <p>The maximum award is up to 100% of basic salary, with each participant being assigned a personal maximum to be disclosed in the corresponding Remuneration Report with each award made.</p>

Non-executive directors' remuneration

Fees and expenses		
To recruit and retain independent individuals with the skills, experience and qualities relevant to the non-executive role and who are also able to fulfil the required time commitment.	<p>Fees for the Chairman are determined and agreed with the board by the Committee (without the Chairman being party to this deliberation). Non-executive director fees are determined by the Chairman and the executives.</p> <p>Fees are reviewed periodically. In their setting, 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.</p> <p>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 individual roles.</p>	<p>Fees for the Chairman and non-executive directors are not performance related.</p> <p>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.</p>

B. SYSTEM OF GOVERNANCE (CONTINUED)

B.1 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

STI Scheme - The performance measures for the STI Scheme reflect the main financial contributors to sustaining returns for shareholders and the group strategic objectives. This ensures that executives are incentivised on the important deliverables needed to support the business plan and strategy. The 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 which may include, but are not limited to, costs, IFRS pre-tax profit, EcV operating profit, cash generation, group objectives, including consideration of environmental, social and governance risks and performance, and personal objectives. Where relevant, targets will be set with reference to board approved budgets. The maximum potential award requires significant outperformance against the targets set.

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 (Total Shareholder Return (TSR)). The measures and targets are set by the 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 or an appropriate substitute. The Committee currently considers this to be an appropriate comparator given Chesnara's strategic aims and focus on sustained dividend generation.

In setting targets for both Schemes, the Committee exercises its judgement in an effort to align the stretch in the targets with the company's risk appetite. Full details of the performance measures, weightings, targets and corresponding potential awards are set out in the annual Remuneration Report. The Committee exercises discretion when determining outcomes as opposed to relying solely on formulaic outturns and utilises assurance inputs in so doing.

The remuneration policy tables above note that all of the financial targets for the STI Scheme are commercially sensitive as is one of the measures for the LTI Scheme. The Committee has considered whether it could reasonably use transparent targets but concluded that transparency should not be sought at the expense of selecting the optimal measures and targets for the alignment of executive interests with those of shareholders even if these are not capable of being disclosed in advance.

STI scheme

- (i) based on a broad range of measures including group-wide objectives;
- (ii) performance measures and their weighting are determined by the Committee each year to help ensure that 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 corresponding Remuneration Report for each award made;
- (iv) award is part cash and part share award which is deferred for a further 3 years. Currently the award is structured 65% cash and 35% deferred shares. This is 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 and adjust the de-minimis amount;
- (v) unvested awards may be withheld under the terms of the malus provision. Notwithstanding any other provision of the rules, the Committee has the power to, at any time before an award has vested, reduce the number of shares subject to the relevant award or any cash amounts which may be paid pursuant to the relevant award (including to nil) in the circumstances of:
 - discovery of a material misstatement in the audited consolidated accounts of the Company or the audited accounts of any group member or subsidiary; and/or
 - an action or omission by a group member or subsidiary in breach of any regulations applicable to the group which results in material financial or reputational harm to the group; and/or
 - discovery of an error in the assessment of the extent to which a Performance target applicable to any award has been satisfied; and/or
 - action or conduct of the award holder which, in the reasonable opinion of the Committee, amounts to fraud or gross misconduct.

In determining the reduction which should be applied, the Committee shall act fairly and reasonably but its decision shall be final and binding. For the avoidance of doubt, any reduction may be applied on an individual basis as determined by the Committee. Cash awards are subject to a 2 year clawback provision; and

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

B. SYSTEM OF GOVERNANCE (CONTINUED)

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)

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 3 years, plus a further 2 year holding period;
- (v) maximum potential award is up to 100% of salary with each participant having a personal maximum which is to be disclosed in the Remuneration Report for each award made;
- (vi) awards made from 2019 will not be permitted to be exercised by executives until they have held them for a period of five years after the grant date;
- (vii) includes a malus provision. Notwithstanding any other provision of the rules, the Committee has the power to, at any time before an award has vested, reduce the number of shares subject to the relevant award or any cash amounts which may be paid pursuant to the relevant award (including to nil) in the circumstances of those set out under point (v) above for the STI Scheme;
- (viii) a 2 year clawback provision applies; and
- (ix) it is the intention of the Committee to make a new award each year.

Minimum shareholding requirement

In order to align the executives' interests with those of shareholders, a minimum shareholding requirement (the 'MSR') applies which is currently equal to 100% of basic salary. Both salary and shareholding values are calculated before tax. The requirement is expected to be achieved within five years of appointment. It may be achieved by participating in the company's share plans and the Committee may, in assessing progress towards the minimum, take into account vesting levels and personal circumstances. Aside from shares that are chosen to be sold to pay for income tax and National Insurance liabilities, shares awarded under the STI and LTI Schemes must be retained if the minimum shareholding has not yet been met.

Post-employment provisions exist which require a departing executive to retain a post-employment minimum shareholding. For a period of 12 months commencing on the date of departure, this will be equal to the lower of 100% of final basic salary on departure or the level of shareholding attained on the date of departure. For a subsequent period of 12 months, the post-employment minimum shareholding to apply will be equal to the lower of 50% of final basic salary on departure or the level of shareholding attained on the date of departure.

In determining the post-employment minimum shareholding, only awards made since the date of the approval of this Policy shall be included. Both salary and shareholding values are before tax and shares bought by the executive in the open market and from their own resources are not subject to the post employment provision.

With only two executives, the Committee is taking an approach to enforcement of the policy which it considers to be proportionate. Executives will be required to attest to comply with the policy as part of accepting an award.

Expenses

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

B. SYSTEM OF GOVERNANCE (CONTINUED)

B.1 General information on the system of governance (continued)

B.1.3 Information on the remuneration policy (continued)

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.

Remuneration element	Difference in policy
Salary and fees	There are no differences in policy. The Committee takes into account the company's overall salary budget and percentage increases made to other employees. It also sets the remuneration for senior management, that being the first layer of management below board level.
All taxable benefits	There are no differences in Policy although the benefits available vary by role and jurisdiction. For example, executive cars and health insurance benefits are broadly consistent with the equivalent benefits when offered to other UK personnel but executives receive a fuel allowance which is a benefit not offered to other staff who receive a car allowance.
Annual bonus	This is an integral part of the company's philosophy with all UK employees below board level being eligible to participate in a bonus scheme which is based on 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 regulation, 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. Since 1/1/19 there has no longer been a bonus scheme for the Netherlands businesses. The Scildon scheme in place at the time of purchase has been closed.
Long-term plans	Only Chesnara's executives 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 group and the delivery of returns to shareholders. This may be reviewed as appropriate in the light of growth and/or other changes in the company.
Pension	The level of contribution made by the company to executives is the same as that offered to other UK employees.

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.

	2020 £'000	2019 £'000
Short-term employee benefits	1,623	1,867
Long-term post employee benefits	16	196
Post-employment benefits	70	70
Total	1,709	2,133

Transactions with shareholders

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

	2020 £'000	2019 £'000
Dividends paid	32,294	31,320

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

A full assessment was performed in the second half of 2020. 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. SYSTEM OF GOVERNANCE (CONTINUED)

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.

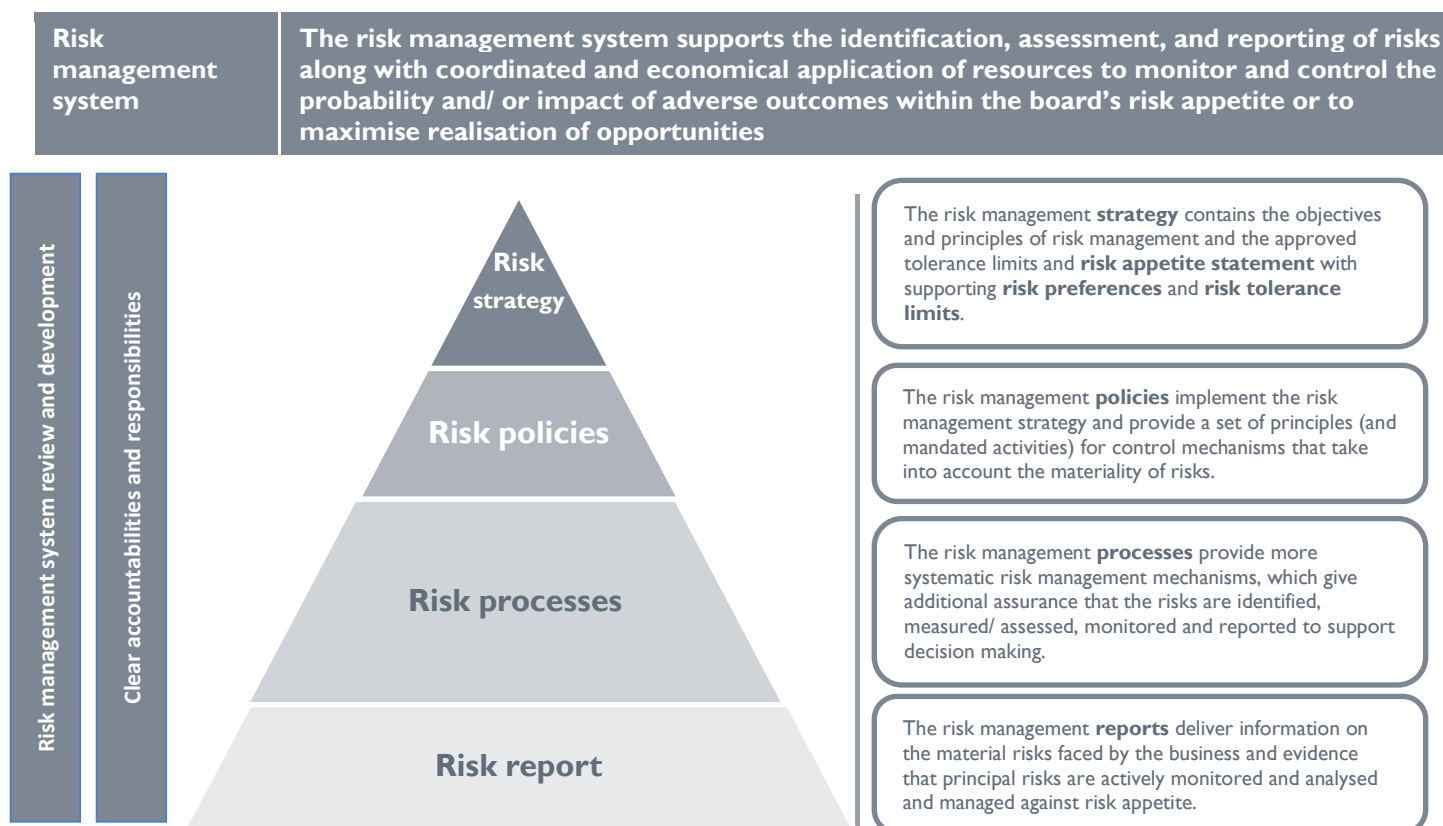
B.3 Risk management system including the Own Risk and Solvency Assessment

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:



B. SYSTEM OF GOVERNANCE (CONTINUED)

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
Level 2	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	
	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.

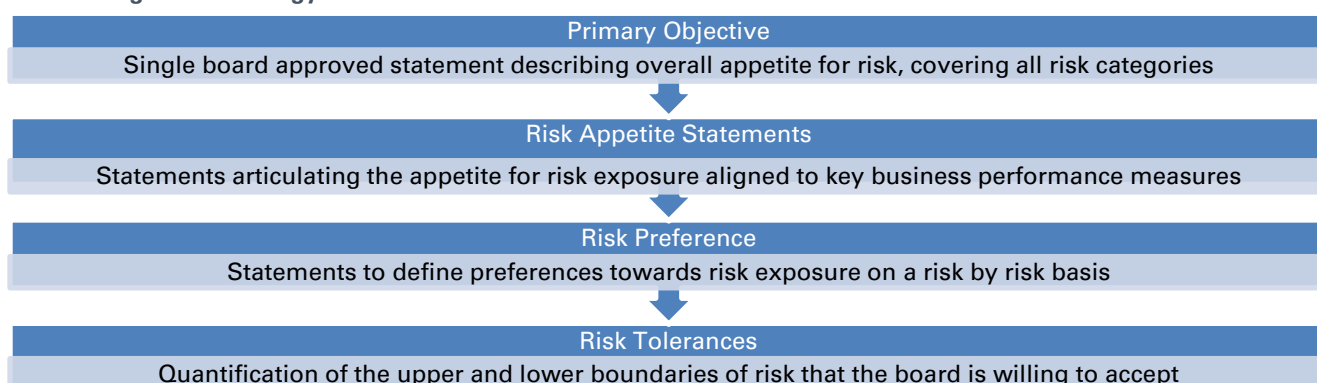
Each division and business unit is required to have a risk appetite, which is consistent with, and aligned to, the group's risk appetite framework, at generally subordinate levels of materiality and approved by the divisional board.

B. SYSTEM OF GOVERNANCE (CONTINUED)

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

B.3.1 Risk management system (continued)

Risk management strategy



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 established Group-wide Risk and Internal Control Policies that are annually reviewed by the Group Board.

Divisions / Business Units are required to adopt Group policies in a manner appropriate to their regulatory environment and, in addition, have their own Risk and Internal Control Policies specific to their operations. These are approved by the respective Boards. The table on the following page sets out the list of Board Risk and Internal Control Policies, which all business units should have in place as a minimum, subject to annual review.

B. SYSTEM OF GOVERNANCE (CONTINUED)

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

B.3.1 Risk management system (continued)

Risk management policies (continued)

Policy Title	Policy Type	Group/Chesnara	Division/BU
Actuarial Function	IC		√
Asset and Liability Management	Risk		√
Business Continuity	Risk	√	√
Capital Management	Risk	√	√
Compliance Function	IC		√
Concentration Risk	Risk	√	√
Conduct	Risk		√
Conflicts of Interest	IC	√	√
Data Quality	IC		√
Debt & Leverage	IC	√	
Fit & Proper	IC	√	√
Insurance Risk	Risk		√
Internal Audit	IC		√
Investment Risk	Risk	√	√
IT/Data Security	IC		√
Outsourcing	Risk		√
Operational Risk	Risk		√
ORSA	IC	√	√
Liquidity Risk	Risk	√	√
Reinsurance & Mitigating Actions	Risk		√
Remuneration	IC	√	√
Reporting & Disclosure	IC	√	√
Reserving	IC		√
Risk Management System	IC	√	√
Valuation (of assets and liabilities)	IC	√	√

These risk management policies articulate principles and practices including: objectives, reporting procedures, roles and responsibilities, key processes and controls.

Each policy is owned by an allocated member of the Group, Division or Business Unit Senior Management Team who is responsible for reviewing the policy and attesting policy compliance on an annual basis.

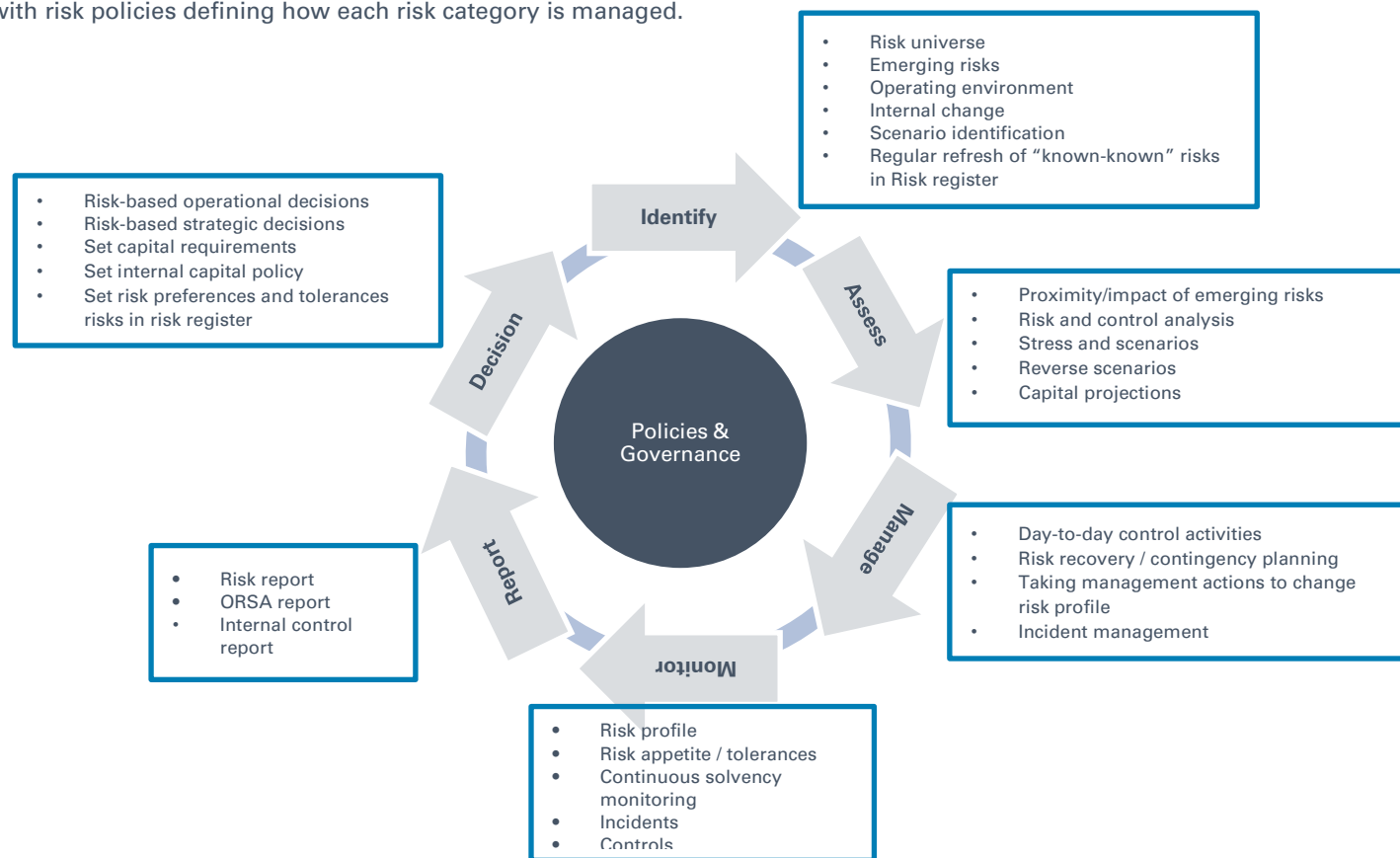
B. SYSTEM OF GOVERNANCE (CONTINUED)

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 and responsibilities 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 and responsibilities 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.

B. SYSTEM OF GOVERNANCE (CONTINUED)

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

B.3.1 Risk management system (continued)

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.

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 and business units therein. 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 Executive Committee monitors the risk appetite and risk profile position to ensure that the group and the divisions and business units therein as a whole comply with the group's risk appetite statement. The committee also reviews all key risk inputs prior to Audit & Risk Committee/Board distribution and oversees all risk management activity in the first instance.

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.

The Divisional or Business Unit Risk Functions are responsible for implementing and embedding the group's risk management systems policy within their areas. It is incumbent upon the Chief Risk Officer (or relevant Head of the Risk Function) of each division or business unit to support the local board in determining which categories of risk are pertinent to its business model and strategic focus. To support the aim of achieving group consistency of risk management practice and to provide group oversight of risk management and internal control, each Divisional- or Business Unit- Chief Risk Officer (or relevant Head of the Risk Function) has a dotted reporting line into the Group Chief Risk Officer.

B. SYSTEM OF GOVERNANCE (CONTINUED)

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

Overview

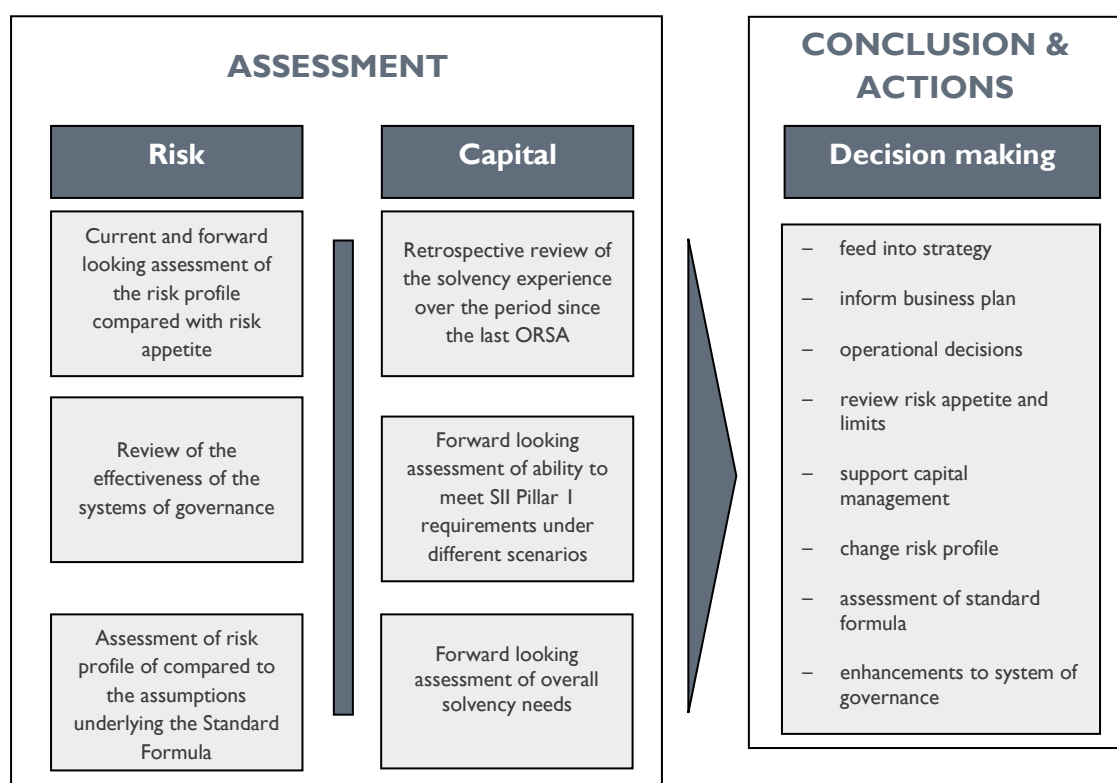
Within the Chesnara group, each division and business unit has its own ORSA policy and process approved by the relevant board. The purpose of the group report is to: assess the risk and solvency position at a group level taking into account the individual solo ORSA reports; record risks that are emerging 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.



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 (e.g. market, credit etc.) 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; and
- a summary of the principal strategic risks facing the organisation.

B. SYSTEM OF GOVERNANCE (CONTINUED)

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)

Overview

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 is 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.

This assessment consists of a qualitative review with any potentially significant differences further evaluated using quantitative approaches. Should any quantified differences be considered to be material in aggregate, further consideration is given to the different approaches that could be taken as an alternative to the Standard Formula (e.g. capital add-on, undertaking specific parameters, partial internal model, full internal model) and the implications of each of these, with a preferred approach agreed by the Board.

The approach used to assess the appropriateness of the Standard Formula for the group is as follows:

- Assess the appropriateness of the standard formula for each of Chesnara's regulated insurers;
- Assess whether the aggregation of the insurers invalidates the appropriateness;
- Assess whether the standard formula is appropriate for each of Chesnara's material, non-regulated companies;
- Assess that the aggregation of SCRs across all companies within the Group and that this does not invalidate the appropriateness of the standard formula; and
- Assess the appropriateness of the diversification of the SCR across all companies within the Group.

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

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.

The Group and each Division and Business Unit undertake solvency calculations to evaluate the solvency position on at least a quarterly basis and more often as agreed with the respective Boards. The Group has defined the following principles for adoption by all:

- The Group requires each Division and Business Unit to have a Board-approved frequency (at least quarterly) for full solvency calculations to be performed;
- For periods in between full calculations, processes must be in place to ensure a broad understanding of whether the solvency position has changed substantially;
- Management will ensure a good understanding of the Solvency position at any point in time. In particular, it will be clear if any Capital Management Policy Buffers, Risk Appetite Tolerances or Regulatory Minima have been breached. This information will be used to drive, as appropriate, the internal ladder of intervention activities described in the local Capital Management Policy;
- Demonstration of continuous compliance should be performed with and without allowance for any elements of the Long Term Guarantee Package being used at that time.

B. SYSTEM OF GOVERNANCE (CONTINUED)

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 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 purpose of the projections will be to ensure that Chesnara and its material insurers are able to meet their regulatory capital requirements under a range of pre-specified (and agreed in advance by the Board) stress and scenario tests, and taking into account a range of potential future changes in the business as well as the stated Capital Management Policy. The projections and conclusions thereof will form a key input into the business plan.

The ORSA considers the conclusions of Chesnara's, and its subsidiaries, reverse stress testing exercise, 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. SYSTEM OF GOVERNANCE (CONTINUED)

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)

The assessment will also take into account any internal solvency buffers as specified within each entity's Capital Management Policies as well as the Group's Capital Management Policy, considering also whether these buffers are sufficient.

The Group will adopt a proportionate approach to the Overall Solvency Needs Assessment. Initially a high level qualitative assessment will be carried out annually to determine how the internal solvency assessment ("OSNA") would, at the current valuation date, differ from the Solvency II position, taking into account the factors described above.

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.

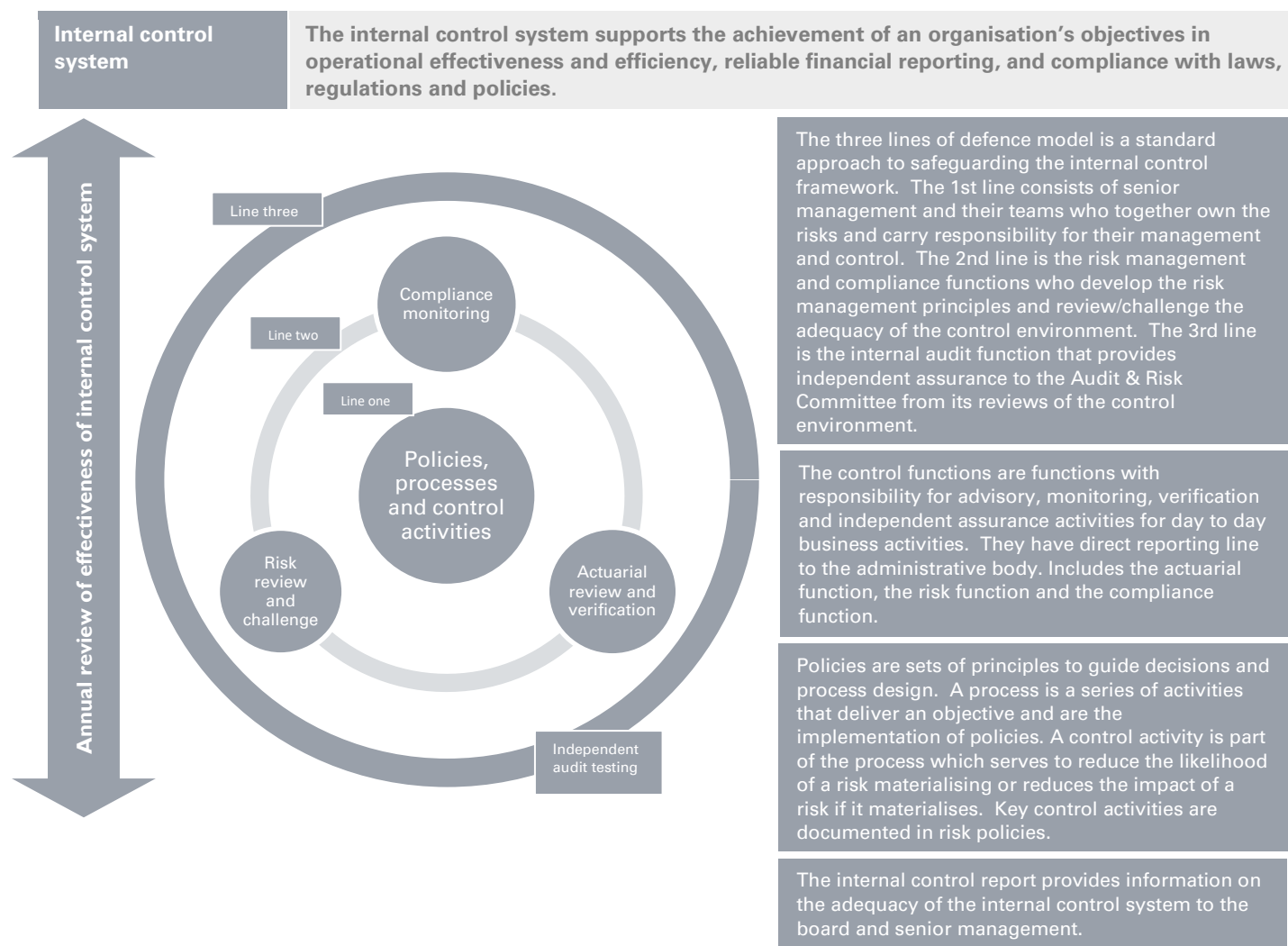
B. SYSTEM OF GOVERNANCE (CONTINUED)

B.4 Internal control system

B.4.1 Description of internal control system

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:



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. SYSTEM OF GOVERNANCE (CONTINUED)

B.4 Internal control system (continued)

B.4.1 Description of internal control system (continued)

1st Line Business functions	<ul style="list-style-type: none">•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	<ul style="list-style-type: none">•Develop risk management system principles and practices•Review and challenge of risk management policies and adequacy of control environment
3rd Line Audit function	<ul style="list-style-type: none">•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. SYSTEM OF GOVERNANCE (CONTINUED)

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 divisions. 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. SYSTEM OF GOVERNANCE (CONTINUED)

B.4 Internal control system (continued)

B.4.2 Implementation of compliance function (continued)

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
<i>Regulatory reporting¹</i>	X	-	X	X	Ensure all regulatory reporting is completed in a timely manner.
<i>Regulatory meetings</i>	X	X	X	X	Ensure that when update meetings take place with the relevant regulatory bodies records are maintained of those meetings.
<i>Conduct risk review²</i>	X	-	X	X	Oversee annual review of conduct risk measures and mitigation.
<i>Compliance risk oversight</i>	X	X	X	X	Identify any compliance related risks and ensure they are included within the risk framework. Monitor these risks on a regular basis.
<i>Fit and Proper</i>	X	X	X	X	Oversee the process to ensure that the relevant division's fit and proper policy has been appropriately implemented.
<i>Advice</i>	X	X	X	X	Provide advice to all areas of the business and to the board on regulatory matters.
<i>Training</i>	X	X	X	X	Provide training on regulatory matters as required to all areas of the business and the board.
<i>AML oversight³</i>	X	-	-	X	Ensure all anti money laundering procedures and policies are adhered to and reviewed on an annual basis.
<i>Compliance plan</i>	X	X	X	X	Prepare and deliver the board-approved compliance plan.

¹ This responsibility falls to the legal department in Movestic

² Conduct risk is not reviewed separately in Movestic, it is included as part of the annual assessment of all compliance risks.

³ 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. SYSTEM OF GOVERNANCE (CONTINUED)

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 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 provider.

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 a direct reporting line to its divisional Audit & Risk Committee. Each head of internal audit reports functionally to this Committee and administratively to the divisional CEO with any relevant matters being escalated up 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
<i>Devise audit plan</i>	An internal audit plan is drawn up on an annual basis which includes the proposed scope, timing and resource requirements for the forthcoming year.
<i>Carry out audits and make recommendations</i>	This involves audit planning, an internal controls assessment and the drafting of audit reports containing suggested improvements and recommendations.
<i>Follow up recommendations</i>	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. These include:

- an annual audit plan, which includes a rationale for the audits included / excluded 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 an analysis of management's progress implementing the agreed action points recommendations made by internal audit.

At a Chesnara group level the Chesnara Audit & Risk Committee receives summaries of internal audit activity for each division as well as it's own quarterly report relating to Chesnara plc.

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.

The Group Chief Actuary heads up the group actuarial function. 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. Movestic and Scildon outsource the role of Actuarial Function Holder, as defined in the Solvency II regulations.

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
<i>Support</i>	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.
<i>Technical provisions</i>	Oversight of methodologies, models, bases and calculation of technical provisions within group companies.
<i>Solvency</i>	Advising the Group CEO of any concerns regarding the sufficiency of financial assets to meet liabilities to policyholders.
<i>Risk capital</i>	Oversight of the modelling of risk capital for the group ORSA, including advising on suitable stress and scenario testing.
<i>New business</i>	Oversight of the reporting metrics used for assessing the benefit of new business written, advising the Group FD on appropriate measures to meet users' requirements.
<i>Reinsurance</i>	Oversight of the reinsurance arrangements within the group.
<i>Asset-liability matching</i>	Oversight of asset-liability matching within the group.
<i>Acquisitions</i>	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	X	X*	-	X*
Investment of assets or portfolio management including unit pricing	X	-	X	X
Claims handling	X	-	-	-
Compliance	X	-	-	-
Internal audit	-	X	-	-
Financial reporting	X	-	-	-
Provision of IT support including cloud services, data storage and information security	X	X	X	-

* Movestic and Scildon outsource their Actuarial Function Holder as defined in the Solvency II regulations but the arrangements do not include the calculation of the technical provisions. Movestic has insourced the role of Actuarial Function Holder during 2021.

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 a 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 2020 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 2020 compares with the position at 31 December 2019
- **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 Brexit implementation period ended on 31 December 2020. Whilst Chesnara ought not to be directly adversely impacted by the effects of the end of the Brexit transition period, there are a number of potential second order impacts of note such as economic implications, and the effect of any regulatory divergence as the PRA regains control of SII equivalent regulation for the UK businesses. At the end of the transition period (31 December 2020) the PRA is responsible for setting technical bases (such as the interest rate curve) but with an expectation that this remains consistent with those set by EIOPA for a period of 15 months.
- On 20 December 2020 EIOPA delivered its advice on the review of Solvency II to the European Commission. The extent to which the EC will accept the proposals, the timeline for implementation is not yet clear. Further, the extent to which the UK will adopt the changes introduced will depend upon discussions on equivalence and deviations.
- Already having a monumental and unprecedented impact on demographic, social and economic factors potentially affecting Chesnara’s businesses, the pandemic is far from over and brings with it the potential for operational disruption, economic volatility and impacts on business performance including new business. Potential for COVID19 to influence the operating environment on a very longer term and even permanent basis is considered to be a very real outcome that Chesnara must be prepared for.
- In April 2019, the PRA issued a supervisory statement on enhancing firms’ approaches to managing climate-related financial risks (SS3/19). This was followed in July 2020 with a Dear CEO letter which builds on the expectations set out in that statement, provides observations on good practice, and sets out next steps for implementation. The PRA and FCA-chaired Climate Financial Risk Forum (CFRF) also published its guide to help the industry address climate-related financial risks on 29 June 2020. The guide contains four chapters with practical guidance for firms, covering risk management, scenario analysis, disclosures and innovation. The Climate Biennial Exploratory Scenario (CBES) will launch in June 2021, involving 11 larger UK insurers. However, firms not participating in CBES will still be required to assess the impact of climate change on their balance sheets.
- Following the recent consultations on operational resilience (CP29/19) and outsourcing (CP30/19), the PRA expects firms to consider the steps they need to take to meet the standards that will be set during 2021. The PRA considers that firms have demonstrated a satisfactory level of operational resilience during the Covid-19 pandemic; however, resilience to cyber threats is a particular focus – there will be a cyber underwriting scenario in IST2022.
- In relation to LIBOR transition the PRA expects intensive efforts and early progress in 2021 in meeting the targets of the Working Group on Sterling Risk-Free Reference Rates (RFRWG).
- There have been no fundamental changes in the overall risk profile of the group over the year. On a forward looking basis, the external environment continues to bring a level of uncertainty, particularly with the ongoing Covid-19 pandemic. Already having a monumental and unprecedented impact on demographic, social and economic factors potentially affecting Chesnara’s businesses, the pandemic is far from over and brings with it the potential for operational disruption, economic volatility and impacts on business performance including new business. Potential for COVID19 to influence the operating environment on a very longer term and even permanent basis is considered to be a very real outcome that Chesnara must be prepared for. All employees have been paid in full throughout, without the use of the government furlough scheme.

C. RISK PROFILE (CONTINUED)

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.1 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 such as that which we are currently experiencing with COVID-19). 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. RISK PROFILE (CONTINUED)

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 2020 was £219.0m (31 December 2019: £255.7m).

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.

Within the UK, 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.

C. RISK PROFILE (CONTINUED)

C.6 Other material risks (continued)

C.6.1 Qualitative review of risk profile (continued)

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

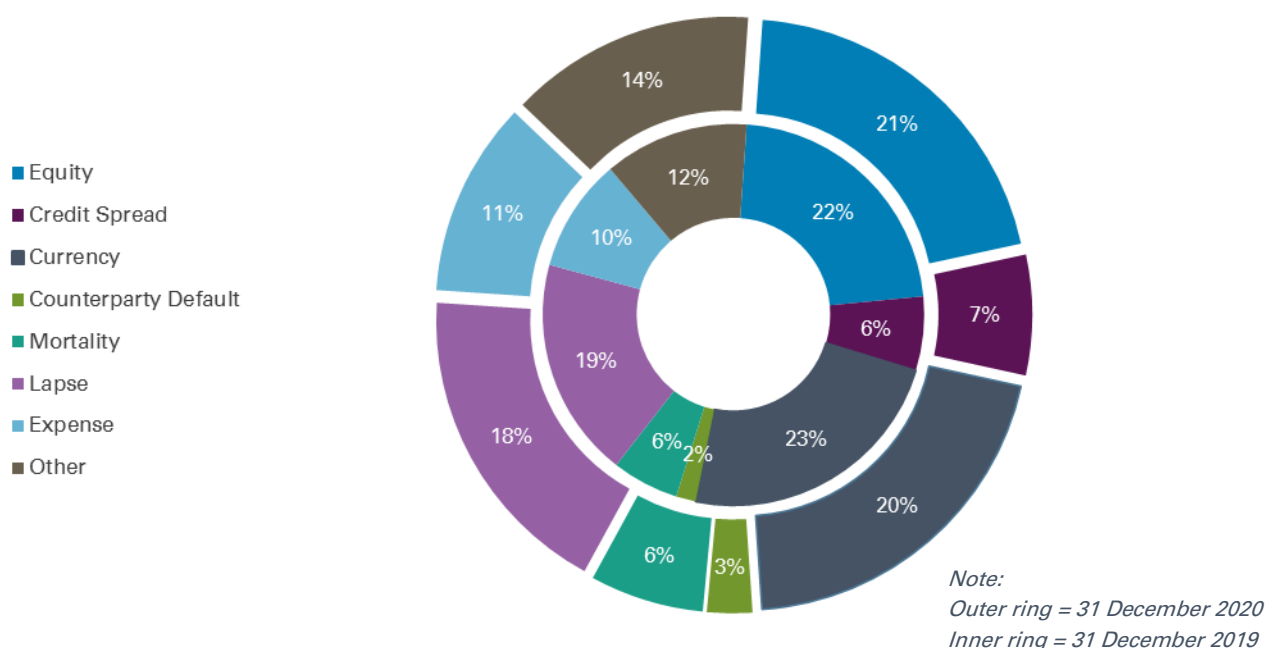
C.7 Any other information

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 2020.
 - Chesnara has a well-diversified risk portfolio at a Group level, with no large risk concentrations, although it should be noted that, individually, all insurers within the group have high (>25%) lapse risk exposures, and that Movestic and CA have high (>25%) equity risk exposures. The risk profile has been stable during 2020, is well understood, and is not currently intended to significantly change.

The most notable changes in the year are:

- A reduction in currency risk following implementation of revised methodology
- An increase in mortality risk within Waard arising from the completion of the portfolio transfer under project Nassau (Argenta business).
- An increase in counterparty default risk, as expected, arising from Scildon increasing its investment in the Aegon Mortgage Fund, as planned.



C. RISK PROFILE (CONTINUED)

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 2020.



C. RISK PROFILE (CONTINUED)

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.

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

C. RISK PROFILE (CONTINUED)

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 (Covid-19)
7	Expense basis
8	Monetary Policy Failure
9	Deep recession
10	Operation assessment of Covid-19 (18 month lockdown / second wave)
11	Tax rises

C.7.3.2 Methodology

The stress and scenario tests were carried out with a base date of 30 June 2020.

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 2020 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. RISK PROFILE (CONTINUED)

C.7 Any other information (continued)

C.7.3 Stress and scenario testing (continued)

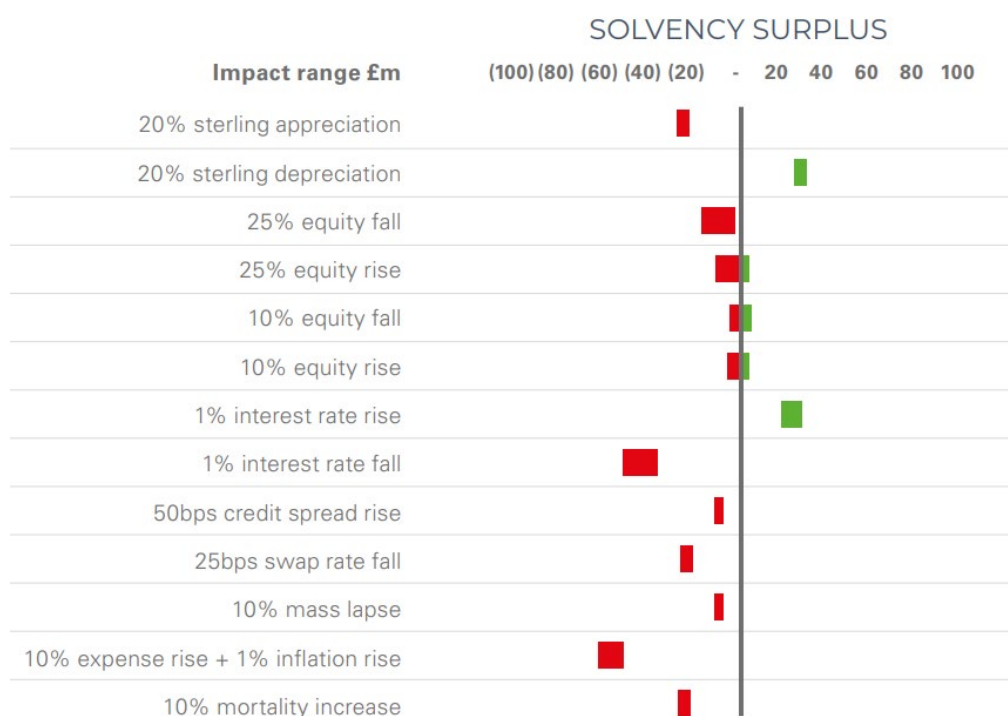
C.7.3.3 Outcomes from the stress and scenario testing

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 2020 were sufficient to withstand all of the stresses and scenarios approved by the board, and continue to meet its regulatory capital requirements. Chesnara is a resilient group in terms of its current solvency position, that can comfortably withstand all the stress and scenario tests chosen by the Board, starting from the forecast solvency position at 31 December 2020.

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 2020, 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.1 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 December 2020		31 December 2019	
		Solvency II value	Statutory accounts value	Solvency II value	Statutory accounts value
		£'000	£'000	£'000	£'000
	Section reference				
Assets	Section D1	8,693,609	8,831,755	7,957,161	8,116,310
Net technical provisions	Section D2	(7,855,513)	(8,092,189)	(7,076,120)	(7,378,622)
Other liabilities	Section D3	(247,429)	(252,499)	(258,496)	(262,197)
Assets less liabilities		590,667	487,067	622,545	475,491

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 2020						
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Assets	2,352,055	3,756,826	429,764	2,089,603	65,361	8,693,609
Net technical provisions	(2,090,748)	(3,478,842)	(368,492)	(1,868,391)	(49,040)	(7,855,513)
Other liabilities	(93,053)	(43,186)	(9,590)	(69,008)	(32,592)	(247,429)
Assets less liabilities	168,254	234,798	51,682	152,204	(16,271)	590,667

Statutory accounts value 31 December 2020						
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Assets	2,357,455	3,847,770	433,649	2,127,520	65,361	8,831,755
Net technical provisions	(2,134,379)	(3,695,349)	(384,222)	(1,878,239)	–	(8,092,189)
Other liabilities	(88,024)	(42,360)	(3,918)	(76,028)	(42,169)	(252,499)
Assets less liabilities	135,052	110,061	45,509	173,253	23,192	487,067

Solvency II value 31 December 2019						
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Assets	2,464,648	3,358,022	142,253	1,913,323	78,915	7,957,161
Net technical provisions	(2,192,987)	(3,071,399)	(79,613)	(1,696,605)	(35,516)	(7,076,120)
Other liabilities	(88,384)	(48,984)	(12,215)	(58,949)	(49,964)	(258,496)
Assets less liabilities	183,277	237,639	50,425	157,769	(6,565)	622,545

Statutory accounts value 31 December 2019						
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Assets	2,473,775	3,441,164	144,229	1,978,227	78,915	8,116,310
Net technical provisions	(2,253,695)	(3,298,342)	(90,270)	(1,736,315)	–	(7,378,622)
Other liabilities	(82,393)	(48,514)	(8,945)	(66,207)	(56,138)	(262,197)
Assets less liabilities	137,687	94,308	45,014	175,705	22,777	475,491

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.1 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:

	Note	31 December 2020		31 December 2019	
		Solvency II value £'000	Statutory accounts value £'000	Solvency II value £'000	Statutory accounts value £'000
Assets					
Deferred acquisition costs	1.01	–	69,050	–	63,885
Intangible assets	1.02	–	70,534	–	96,810
Property, plant & equipment held for own use	1.03	8,753	8,753	7,525	7,525
Investments (other than assets held for index-linked and unit-linked contracts)		1,780,481	1,780,481	1,811,496	1,811,507
<i>Property (other than own use)</i>		1,124	1,124	967	967
<i>Holdings in related undertakings, including participations</i>	1.04	1,072	1,088	7,962	7,972
<i>Bonds</i>		1,094,997	1,094,997	1,336,835	1,336,835
<i>Government bonds</i>	1.05	676,512	676,512	908,940	908,940
<i>Corporate bonds</i>	1.05	418,485	418,485	427,477	427,477
<i>Collateralised securities</i>	1.05	–	–	417	417
<i>Collective investments undertakings</i>	1.05	681,863	681,863	446,377	446,377
<i>Derivatives</i>	1.06	679	679	1,953	1,953
<i>Deposits other than cash equivalents</i>	1.05	746	729	17,402	17,402
Assets held for index-linked and unit-linked contracts	1.07	6,698,488	6,698,488	5,986,428	5,986,428
Loans and mortgages		27,641	26,231	35,167	33,441
<i>Loans on policies</i>	1.08	484	484	490	490
<i>Loans and mortgages to individuals</i>	1.09	27,157	25,748	34,011	32,285
<i>Other loans and mortgages</i>	1.10	–	–	665	665
Insurance and intermediaries receivables	1.11	14,349	14,349	14,896	14,896
Reinsurance receivables	1.12	22,371	22,343	25,533	25,703
Receivables (trade, not insurance)	1.13	20,139	20,139	13,181	13,181
Own shares (held directly)	1.14	–	–	–	–
Cash and cash equivalents	1.15	114,146	114,146	57,320	57,320
Any other assets, not elsewhere shown	1.16	7,241	7,241	5,615	5,615
Total assets		8,693,609	8,831,755	7,957,161	8,116,310

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.1 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 2020						
	Countrywide Assured £'000	Movestic £'000	Ward Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Assets						
Deferred acquisition costs	–	–	–	–	–	–
Intangible assets	–	–	–	–	–	–
Property, plant & equipment held for own use	–	2,694	314	5,521	224	8,753
Investments (other than assets held for index-linked and unit-linked contracts)	593,515	40,894	52,499	1,035,628	57,945	1,780,481
Assets held for index-linked and unit-linked contracts	1,701,761	3,638,190	325,413	1,033,124	–	6,698,488
Loans and mortgages	–	–	27,157	484	–	27,641
Insurance and intermediaries receivables	1,693	11,628	160	868	–	14,349
Reinsurance receivables	21,617	–	754	–	–	22,371
Receivables (trade, not insurance)	9,081	–	640	5,461	4,957	20,139
Own shares (held directly)	–	–	–	–	–	–
Cash and cash equivalents	23,633	57,181	22,781	8,517	2,034	114,146
Any other assets, not elsewhere shown	755	6,239	46	–	201	7,241
Total assets	2,352,055	3,756,826	429,764	2,089,603	65,361	8,693,609

Statutory accounts value 31 December 2020						
	Countrywide Assured £'000	Movestic £'000	Ward Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Assets						
Deferred acquisition costs	1,387	58,511	–	9,152	–	69,050
Intangible assets	4,013	32,416	5,323	28,782	–	70,534
Property, plant & equipment held for own use	–	2,694	314	5,521	224	8,753
Investments (other than assets held for index-linked and unit-linked contracts)	593,515	40,911	52,499	1,035,611	57,945	1,780,481
Assets held for index-linked and unit-linked contracts	1,701,761	3,638,190	325,413	1,033,124	–	6,698,488
Loans and mortgages	–	–	25,747	484	–	26,231
Insurance and intermediaries receivables	1,693	11,628	160	868	–	14,349
Reinsurance receivables	21,617	–	726	–	–	22,343
Receivables (trade, not insurance)	9,081	–	640	5,461	4,957	20,139
Own shares (held directly)	–	–	–	–	–	–
Cash and cash equivalents	23,633	57,181	22,781	8,517	2,034	114,146
Any other assets, not elsewhere shown	755	6,239	46	–	201	7,241
Total assets	2,357,455	3,847,770	433,649	2,127,520	65,361	8,831,755

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.1 Assets (continued)

Introduction (continued)

	Solvency II value 31 December 2019					
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Assets						
Deferred acquisition costs	–	–	–	–	–	–
Intangible assets	–	–	–	–	–	–
Property, plant & equipment held for own use	–	2,361	320	4,581	263	7,525
Investments (other than assets held for index-linked and unit-linked contracts)	610,474	76,017	76,200	974,047	74,758	1,811,496
Assets held for index-linked and unit-linked contracts	1,808,251	3,242,574	11,022	924,581	–	5,986,428
Loans and mortgages	–	665	34,011	491	–	35,167
Insurance and intermediaries receivables	1,716	11,238	103	1,839	–	14,896
Reinsurance receivables	24,694	–	839	–	–	25,533
Receivables (trade, not insurance)	7,251	5	228	2,769	2,928	13,181
Own shares (held directly)	–	–	–	–	–	–
Cash and cash equivalents	11,425	20,626	19,490	4,891	888	57,320
Any other assets, not elsewhere shown	837	4,536	40	124	78	5,615
Total assets	2,464,648	3,358,022	142,253	1,913,323	78,915	7,957,161

	Statutory accounts value 31 December 2019					
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Assets						
Deferred acquisition costs	1,691	53,262	–	8,932	–	63,885
Intangible assets	7,436	29,871	3,532	55,971	–	96,810
Property, plant & equipment held for own use	–	2,361	320	4,581	263	7,525
Investments (other than assets held for index-linked and unit-linked contracts)	610,474	76,026	76,200	974,048	74,758	1,811,507
Assets held for index-linked and unit-linked contracts	1,808,251	3,242,574	11,022	924,581	–	5,986,428
Loans and mortgages	–	665	32,285	491	–	33,441
Insurance and intermediaries receivables	1,716	11,238	103	1,839	–	14,896
Reinsurance receivables	24,694	–	1,009	–	–	25,703
Receivables (trade, not insurance)	7,251	5	228	2,769	2,928	13,181
Own shares (held directly)	–	–	–	–	–	–
Cash and cash equivalents	11,425	20,626	19,490	4,891	888	57,320
Any other assets, not elsewhere shown	837	4,536	40	124	78	5,615
Total assets	2,473,775	3,441,166	144,229	1,978,227	78,915	8,116,310

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. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.1 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.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.1 Assets (continued)

D.1.02 Intangible assets (continued)

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.

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. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.1 Assets (continued)

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

The application of IFRS 16 Leases in the prior year resulted in leases previously classified as operating leases under IAS 17 being recognised within this category as right-of-use assets.

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.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, with the exception of deposits other than cash equivalents held within Scildon which are reported at book cost. 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, barring the immaterial difference that arises on the deposits other than cash equivalents held by Scildon.

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.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.I Assets (continued)

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 or estimation processes.

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.

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.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.1 Assets (continued)

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, an 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

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

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.

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.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.1 Assets (continued)

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, barring reinsurance recoverables which are valued using Solvency II reserving methodologies rather than IFRS reserving methodologies.

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.

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.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.I Assets (continued)

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

Under Solvency II, own shares are recognised on the market value balance sheet as an asset.

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.

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

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

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.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

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 December 2020		31 December 2019	
	Solvency II value £'000	Statutory accounts value £'000	Solvency II value £'000	Statutory accounts value £'000
Net technical provisions:				
Health (similar to non-life):				
<i>Best Estimate / statutory accounts value</i>	22,954	26,611	23,089	27,613
<i>Risk margin</i>	226		265	
<i>Reinsurance recoverables</i>	(3,362)	(3,963)	(3,847)	(4,582)
Total	19,818	22,648	19,507	23,030
Health (similar to life):				
<i>TP calculated as a whole</i>	199,281		216,740	
<i>Best Estimate / statutory accounts value</i>	36,556	247,078	31,667	276,362
<i>Risk margin</i>	4,006		4,238	
<i>Reinsurance recoverables</i>	(18,739)	(25,426)	(17,016)	(24,193)
Total	221,104	221,652	235,629	252,169
Life (ex-health and index-linked and unit-linked):				
<i>Best Estimate / statutory accounts value</i>	785,499	1,065,740	754,777	1,035,382
<i>Risk margin</i>	57,934		47,513	
<i>Reinsurance recoverables</i>	(31,087)	(133,114)	(32,801)	(120,639)
Total	812,346	932,626	769,490	914,743
Index-linked and unit-linked:				
<i>TP calculated as a whole</i>	6,536,673		5,799,301	
<i>Best estimate / statutory accounts value</i>	254,830	6,990,374	244,299	6,265,833
<i>Risk margin</i>	56,832		57,155	
<i>Reinsurance recoverables</i>	(46,090)	(75,111)	(49,260)	(77,154)
Total	6,802,245	6,915,263	6,051,495	6,188,679
Total net technical provision	7,855,513	8,092,189	7,076,120	7,378,622

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 collected and used to calculate the best estimate.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.2 Technical provisions (continued)

D.2.1 Value of technical provisions (continued)

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.

	Solvency value 31 December 2020					
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Net technical provisions:						
Health (similar to non-life):						
<i>Best Estimate</i>	–	22,954	–	–	–	22,954
<i>Risk margin</i>	–	226	–	–	–	226
<i>Reinsurance recoverables</i>	–	(3,362)	–	–	–	(3,362)
Total	–	19,818	–	–	–	19,818
Health (similar to life):						
<i>TP calculated as a whole</i>	199,281	–	–	–	–	199,281
<i>Best Estimate</i>	1,199	32,270	3,087	–	–	36,556
<i>Risk margin</i>	3,477	453	76	–	–	4,006
<i>Reinsurance recoverables</i>	(121)	(17,821)	(797)	–	–	(18,739)
Total	203,836	14,902	2,366	–	–	221,104
Life (ex-health and index-linked and unit-linked):						
<i>Best Estimate</i>	509,348	3,337	50,118	222,696	–	785,499
<i>Risk margin</i>	10,447	19	5,224	42,244	–	57,934
<i>Reinsurance recoverables</i>	(105,954)	(1,049)	(639)	76,555	–	(31,087)
Total	413,841	2,307	54,703	341,495	–	812,346
Index-linked and unit-linked:						
<i>TP calculated as a whole</i>	1,523,865	3,651,881	326,659	1,034,268	–	6,536,673
<i>Best estimate</i>	(15,755)	(245,867)	(16,940)	484,352	49,040	254,830
<i>Risk margin</i>	12,485	35,801	1,704	6,842	–	56,832
<i>Reinsurance recoverables</i>	(47,524)	–	–	1,434	–	(46,090)
Total	1,473,071	3,441,815	311,423	1,526,896	49,040	6,802,245
Total net technical provision	2,090,748	3,478,842	368,492	1,868,391	49,040	7,855,513

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.2 Technical provisions (continued)

D.2.1 Value of technical provisions (continued)

	Statutory value 31 December 2020					Total £'000
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	
Net technical provisions:						
Health (similar to non-life):						
<i>Statutory accounts value</i>	–	26,611	–	–	–	26,611
<i>Risk margin</i>	–	–	–	–	–	–
<i>Reinsurance recoverables</i>	–	(3,963)	–	–	–	(3,963)
Total	–	22,648	–	–	–	22,648
Health (similar to life):						
<i>Statutory accounts value</i>	203,591	38,501	4,986	–	–	247,078
<i>Risk margin</i>	–	–	–	–	–	–
<i>Reinsurance recoverables</i>	(1,817)	(21,191)	(2,418)	–	–	(25,426)
Total	201,774	17,310	2,568	–	–	221,652
Life (ex-health and index-linked and unit-linked):						
<i>Statutory accounts value</i>	605,966	4,590	65,649	389,535	–	1,065,740
<i>Risk margin</i>	–	–	–	–	–	–
<i>Reinsurance recoverables</i>	(131,950)	(1,081)	(84)	–	–	(133,114)
Total	474,016	3,510	65,565	389,535	–	932,626
Index-linked and unit-linked:						
<i>Statutory accounts value</i>	1,533,700	3,651,881	316,089	1,488,704	–	6,990,374
<i>Risk margin</i>	–	–	–	–	–	–
<i>Reinsurance recoverables</i>	(75,111)	–	–	–	–	(75,111)
Total	1,458,589	3,651,881	316,089	1,488,704	–	6,915,263
Total net technical provision	2,134,379	3,695,349	384,222	1,878,239	–	8,092,189

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.2 Technical provisions (continued)

D.2.1 Value of technical provisions (continued)

	Solvency value 31 December 2019					Total £'000
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	
Net technical provisions:						
Health (similar to non-life):						
<i>Best Estimate</i>	–	23,089	–	–	–	23,089
<i>Risk margin</i>	–	265	–	–	–	265
<i>Reinsurance recoverables</i>	–	(3,847)	–	–	–	(3,847)
Total	–	19,507	–	–	–	19,507
Health (similar to life):						
<i>TP calculated as a whole</i>	216,740	–	–	–	–	216,740
<i>Best Estimate</i>	(3,532)	31,567	3,632	–	–	31,667
<i>Risk margin</i>	3,794	355	89	–	–	4,238
<i>Reinsurance recoverables</i>	232	(16,310)	(938)	–	–	(17,016)
Total	217,234	15,612	2,783	–	–	235,629
Life (ex-health and index-linked and unit-linked):						
<i>Best Estimate</i>	513,420	2,190	62,081	177,086	–	754,777
<i>Risk margin</i>	10,746	12	2,453	34,302	–	47,513
<i>Reinsurance recoverables</i>	(105,207)	(1,118)	(25)	73,549	–	(32,801)
Total	418,959	1,084	64,509	284,937	–	769,490
Index-linked and unit-linked:						
<i>TP calculated as a whole</i>	1,621,125	3,253,872	–	924,304	–	5,799,301
<i>Best estimate</i>	(27,942)	(255,854)	12,311	480,268	35,516	244,299
<i>Risk margin</i>	14,054	37,178	10	5,913	–	57,155
<i>Reinsurance recoverables</i>	(50,443)	–	–	1,183	–	(49,260)
Total	1,556,794	3,035,196	12,321	1,411,668	35,516	6,051,495
Total net technical provision	2,192,987	3,071,399	79,613	1,696,605	35,516	7,076,120

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.2 Technical provisions (continued)

D.2.1 Value of technical provisions (continued)

	Statutory value 31 December 2019					Total £'000
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	
Net technical provisions:						
Health (similar to non-life):						
<i>Statutory accounts value</i>	–	27,613	–	–	–	27,613
<i>Risk margin</i>						
<i>Reinsurance recoverables</i>	–	(4,582)	–	–	–	(4,582)
Total	–	23,031	–	–	–	23,031
Health (similar to life):						
<i>Statutory accounts value</i>	232,438	38,485	5,439	–	–	276,362
<i>Risk margin</i>						
<i>Reinsurance recoverables</i>	(1,854)	(19,758)	(2,580)	–	–	(24,193)
Total	230,584	18,727	2,859	–	–	252,169
Life (ex-health and index-linked and unit-linked):						
<i>Statutory accounts value</i>	599,413	4,664	69,167	362,138	–	1,035,382
<i>Risk margin</i>						
<i>Reinsurance recoverables</i>	(118,664)	(1,950)	(25)	–	–	(120,639)
Total	480,749	2,714	69,142	362,138	–	914,743
Index-linked and unit-linked:						
<i>Statutory accounts value</i>	1,619,515	3,253,872	18,270	1,374,177	–	6,265,833
<i>Risk margin</i>						
<i>Reinsurance recoverables</i>	(77,154)	–	–	–	–	(77,154)
Total	1,542,362	3,253,872	18,270	1,374,177	–	6,188,679
Total net technical provision	2,253,695	3,298,342	90,270	1,736,315	–	7,378,622

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, Waard Leven and Scildon both apply the volatility adjustment, though do not apply the matching adjustment. Waard Schade, Movestic and CA do not apply the matching adjustment or volatility adjustment.

Demographic assumptions

The calculation of the probability weighting for each future cash-flow requires information on the likelihood of the policy still being in-force 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. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

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; and
- removal of any potential double-stressing of GBP denominated assets in underlying entity SCR components when consolidating at a group level.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.2 Technical provisions (continued)

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.2.3 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 2020					
	Note	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Chesnara plc £'000	Group Total £'000
IFRS technical provisions	1	2,134,379	3,695,349	384,222	1,878,239	–	8,092,189
Allow negative provisions	2	(61,105)	–	–	(44,104)	–	(105,209)
Changes to assumptions	3	(11,962)	–	(23,798)	551	–	(35,209)
Contract boundary restrictions	4	11,545	–	–	(5,368)	–	6,177
Other adjustments for SII	5	(8,518)	(253,006)	1,064	(10,013)	49,041	(221,433)
SII BEL		2,064,338	3,442,343	361,488	1,819,305	49,041	7,736,515
SII risk margin	6	26,409	36,499	7,004	49,086	–	118,998
SII technical provisions		2,090,748	3,478,842	368,492	1,868,391	49,041	7,855,513

		31 December 2019					
	Note	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Chesnara plc £'000	Group Total £'000
IFRS technical provisions	1	2,253,695	3,298,342	90,270	1,736,315	–	7,378,622
Allow negative provisions	2	(74,090)	–	–	(2,262)	–	(76,352)
Changes to assumptions	3	(9,757)	–	(14,852)	(81,967)	–	(106,576)
Contract boundary restrictions	4	12,620	–	–	4,304	–	16,924
Other adjustments for SII	5	(18,075)	(264,753)	1,643	–	35,516	(245,669)
SII BEL		2,164,393	3,033,589	77,061	1,656,390	35,516	6,966,949
SII risk margin	6	28,594	37,810	2,552	40,215	–	109,171
SII technical provisions		2,192,987	3,071,399	79,613	1,696,605	35,516	7,076,120

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. 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 historical assumptions. Under SII these historical assumptions are replaced with best-estimate assumptions based on recent experience and current market data, as required.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.2 Technical provisions (continued)

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

- 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.2.4 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 been applied for Scildon and Waard Leven.
- **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.

The impact of applying the volatility adjustment for Scildon and Waard Leven on the group solvency position is set out in the table below:

	With VA £'000	No VA £'000	Difference £'000
Gross technical provisions	7,954,790	7,959,528	(4,738)
Basic own funds	566,587	562,567	4,021
Excess of assets over liabilities	590,667	586,646	4,021
Restricted own funds due to ring-fencing and matching portfolio	1,547	1,547	0
Eligible own funds to meet Solvency Capital Requirement	567,676	563,655	4,021
Tier 1	567,676	563,655	4,021
Tier 2	–	–	–
Tier 3	–	–	–
Solvency Capital Requirement	363,718	364,812	(1,094)
Solvency surplus	203,958	198,843	5,115
Solvency ratio	156.1%	154.5%	1.6%
Eligible own funds to meet Minimum Capital Requirement	567,676	563,655	4,021
Tier 1	567,676	563,655	4,021
Tier 2	–	–	–
Tier 3	–	–	–
Minimum Capital Requirement	98,399	98,461	(62)

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.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.2 Technical provisions (continued)

D.2.5 Reinsurance recoverables (continued)

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.2.6 Changes in assumptions

The methodology for setting the assumptions for the Solvency II calculations as at 31 December 2020 is unchanged from the valuation as at 31 December 2019.

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 2020 include:

Assumption	Division	Description
Economic	All	Updated EIOPA yield curves utilised plus updates to inflation parameters, and VA where applicable.
Mortality / morbidity		Mortality assumptions have been reviewed to take account of recent investigations, resulting in the following across the divisions. It is noted that no specific additional changes were made as a consequence of the Covid-19 pandemic:
	CA	The assumption changes reflect updated mortality multipliers on term and assurance business and updated mortality improvement factors on annuity business.
	Waard Group	A weakening in Waard Leven base mortality assumptions has led to a reduction in reserves. Additionally, Waard Schade disability assumptions were updated to reflect recent experience, though with limited impact.
	Movestic	No changes applied.
	Scildon	The base mortality table has been updated and some changes made to the % of table applied for some lines of business. Overall the mortality assumptions have been strengthened.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.2 Technical provisions (continued)

D.2.6 Changes in assumptions (continued)

Key assumption changes over 2020 include:

Assumption	Division	Description
Persistency		Persistency assumptions have been reviewed to take account of recent investigations resulting in the following across the divisions. It is noted that no specific additional changes were made as a consequence of the Covid-19 pandemic:
	CA	
		Persistency assumptions have been reviewed to take account of recent investigations. Assumptions were slightly strengthened overall.
	Waard Group	A number of changes to lapse assumptions applied for certain Waard Leven products, resulting in a small increase in reserves.
	Movestic	Assumed transfer rates for occupational pensions have been increased and a small additional reserve is being maintained for continuing short-term negative experience.
	Scildon	A number of lapse assumption changes have been made leading to a strengthening of reserves. Additionally, the modelling of paid-up rates has been reviewed and this has led to a further increase in reserves.
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 CA, Movestic, Waard and Chesnara Plc. For Scildon, expense assumptions have been reduced, most notably a material reduction in investment expenses following a change in investment contracts.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.3 Other liabilities

Introduction

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

	Note	31 December 2020		31 December 2019	
		Solvency II value	Statutory accounts value	Solvency II value	Statutory accounts value
		£'000	£'000	£'000	£'000
Other liabilities					
Provisions other than technical provisions	3.1	719	719	546	546
Deferred tax liabilities	3.2	15,386	19,061	23,353	22,501
Derivatives	3.3	3	3	365	365
Debts owed to credit institutions	3.4	40,723	40,673	53,853	53,716
Financial liabilities other than debts owed to credit institutions	3.5	28,261	30,638	35,474	38,229
Insurance & intermediaries payables	3.6	116,194	115,058	102,630	102,570
Reinsurance payables	3.7	5,294	2,578	4,981	2,874
Payables (trade, not insurance)	3.8	40,849	40,849	37,294	37,294
Any other liabilities, not elsewhere shown	3.9	–	2,920	–	4,102
Total liabilities		247,429	252,499	258,496	262,197

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 2020					Total £'000
	Countrywide Assured £'000	Movestic £'000	Ward Group £'000	Scildon £'000	Other group activities £'000	
Other liabilities						
Provisions other than technical provisions	34	75	610	–	–	719
Deferred tax liabilities	8,599	693	4,179	11,878	(9,963)	15,386
Derivatives	3	–	–	–	–	3
Debts owed to credit institutions	1,663	–	–	–	39,060	40,723
Financial liabilities other than debts owed to credit institutions	–	27,844	201	–	216	28,261
Insurance & intermediaries payables	65,208	3,501	2,056	45,429	–	116,194
Reinsurance payables	441	3,620	–	1,233	–	5,294
Payables (trade, not insurance)	17,105	7,453	2,544	10,468	3,279	40,849
Any other liabilities, not elsewhere shown	–	–	–	–	–	–
Total liabilities	93,053	43,186	9,590	69,008	32,592	247,429

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.3 Other liabilities (continued)

Introduction (continued)

Statutory accounts value 31 December 2020						
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Other liabilities						
Provisions other than technical provisions	34	75	610	–	–	719
Deferred tax liabilities	942	206	(357)	18,898	(628)	19,061
Derivatives	3	–	–	–	–	3
Debts owed to credit institutions	1,663	–	–	–	39,010	40,673
Financial liabilities other than debts owed to credit institutions	–	30,221	201	–	216	30,638
Insurance & intermediaries payables	65,208	3,501	920	45,429	–	115,058
Reinsurance payables	441	904	–	1,233	–	2,578
Payables (trade, not insurance)	17,105	7,453	2,544	10,468	3,279	40,849
Any other liabilities, not elsewhere shown	2,628	–	–	–	292	2,920
Total liabilities	88,024	42,360	3,918	76,028	42,169	252,499

Solvency II value 31 December 2019						
	Countrywide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Other liabilities						
Provisions other than technical provisions	34	12	–	–	500	546
Deferred tax liabilities	10,947	1,313	3,158	14,634	(6,699)	23,353
Derivatives	365	–	–	–	–	365
Debts owed to credit institutions	1,191	–	–	–	52,662	53,853
Financial liabilities other than debts owed to credit institutions	–	35,047	174	–	253	35,474
Insurance & intermediaries payables	59,981	3,555	2,920	36,174	–	102,630
Reinsurance payables	527	3,259	–	1,195	–	4,981
Payables (trade, not insurance)	15,339	5,798	5,963	6,946	3,248	37,294
Any other liabilities, not elsewhere shown	–	–	–	–	–	–
Total liabilities	88,384	48,984	12,215	58,949	49,964	258,496

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.3 Other liabilities (continued)

Introduction (continued)

	Statutory accounts value 31 December 2019					Total £'000
	Countrywide Assured £'000	Movestic £'000	Ward Group £'000	Scildon £'000	Other group activities £'000	
Other liabilities						
Provisions other than technical provisions	34	12	–	–	500	546
Deferred tax liabilities	1,710	195	(699)	21,892	(597)	22,501
Derivatives	365	–	–	–	–	365
Debts owed to credit institutions	1,191	–	–	–	52,525	53,716
Financial liabilities other than debts owed to credit institutions	–	37,802	174	–	253	38,229
Insurance & intermediaries payables	59,981	3,555	2,860	36,174	–	102,570
Reinsurance payables	527	1,152	–	1,195	–	2,874
Payables (trade, not insurance)	15,339	5,798	5,963	6,947	3,248	37,294
Any other liabilities, not elsewhere shown	3,246	–	647	–	209	4,102
Total liabilities	82,393	48,514	8,945	66,207	56,138	262,197

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.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.3 Other liabilities (continued)

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.

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.

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 or estimation processes.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.3 Other liabilities (continued)

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

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

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, except for lease contracts which are valued at fair value.

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.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.3 Other liabilities (continued)

D.3.6 Insurance and intermediaries payables (continued)

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, with the exception of long term annuity claims.

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

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

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.

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.

D. VALUATION FOR SOLVENCY PURPOSES (CONTINUED)

D.3 Other liabilities (continued)

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
None.

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.

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.1 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 responsible risk-based management for the benefit of all of our stakeholders.

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. CAPITAL MANAGEMENT (CONTINUED)

E.1 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

As noted above, 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 2021 to 2023 plan, does not anticipate any material changes to the structure of own funds over the planning horizon.

E. CAPITAL MANAGEMENT (CONTINUED)

E.1 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 2020 and 2019, including an analysis of any significant changes in each tier over the year:

	31 December 2019 £'000	Movement in year £'000	Transfers £'000	31 December 2020 £'000
Tier 1:				
Ordinary share capital	43,767	1	–	43,768
Share premium account related to ordinary share capital	142,053	32	–	142,085
Total ordinary share capital & share premium	185,820	33	–	185,853
Reconciliation reserve before deductions	436,725	(11,103)	(20,807)	404,814
Own shares (held directly and indirectly)	–	–	–	–
Foreseeable dividends	(20,807)	(21,444)	20,807	(21,444)
Restricted own funds in ring fenced funds	(10,789)	(10,778)	20,020	(1,547)
Total reconciliation reserve	405,129	(43,326)	20,020	381,823
Total eligible own funds eligible to meet SCR	590,949	(43,293)	20,020	567,676
SCR	380,138	(16,420)	–	363,718
Ratio of eligible own funds to SCR	155.5%			156.1%
Total eligible own funds eligible to meet MCR*	589,500	(42,933)	20,020	566,587
MCR	96,388	2,011	–	98,399
Ratio of eligible own funds to MCR	611.6%			575.8%

* 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 2020 there were £1.089m (31 December 2019: £1.449m) 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 2020						
	Countrywide Assured £'000	Movestic £'000	Ward Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Excess assets over liabilities	168,254	234,798	51,682	152,204	(16,271)	590,667
Restricted own funds in ring fenced funds	(1,547)	–	–	–	–	(1,547)
Foreseeable dividends	(33,500)	(10,228)	(4,047)	–	26,331	(21,444)
Total eligible own funds eligible to meet SCR	133,207	224,570	47,635	152,204	10,060	567,676
SCR	102,283	142,488	10,885	85,471	22,591	363,718
Ratio of eligible own funds to SCR	130.2%	157.6%	437.6%	178.1%	44.5%	156.1%

31 December 2019						
	Countrywide Assured £'000	Movestic £'000	Ward Group £'000	Scildon £'000	Other group activities £'000	Total £'000
Excess assets over liabilities	183,276	237,641	50,424	157,769	(6,565)	622,545
Restricted own funds in ring fenced funds	(10,789)	–	–	–	–	(10,789)
Foreseeable dividends	(32,000)	(6,185)	(4,887)	(6,995)	29,260	(20,807)
Total eligible own funds eligible to meet SCR	140,487	231,456	45,537	150,774	22,695	590,949
SCR	107,551	149,731	9,081	71,797	41,978	380,138
Ratio of eligible own funds to SCR	130.6%	154.6%	501.4%	210.0%	51.5%	155.5%

E. CAPITAL MANAGEMENT (CONTINUED)

E.1 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:* 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 2020, a capital transfer of £20.0m from with-profit ring-fenced funds to the non-profit fund took place. This improved the capital position in the year. After the capital transfer, a further £10.8m 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 2020 the following dividends have affected the own funds of the group:
 - *Interim dividend:* During 2020 an interim dividend amounting to £11.5m was paid in September 2020; and
 - *Final dividend:* A £21.4m foreseeable dividend was recognised in the year end solvency position in relation to the year end 2020 proposal. This is due to be paid on 24 May 2021.

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

	2020 £'000	2019 £'000
Tier 1 own funds at 1 January	590,949	552,575
Underlying movement in own funds (arising from new business and from in-force business at the start of the year)	413	77,240
Dividends:		
– Interim dividend paid	(11,484)	(11,142)
– Foreseeable dividend	(21,444)	(20,807)
With profit transfer	20,020	7,900
Movements in ring fenced funds restrictions	(10,778)	(14,817)
Tier 1 own funds at 31 December	567,676	590,949

Own funds to cover SCR:

The table on the previous page shows that the group, which only has tier 1 capital, has £567.7m (2019: £590.9m) of available own funds to be able to meet the group's SCR of £363.7m (2019: £380.1m), resulting in an SCR coverage ratio of 156% (2019: 155%).

Own funds to cover MCR:

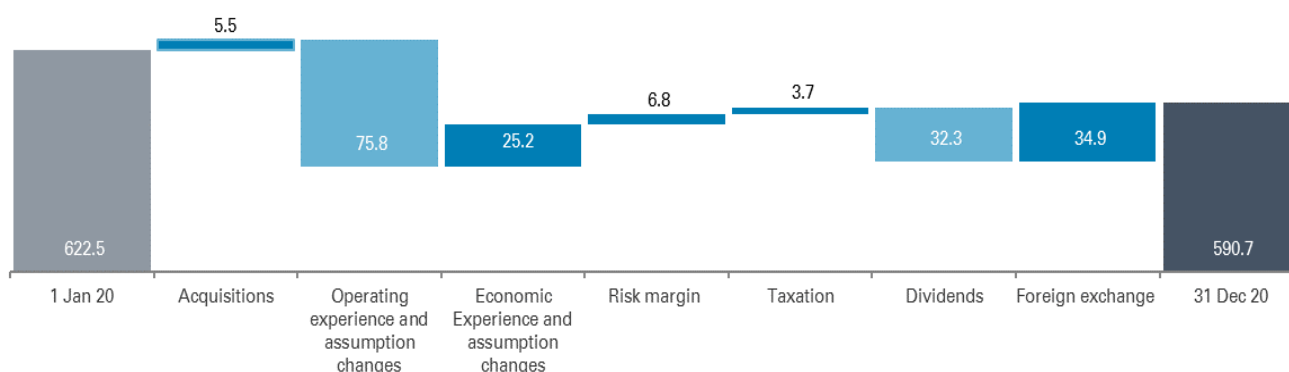
The table on the previous page shows that the company, which only has tier 1 capital, has £567.7m (2019: £590.9m) of available own funds to be able to meet the company's MCR of £98.4m (2019: £96.4m), resulting in a MCR coverage ratio of 576% (2019: 612%).

E. CAPITAL MANAGEMENT (CONTINUED)

E.1 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 strain mainly relates to assumption changes in respect of transfer rates and rebates in Movestic, a reduction in assumed lapse rates and an increase in assumed mortality rates in Scildon, and an increase in expense assumptions.
- **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. The surplus that has arisen reflects positive investment returns in excess of risk-free rates, despite the fall in yields towards the start of the year.
- **Risk margin:** This reflects a release of risk margin in excess of expected run off, which is driven by a reduction in capital requirements for some of the divisions.
- **Taxation:** This reflects the corporation tax as per the balance sheet.
- **Dividends paid:** This reflects the dividends that have been paid during the year.
- **Foreign exchange:** This represents the impact of translating the positions of overseas subsidiaries into sterling.

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 2020 and 31 December 2019:

	31 December 2020 £'000	31 December 2019 £'000
Equity per the IFRS financial statements:		
Share capital	43,768	43,767
Share premium	142,085	142,053
Retained earnings and other reserves	301,214	289,671
Total equity as reported in the Chesnara plc IFRS financial statements	487,067	475,491
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	236,900	302,800
Adj 2: Removal of intangible assets included in IFRS valuation	(139,500)	(160,700)
Adj 3: Net valuation difference between IFRS and SII for assets	6,400	7,600
Adj 4: Adjustments to deferred tax	3,700	(900)
Adj 5: Other adjustments	(3,900)	(1,746)
Total adjustments between IFRS financial statements and excess of assets over liabilities for solvency purposes	103,600	147,054
Excess of assets over liabilities for solvency purposes (reconciliation reserve before deductions plus ordinary share capital):	590,667	622,545

E. CAPITAL MANAGEMENT (CONTINUED)

E.1 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. Intangible assets that cannot be sold separately have no intrinsic value under 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 2020 £'000	31 December 2019 £'000
Assets less liabilities	590,667	622,545
Adjustments for:		
Surplus in ring-fenced funds	(1,547)	(10,789)
Foreseeable dividends	(21,444)	(20,807)
Own funds	567,676	590,949

The items deducted from own funds are:

- *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 2020, the surplus in each of these funds was: SPI – £nil (2019: £0.1m) and SPP – £1.5m (2019: £10.7m).
- *Foreseeable dividends*
Solvency II requires dividends to be recognised as a deduction to own funds when they are “foreseeable”. At 31 December 2020 and 2019, foreseeable dividends, representing the dividend that will be/was paid in May 2021 and June 2020 respectively, were recognised within the Solvency II valuation.

E. CAPITAL MANAGEMENT (CONTINUED)

E.2 Solvency Capital Requirement and Minimum Capital Requirement

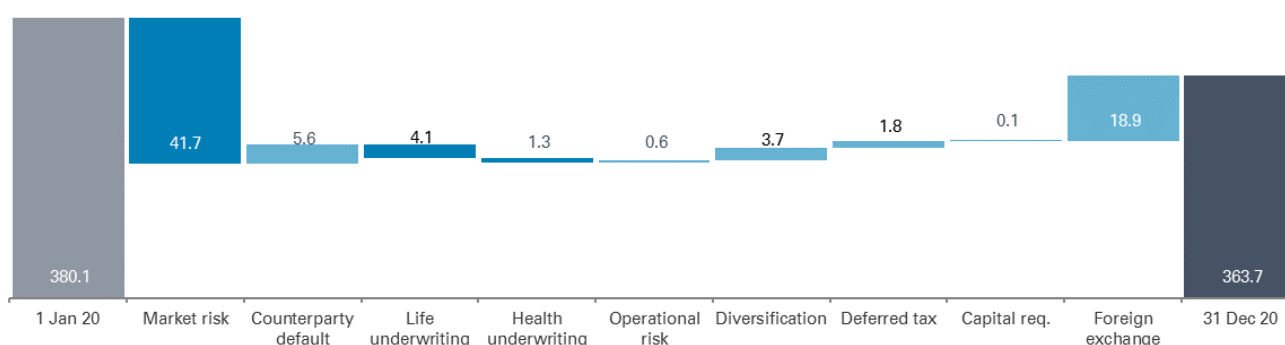
E.2.1 SCR and MCR analysis

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.

	Note	31 December 2020 £'000	31 December 2019 £'000	Changes in the year £'000
Market risk	1	265,651	295,322	(29,671)
Counterparty default risk	2	17,727	11,680	6,048
Life underwriting risk	3	199,745	192,081	7,663
Health underwriting risk	4	16,243	16,634	(391)
Diversification	5	(114,416)	(112,569)	(1,847)
Basic Solvency Capital Requirement		384,950	403,148	(18,198)
Operational risk	6	14,055	12,771	1,284
Loss-absorbing capacity of deferred taxes	7	(35,656)	(36,061)	405
Solvency Capital Requirement excluding capital add-on		363,349	379,858	(16,508)
Capital requirement for other financial sectors	8	369	280	88
Solvency capital requirement		363,718	380,138	(16,420)
Notional SCR for remaining part	9	337,605	350,438	(12,833)
Notional SCR for ring fenced funds	10	26,113	29,700	(3,587)
Minimum consolidated group solvency capital requirement	11	98,399	96,388	2,011

SCR movement during the year (in £m)



E. CAPITAL MANAGEMENT (CONTINUED)

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 2020							
	Country wide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Chesnara £'000	Diversific ation £'000	Total £'000
Market risk	75,090	95,916	4,896	38,464	79,669	(28,385)	265,651
Counterparty default risk	7,748	1,570	2,216	7,169	7	(983)	17,727
Life underwriting risk	53,860	74,635	10,756	82,406	8,292	(30,205)	199,745
Health underwriting risk	8,420	9,445	363	–	–	(1,985)	16,243
Diversification	(32,618)	(42,325)	(4,388)	(26,355)	(5,831)	(2,899)	(114,416)
Basic Solvency Capital Requirement	112,500	139,241	13,843	101,685	82,137	(64,456)	384,950
Operational risk	3,474	2,878	277	7,988	–	(562)	14,055
Loss-absorbing capacity of deferred taxes	(13,691)	–	(3,235)	(24,202)	–	5,472	(35,656)
Solvency Capital Requirement excluding capital add-on	102,283	142,119	10,885	85,471	82,137	(59,546)	363,349
Capital requirement for other financial sectors	–	369	–	–	–	–	369
Solvency capital requirement	102,283	142,488	10,885	85,471	82,137	(59,546)	363,718
Notional SCR for remaining part	76,170	142,488	10,885	85,471	82,137	(59,546)	337,605
Notional SCR for ring fenced funds	26,113	–	–	–	–	–	26,113
Minimum consolidated group solvency capital requirement	25,571	35,530	6,418	30,880			98,399

31 December 2019							
	Country wide Assured £'000	Movestic £'000	Waard Group £'000	Scildon £'000	Chesnara £'000	Diversific ation £'000	Total £'000
Market risk	81,983	104,831	7,375	33,780	102,665	(35,313)	295,322
Counterparty default risk	8,094	846	2,900	1,556	349	(2,065)	11,680
Life underwriting risk	58,075	74,748	5,189	69,891	6,189	(22,011)	192,081
Health underwriting risk	9,161	9,229	394	–	–	(2,150)	16,634
Diversification	(34,649)	(43,062)	(4,444)	(19,849)	(4,727)	(5,838)	(112,569)
Basic Solvency Capital Requirement	122,664	146,592	11,414	85,378	104,476	(67,376)	403,148
Operational risk	3,776	2,859	332	6,316	–	(512)	12,771
Loss-absorbing capacity of deferred taxes	(18,888)	–	(2,665)	(19,898)	–	5,390	(36,061)
Solvency Capital Requirement excluding capital add-on	107,551	149,451	9,081	71,797	104,476	(62,498)	379,858
Capital requirement for other financial sectors	–	280	–	–	–	–	280
Solvency capital requirement	107,551	149,731	9,081	71,797	104,476	(62,498)	380,138
Notional SCR for remaining part	77,851	149,731	9,081	71,797	104,476	(62,498)	350,438
Notional SCR for ring fenced funds	29,700	–	–	–	–	–	29,700
Minimum consolidated group solvency capital requirement	26,888	37,363	5,671	26,466			96,388

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

- **Note 1** The reduction in market risk is driven by two main impacts. Firstly, the currency risk capital has fallen by £23.5m, mostly due to a revision in the methodology for calculating risk capital on surplus assets. Equity risk capital fell by £15.8m, principally due to a change in WP asset allocations in CA and a small reduction in equity allocations in Movestic.
- **Note 2** Counterparty default risk has increased due to a rise in Scildon's mortgage holdings, which attract counterparty default exposure instead of credit risk.

E. CAPITAL MANAGEMENT (CONTINUED)

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

E.2.1 SCR and MCR analysis (continued)

- **Note 3** The increase in life risks is due to three main impacts. Expense risk has increased £8.6m owing to the increase in expense assumptions and a fall in interest rates. Catastrophe risk has increased by £7.4m, mostly due to Waard's implementation of a new reinsurance contract, but it has also increased in Movestic and Scildon due to the fall in interest rates and sale of new business. Mortality risk has increased by £4.8m due to an increase in Scildon's assumed mortality rates, the fall in interest rates and the growing portfolio of new business, although this was offset by the introduction of a new reinsurance contract on the term mortgage portfolio. Offsetting this is a £5.7m reduction in lapse risk, caused by a reduction in unit fund values on CA due to run off and an increase in assumed expenses.
- **Note 4** The change in health underwriting risk is immaterial.
- **Note 5** The amount of diversification between the risk modules has slightly increased even though the amount of risk capital held under each of the risk modules has fallen. This is because the risk capital is more evenly distributed following a large reduction in group currency risk.
- **Note 6** Operational risk capital has increased, notably in Scildon due to an increase in premiums due to growth in new business.
- **Note 7** The loss-absorbing capacity of deferred taxes has decreased in CA due to a reduction in deferred tax liabilities and supporting prior year tax gains, and the removal of expected future profits as a source of loss absorbency. There has been an offsetting increase in Scildon and Waard due to an increase in the Dutch corporation tax rate. Overall, the change in loss-absorbing capacity of deferred taxes is small.
- **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 all of the points listed above.
- **Note 10** The decrease in the notional SCR for ring fenced funds is attributable to a fall in market risk, in particular equity risk.
- **Note 11** The increase 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 Movestic, Waard and Scildon's holdings in EUR- and SEK-denominated assets and liabilities, which are not within scope of their local currency risk capital. This additional currency risk increases the SCR by £78.7m.

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 Funds	Basic Own Funds comprise the excess of assets over liabilities valued in accordance with the Solvency II principles.
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	Economic Value. This represents Solvency II own funds, adjusted for: <ul style="list-style-type: none"> – <i>Contract boundaries</i>: Solvency II rules do not allow for the recognition of future cash flows on certain policies despite a high probability of receipt. – <i>Risk margin</i>: The Solvency II rules require a 'risk margin' liability which is deemed to be above the realistic cost. – <i>Ring-fenced funds</i>: 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. – <i>Dividends</i>: On a Solvency II basis dividends are recognised when they are "foreseeable". For economic value purposes dividends are recognised when paid.
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
FUM	Funds under management
IFRS	International Financial Reporting Standards
GEC	Group Executive Committee
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 own-fund 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 arising 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 ensures 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	8,753,050
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	1,780,480,987
R0080	Property (other than for own use)	1,124,303
R0090	Holdings in related undertakings, including participations	1,071,554
R0100	Equities	
R0110	Equities – listed	
R0120	Equities – unlisted	
R0130	Bonds	1,094,997,142
R0140	Government Bonds	676,511,942
R0150	Corporate Bonds	418,485,200
R0160	Structured notes	
R0170	Collateralised securities	
R0180	Collective Investments Undertakings	681,862,443
R0190	Derivatives	679,407
R0200	Deposits other than cash equivalents	746,138
R0210	Other investments	
R0220	Assets held for index-linked and unit-linked contracts	6,698,488,279
R0230	Loans and mortgages	27,640,772
R0240	Loans on policies	483,737
R0250	Loans and mortgages to individuals	27,157,035
R0260	Other loans and mortgages	
R0270	Reinsurance recoverables from:	99,277,575
R0280	Non-life and health similar to non-life	3,361,525
R0290	Non-life excluding health	
R0300	Health similar to non-life	3,361,525
R0310	Life and health similar to life, excluding index-linked and unit-linked	49,826,085
R0320	Health similar to life	18,739,286
R0330	Life excluding health and index-linked and unit-linked	31,086,799
R0340	Life index-linked and unit-linked	46,089,965
R0350	Deposits to cedants	
R0360	Insurance and intermediaries receivables	14,349,158
R0370	Reinsurance receivables	22,370,691
R0380	Receivables (trade, not insurance)	20,138,746
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	114,145,799
R0420	Any other assets, not elsewhere shown	7,241,945
R0500	Total assets	8,792,887,002

G. ANNEX – QUANTITATIVE REPORTING TEMPLATES (CONTINUED)

S.02.01.02 - Balance Sheet (continued)

Liabilities		Solvency II Value
		C0010
R0510	Technical provisions - non-life	23,179,641
R0520	Technical provisions - non-life (excluding health)	
R0530	TP calculated as a whole	
R0540	Best Estimate	
R0550	Risk margin	
R0560	Technical provisions - health (similar to non-life)	23,179,641
R0570	TP calculated as a whole	
R0580	Best Estimate	22,953,638
R0590	Risk margin	226,003
R0600	Technical provisions - life (excluding index-linked and unit-linked)	1,083,276,295
R0610	Technical provisions - health (similar to life)	239,843,430
R0620	TP calculated as a whole	199,281,213
R0630	Best Estimate	36,556,119
R0640	Risk margin	4,006,098
R0650	Technical provisions - life (excluding health and index-linked and unit-linked)	843,432,865
R0660	TP calculated as a whole	
R0670	Best Estimate	785,498,805
R0680	Risk margin	57,934,060
R0690	Technical provisions - index-linked and unit-linked	6,848,334,143
R0700	TP calculated as a whole	6,536,672,264
R0710	Best Estimate	254,829,840
R0720	Risk margin	56,832,039
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	718,898
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	15,386,444
R0790	Derivatives	3,169
R0800	Debts owed to credit institutions	40,723,292
R0810	Financial liabilities other than debts owed to credit institutions	28,260,940
R0820	Insurance & intermediaries payables	116,194,445
R0830	Reinsurance payables	5,293,644
R0840	Payables (trade, not insurance)	40,849,361
R0850	Subordinated liabilities	
R0860	Subordinated liabilities not in BOF	
R0870	Subordinated liabilities in BOF	
R0880	Any other liabilities, not elsewhere shown	
R0900	Total liabilities	8,202,220,272
R1000	Excess of assets over liabilities	590,666,730

G. ANNEX – QUANTITATIVE REPORTING TEMPLATES (CONTINUED)

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

Non-Life

		Line of Business for: non-life insurance and reinsurance obligations (direct business and accepted proportional reinsurance)		Total
		Medical expense insurance	Income protection insurance	
		C0010	C0020	C0200
Premiums written				
R0110	Gross - Direct Business		1,318,976	1,318,976
R0120	Gross - Proportional reinsurance accepted			
R0130	Gross - Non-proportional reinsurance accepted			
R0140	Reinsurers' share		(61,164)	(61,164)
R0200	Net		1,380,141	1,380,141
Premiums earned				
R0210	Gross - Direct Business		1,328,163	1,328,163
R0220	Gross - Proportional reinsurance accepted			
R0230	Gross - Non-proportional reinsurance accepted			
R0240	Reinsurers' share		21,663	21,663
R0300	Net		1,306,500	1,306,500
Claims incurred				
R0310	Gross - Direct Business		(1,022,123)	(1,022,123)
R0320	Gross - Proportional reinsurance accepted			
R0330	Gross - Non-proportional reinsurance accepted			
R0340	Reinsurers' share		(598,172)	(598,172)
R0400	Net		(423,951)	(423,951)
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		225,857	225,857
R1200	Other expenses			
R1300	Total expenses			225,857

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

Life

		Line of Business for: life insurance obligations				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	18,658,480	3,707,224	456,903,857	134,346,795	613,616,356
R1420	Reinsurers' share	6,269,007	139,340	3,525,949	32,891,763	42,826,058
R1500	Net	12,389,473	3,567,884	453,377,908	101,455,032	570,790,298
Premiums earned						
R1510	Gross - Direct Business	19,853,795	3,707,224	456,903,857	134,240,570	614,705,447
R1520	Reinsurers' share	6,843,425	139,340	3,525,949	33,067,196	43,575,909
R1600	Net	13,010,370	3,567,884	453,377,908	101,173,375	571,129,538
Claims incurred						
R1610	Gross - Direct Business	27,550,007	37,608,640.88	627,399,595	82,260,386	774,818,629
R1620	Reinsurers' share	2,337,831	597,947	6,309,294	30,441,994	39,687,067
R1700	Net	25,212,176	37,010,694	621,090,300	51,818,392	735,131,563
Changes in other technical provisions						
R1710	Gross - Direct Business	-17,064,954	-32,421,789	49,882,964	59,281,057	59,677,278
R1720	Reinsurers' share	133,629	-1,893,804	164,980	10,745,660	9,150,466
R1800	Net	-17,198,584	-30,527,985	49,717,984	48,535,398	50,526,813
R1900	Expenses incurred	2,177,964	4,762,678	56,797,757	28,650,245	92,388,644
R2500	Other expenses					1,930
R2600	Total expenses					92,390,573

G. ANNEX – QUANTITATIVE REPORTING TEMPLATES (CONTINUED)

S.05.02.01 - Premiums, claims and expenses by country

Non-Life

	Home Country		Total Top 5 and home country
		SE	
	C0080	C0090	C0140
Premiums written			
R0110	Gross - Direct Business	1,318,976	1,318,976
R0120	Gross - Proportional reinsurance accepted		
R0130	Gross - Non-proportional reinsurance accepted		
R0140	Reinsurers' share	(61,164)	(61,164)
R0200	Net	1,380,141	1,380,141
Premiums earned			
R0210	Gross - Direct Business	1,328,163	1,328,163
R0220	Gross - Proportional reinsurance accepted		
R0230	Gross - Non-proportional reinsurance accepted		
R0240	Reinsurers' share	21,663	21,663
R0300	Net	1,306,500	1,306,500
Claims incurred			
R0310	Gross - Direct Business	(1,022,123)	(1,022,123)
R0320	Gross - Proportional reinsurance accepted		
R0330	Gross - Non-proportional reinsurance accepted		
R0340	Reinsurers' share	(598,172)	(598,172)
R0400	Net	(423,951)	(423,951)
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	225,857	225,857
R1200	Other expenses		
R1300	Total expenses		225,857

S.05.02.01 - Premiums, claims and expenses by country

Life

Life		Home Country			Total Top 5 and home country
			SE	NL	
		C0080	C0090	C0090	C0140
	Premiums written				
R0110	Gross - Direct Business	43,445,495	333,754,561	236,416,301	613,616,356
R0140	Reinsurers' share	16,803,368	6,439,218	19,583,472	42,826,058
R0200	Net	26,642,127	327,315,343	216,832,828	570,790,298
	Premiums earned				
R0210	Gross - Direct Business	43,445,495	333,703,297	237,556,655	614,705,447
R0240	Reinsurers' share	16,803,368	6,652,520	20,120,021	43,575,909
R0300	Net	26,642,127	327,050,776	217,436,634	571,129,538
	Claims incurred				
R0310	Gross - Direct Business	213,834,655	332,899,837	228,084,137	774,818,629
R0340	Reinsurers' share	24,771,636	2,021,104	12,894,326	39,687,067
R0400	Net	189,063,019	330,878,733	215,189,811	735,131,563
	Changes in other technical provisions				
R0410	Gross - Direct Business	(84,068,538)	80,219,253	63,526,564	59,677,278
R0440	Reinsurers' share	11,530,547		(2,380,082)	9,150,466
R0500	Net	(95,599,085)	80,219,253	65,906,645	50,526,813
R0550	Expenses incurred	18,242,090	37,814,956	36,331,598	92,388,644
R1200	Other expenses				1,930
R1300	Total expenses				92,390,573

G. ANNEX – QUANTITATIVE REPORTING TEMPLATES (CONTINUED)

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
R0010	Ordinary share capital (gross of own shares)	43,768,000	43,768,000			
R0020	<i>Non-available called but not paid in ordinary share capital at group level</i>					
R0030	Share premium account related to ordinary share capital	142,085,000	142,085,000			
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings					
R0050	Subordinated mutual member accounts					
R0060	<i>Non-available subordinated mutual member accounts at group level</i>					
R0070	Surplus funds					
R0080	<i>Non-available surplus funds at group level</i>					
R0090	Preference shares					
R0100	<i>Non-available preference shares at group level</i>					
R0110	Share premium account related to preference shares					
R0120	<i>Non-available share premium account related to preference shares at group level</i>					
R0130	Reconciliation reserve	381,823,182	381,823,182			
R0140	Subordinated liabilities					
R0150	<i>Non-available subordinated liabilities at group level</i>					
R0160	An amount equal to the value of net deferred tax assets					
R0170	<i>The amount equal to the value of net deferred tax assets not available at the group level</i>					
R0180	Other items approved by supervisory authority as basic own funds not specified above					
R0190	<i>Non available own funds related to other own funds items approved by supervisory authority</i>					
R0200	Minority interests (if not reported as part of a specific own fund item)					
R0210	<i>Non-available minority interests at group level</i>					
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						
R0220	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	1,088,555	1,088,555			
R0240	whereof deducted according to art 228 of the Directive 2009/138/EC					
R0250	Deductions for participations where there is non-availability of information (Article 229)					
R0260	Deduction for participations included by using D&A when a combination of methods is used					
R0270	Total of non-available own fund items					
R0280	Total deductions	1,088,555	1,088,555			
R0290	Total basic own funds after deductions	566,587,627	566,587,627			
Own funds of other financial sectors						
R0410	Credit Institutions, investment firms, financial institutions, alternative investment fund manager, financial institutions	1,088,555	1,088,555			
R0420	Institutions for occupational retirement provision					
R0430	Non regulated entities carrying out financial activities					
R0440	Total own funds of other financial sectors	1,088,555	1,088,555			

G. ANNEX – QUANTITATIVE REPORTING TEMPLATES (CONTINUED)

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
Available and eligible own funds						
R0520	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)	566,587,627	566,587,627			
R0530	Total available own funds to meet the minimum consolidated group SCR	566,587,627	566,587,627			
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)	566,587,627	566,587,627			
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	566,587,627	566,587,627			
R0590	Consolidated Group SCR	363,718,078				
R0610	Minimum consolidated Group SCR	98,399,231				
R0630	Ratio of Eligible own funds to the consolidated Group SCR (excluding other financial sectors and the undertakings included via D&A)	155.93%				
R0650	Ratio of Eligible own funds to Minimum Consolidated Group SCR	575.80%				
R0660	Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)	567,676,182	567,676,182			
R0670	SCR for entities included with D&A method					
R0680	Group SCR	363,718,078				
R0690	Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A	156.08%				
Reconciliation reserve						
R0700	Excess of assets over liabilities	590,667,103				
R0710	Own shares (held directly and indirectly)					
R0720	Foreseeable dividends, distributions and charges	21,444,354				
R0730	Other basic own fund items	185,853,000				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	1,546,568				
R0760	Reconciliation reserve	381,823,182				
Expected profits						
R0770	Expected profits included in future premiums (EPIFP) - Life business	219,047,713				
R0780	Expected profits included in future premiums (EPIFP) - Non- life business					
R0790	Total Expected profits included in future premiums (EPIFP)	219,047,713				

G. ANNEX – QUANTITATIVE REPORTING TEMPLATES (CONTINUED)

S.22.01.22 - Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
Available and eligible own funds						
R0010	Technical provisions	7,954,790,080			4,738,374	
R0020	Basic own funds	566,587,254			(4,020,709)	
R0050	Eligible own funds to meet Solvency Capital Requirement	567,675,809			(4,020,709)	
R0090	Solvency Capital Requirement	363,718,078			1,094,407	

G. ANNEX – QUANTITATIVE REPORTING TEMPLATES (CONTINUED)

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

		Gross solvency capital requirement	USP	Simplifications
		C0030	C0040	C0040
R0010	Market risk	265,650,816		
R0020	Counterparty default risk	17,727,404		
R0030	Life underwriting risk	199,744,798		
R0040	Health underwriting risk	16,242,957		
R0050	Non-life underwriting risk			
R0060	Diversification	(114,415,750)		
R0070	Intangible asset risk			
R0100	Basic Solvency Capital Requirement	381,610,299		
	Calculation of Solvency Capital Requirement			
R0130	Operational risk	14,055,183		
R0140	Loss-absorbing capacity of technical provisions			
R0150	Loss-absorbing capacity of deferred taxes	-35,655,863		
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC			
R0200	Solvency Capital Requirement excluding capital add-on	363,349,544		
R0210	Capital add-ons already set			
R0220	Solvency capital requirement	363,718,078		
	Other information on SCR			
R0400	Capital requirement for duration-based equity risk sub-module			
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	337,204,755		
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	26,112,712		
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios			
R0440	Diversification effects due to RFF nSCR aggregation for article 304			
R0470	Minimum consolidated group solvency capital requirement	98,399,231		
	Information on other entities			
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	368,534		
R0510	<i>Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies</i>	368,534		
R0520	<i>Institutions for occupational retirement provisions</i>			
R0530	<i>Capital requirement for non-regulated entities carrying out financial activities</i>			
R0540	Capital requirement for non-controlled participation requirements			
R0550	Capital requirement for residual undertakings			
	Overall SCR			
R0560	SCR for undertakings included via D&A			
R0570	Solvency capital requirement	363,718,078		

G. ANNEX – QUANTITATIVE REPORTING TEMPLATES (CONTINUED)

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	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 Kapitalförvaltning 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	7245000HKSZJZFYZ7K89	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		
				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	22210057DCXUGJZDR829	LEI	Movestic Fund Management S.A.	100.00%	100.00%	100.00%		Dominant	100.00%
SE	5493002MRIRVRUHV4O57	LEI	Movestic Kapitalförvaltning 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	7245000HKSZJZFYZ7K89	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%

G. ANNEX – QUANTITATIVE REPORTING TEMPLATES (CONTINUED)

S.32.01.22 - Undertakings in the scope of the group (continued)

Country	Identification code of the undertaking	Type of code of the ID of the undertaking	Legal Name of the undertaking	Inclusion in the scope of Group supervision		Group solvency calculation
				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 Plc	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	22210057DCXUGJZDR829	LEI	Movestic Fund Management S.A.	Included in the scope		Method 1 – Full consolidation
SE	5493002MRIRVRUHV4O57	LEI	Movestic Kapitalförvaltning 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	7245000HKSZJZFYO7K89	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