

31 March 2022

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Chesnara plc

STRONG CASH GENERATION, ROBUST SOLVENCY AND GROWTH

Chesnara plc today reports its full year 2021 results. Key highlights are:

- Strong commercial cash generation of £53.0m
- Robust solvency of 152%
- Growth in EcV of £57.8m (before impact of FX and dividend), an increase of 9%
- Proposed 3% increase to the full year dividend
- IFRS pre-tax profit of £28.8m

Commenting on the results, Steve Murray, Group CEO said:

"It has been a year of good delivery across Chesnara in 2021. We've seen material cash generation, allowing us to increase our dividend by a further 3% - the 17th successive year of progressive growth. The business has grown, including through the profitable writing of new business; and we announced two acquisitions, Sanlam Life and Pensions and Robein Leven, which we expect to complete in the first half of 2022. Looking forward, we have clear line of sight to multiple sources of cash generation and have a variety of growth value levers at our disposal. We remain optimistic about our ability to participate in future M&A, particularly following our inaugural £200m Tier 2 debt raise."

A FY results presentation is being held at 9:30am on 31 March 2022 – participants can register [here](#).

Further details on the financial results are as follows:

2021 FINANCIAL HIGHLIGHTS

GROUP CASH GENERATION

- Commercial cash⁽¹⁾ generation of £53.0m in 2021 (2020: £27.7m) represents 156% dividend coverage.
- 2021 cash generation includes c£23m as a direct result of management actions.
- The results during the year, combined with balance sheet strength and the financial outlook, support a further year of dividend growth. The Board is recommending a 2021 final dividend of 14.7p per share (2021 total dividend of 22.6p), which is a 3% increase compared to 2020 and extends the period of uninterrupted dividend growth to 17 years.
- Enhanced detail in our Report & Accounts and Investor Presentation shows a clear line of sight of future cash emergence in the form of: real world returns, solvency capital requirement run off and management actions, which is more than sufficient to fund the continuation of the dividend model and Tier 2 coupon payments.

FINANCIAL STABILITY

- A closing Solvency II ratio of 152% (31 December 2020: 156%) remains comfortably within our normal operating range of between 140-160%. The ratio does not benefit from any transitional adjustments. Conversely the ratio is impacted by a high closing symmetric adjustment⁽²⁾ which is expected to reverse over time. Looking through this temporary impact, the Solvency II ratio would be 160%.
- Since the year end, we have raised £200m of Tier 2 debt. Post this debt raise and including the estimated impact of completing the acquisitions announced in the year, we estimate a Solvency II ratio of 182%. This is not expected to be a new long term sustained level, but it does create solvency capacity to undertake further acquisitions.
- Estimated Fitch leverage ratio⁽³⁾ of 6.4% as at 31 December 2021 is estimated to have increased to c30.4% as a result of the Tier 2 debt and acquisitions.

DELIVERING GROWTH

- Economic value earnings before FX of £57.8m (2020: £(37.6)m) more than covers the annual dividend.
- Economic value of £624m has marginally reduced over the year due to foreign exchange losses which reversed similar sized gains in 2020. Including the expected gains on completion of the acquisitions announced in the year, the results show modest post dividend Economic Value growth.
- Two notable acquisitions were announced during the year: one in the UK and one in the Netherlands. Post completion of these deals, pro forma results deliver growth in both Funds Under Management (41% increase⁽⁴⁾ to £12.3bn) and policies in force (8% increase to 967,000) compared to the end of 2020. Increased scale will enhance operational efficiency and increase the longevity of the business model.
- Multiple sources of growth create a long-term commercial value which is significantly in excess of the reported Economic Value.
- IFRS net assets remained stable, closing at £0.5bn (2020: £0.5bn)

IFRS PRE-TAX PROFITS

- IFRS pre-tax profit increased to £28.8m in 2021 (2020: £24.6m).

DIVIDEND DETAILS

- The recommended final dividend of 14.7p per share is expected to be paid on 24 May 2022. The ordinary shares will be quoted ex-dividend on the London Stock Exchange as of 7 April 2022. The record date for eligibility for payment will be 8 April 2022.

STRATEGIC OUTLOOK

Upon completion of the acquisitions announced in 2021, the Chesnara group will have grown significantly in terms of both Funds under Management and policies in force, compared to the position at the start of the year.

Sources of future cash and growth also remain strong. In particular, the outlook for acquisitions is positive. We expect the market to be active and we have taken actions to enhance our opportunity to participate in that market.

Since the year end, we have completed our inaugural Tier 2 debt raise, raising £200m with a 10.5-year term at a competitive coupon of 4.75%. The strengthening of the team from an M&A perspective, alongside the increased funding capacity creates an increased level of confidence that we can enhance the growth potential from our existing businesses with additional growth through acquisitions.

Notes:

Note 1 **Commercial cash generation** removes components of the cash generation in the group's divisions relating to technical complexities, modelling issues or exceptional corporate activity (e.g. acquisitions). The result excluding such items is deemed to better reflect the underlying commercial outcome (commercial cash generation).

- Note 2 The **symmetric adjustment** is a factor that requires standard formula firms to hold proportionally extra capital following periods of equity growth and proportionally less capital in falling equity markets.
- Note 3 The **leverage ratio** is a financial measure that demonstrates the degree to which the company is funded by debt financing versus equity capital, presented as a ratio. It is defined as debt divided by debt plus equity, as measured under IFRS.
- Note 4 Increases quoted as compared to the 31 December 2020 year end position.

The Board approved this statement on 30 March 2022.

Enquiries

Steve Murray, Chief Executive, Chesnara plc - 01772 972079

David Rimmington, Group Finance Director, Chesnara plc – 01772 972079

Roddy Watt, FWD Consulting – 0207 623 2368 / 07714 770493

Notes to Editors

Chesnara is a life and pensions company listed on the London Stock Exchange. It administers approximately one million policies with the assets under management spread broadly equally across businesses in the UK, the Netherlands and Sweden. Chesnara operates as Countrywide Assured in the UK, as The Waard Group and Scildon in the Netherlands, and as Movestic in Sweden.

Following a three pillar strategy, Chesnara's primary responsibility is the efficient administration of its customers' life and savings policies, ensuring good customer outcomes and providing a secure and compliant environment to protect policyholder interests. It also adds value by writing profitable new business in Sweden and the Netherlands and by undertaking value-adding acquisitions of either companies or portfolios.

Consistent delivery of the Company strategy has enabled Chesnara to increase its dividend for 16 years in succession.

Further details are available on the Company's website (www.chesnara.co.uk).

CAUTIONARY STATEMENT

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

2021 HIGHLIGHTS

GROUP CASH GENERATION £20.3M 2020 £27.7M

COMMERCIAL CASH GENERATION £53.0M 2020 £27.7M

Group cash generation of £20.3m (2020: £27.7m) has been suppressed by a number of technical items including a temporary increase in capital requirements as a direct consequence of the symmetric adjustment (which requires more capital following periods of good equity growth). Looking through such technical matters we report a strong Commercial cash generation of £53.0m (2020: £27.7m)

GROUP SOLVENCY 152% 2020 156%

We are well capitalised at both group and subsidiary level under Solvency II. Our group solvency has remained robust and stable through a wide range of market conditions over the last few years.

FUNDS UNDER MANAGEMENT £9.1BN 2020 £8.5BN

2021 saw strong equity market growth, which supported an increase in our Funds Under Management.

ECONOMIC VALUE £624.2M 2020 £636.8M

EcV earnings of £57.8m were offset by the impact of dividend distributions of £33.3m (2020: £32.3m) and a foreign exchange loss of £37.1m (2020: gain of £36.7m).

ECONOMIC VALUE EARNINGS £57.8M 2020 £(37.6)M

The year-on-year swing is predominantly due to changing economic conditions.

COMMERCIAL NEW BUSINESS PROFIT £9.6M 2020 £10.5M

Profits of £9.6m provide c30% coverage of the dividend payments in the year, as a result of new business written during 2021. The results remain somewhat impacted by COVID-19 conditions and we retain an expectation of post COVID-19 recovery. Despite market challenges new business has created £21.9m of incremental future cash flow expectations (2020: £21.9m).

IFRS PRE-TAX PROFIT £28.8M 2020 £24.6M

This includes profits arising from operating activities of £40.7m (2020: £30.6m). The 2020 results included an intangible asset impairment charge of £27.6m.

IFRS TOTAL COMPREHENSIVE INCOME £3.8M 2020 £43.3M

The 2021 result includes a foreign exchange loss of £23.9m (2020: gain of £22.6m).

FULL YEAR DIVIDEND INCREASED FOR THE 17TH CONSECUTIVE YEAR

Total dividends for the year increased by 3% to 22.60p per share (7.88p interim and 14.72p proposed final). This compares with 21.94p in 2020 (7.65p interim and 14.29p final).

EQUITY MARKET GROWTH DELIVERS ECONOMIC RETURNS, OFFSETTING THE NEGATIVE IMPACT OF STERLING STRENGTHENING

The 'post-pandemic' market recovery continued with further growth across most indices throughout 2021, resulting in a solid year of investment returns. Equity market growth, alongside rising interest rates and bond yields, have supported strong economic returns in each of the operating divisions. Sterling appreciation against the euro and Swedish krona over the year has led to material foreign exchange translation losses, reversing similar scale gains in 2020. The results fully reflect the impact of inflationary pressure up to the end of 2021. Since the year end, we have seen downward pressure on equities, yield increases and further increases to inflation. In line with our sensitivities, we would expect a continued stable solvency position, albeit the Economic Value will have reduced.

THE GROUP CONTINUES TO EXPAND THROUGH M&A

During 2021 we announced two further acquisitions. The acquisition of Sanlam Life & Pensions UK, which is expected to complete in the first half of 2022 and will add c£3bn of FuM. Growth in the Netherlands also continued within the Waard Group, with the completion of the Brand New Day portfolio acquisition. The announcement of the acquisition of Robein Leven NV, also due to complete in 2022, will bring Waard's total policy count to c133,000, representing a 142% increase compared to the policies in force on entry to the Dutch market. We remain optimistic about the outlook for future deals.

OPERATIONAL GROWTH DELIVERED IN POLICIES AND FUM

Despite two of our divisions being closed to new business, at a consolidated level the group has delivered operational growth with increases in both policies and Funds Under Management (FuM). Pro-forma the impact of the announced acquisitions, three-year policy growth will be 9%, while FuM have increased 59% over the same period, a rise of £4.5bn.

These financial highlights include the use of Alternative Performance Measures (APMs) that are not required to be reported under International Financial Reporting Standards.

1 – Economic profit is a measure of pre-tax profit earned from investment market conditions in the period and any economic assumption changes in the future.

2 – Operating profit is a measure of the pre-tax profit earned from a company's ongoing core business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future.

3 – Funds Under Management (FuM) represents the sum of all financial assets on the IFRS balance sheet.

4 – Economic Value (EcV) is a financial metric derived from Solvency II. 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.

5 – Economic Value earnings are a measure of the value generated in the period, recognising the longer-term nature of the group's insurance and investment contracts.

6 – Commercial new business represents the best estimate of cash flows expected to emerge from new business written in the period. It is deemed to be a more commercially relevant and market consistent measurement of the value generated through the

writing of new business, in comparison to the restrictions imposed under the Solvency II regime.

7 – Group cash generation represents the surplus cash that the group has generated in the period. Cash generation is largely a function of the movement in the solvency position, used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.

8 – Divisional cash generation represents the cash generated by the three operating divisions of Chesnara (UK, Sweden and the Netherlands), exclusive of group level activity.

9 – Commercial cash generation is used as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed. It excludes the impact of technical adjustments, modelling changes and corporate acquisition activity; representing the group's view of the Commercial cash generated by the business.

MEASURING OUR PERFORMANCE

Throughout our Report & Accounts we use measures to assess and report how well we have performed. The range of measures is broad and includes many measures that are not based on IFRS. The financial analysis of a life and pensions business also needs to recognise the importance of Solvency II figures, the basis of regulatory solvency. In addition, the measures aim to assess performance from the perspective of all stakeholders.

FINANCIAL ANALYSIS OF A LIFE AND PENSION BUSINESS

The IFRS results form the core of the Report & Accounts and hence retain prominence as a key financial performance metric. However, this Preliminary Announcement also adopts several Alternative Performance Measures (APMs).

These measures compliment the IFRS metrics and present additional insight into the financial position and performance of the business, from the perspective of all stakeholders.

The non-IFRS APMs have at their heart the Solvency II valuation known as Own Funds and, as such, all major financial APMs are derived from a defined rules-based regime. The list below shows the core financial metrics that sit alongside the IFRS results, together with their associated KPIs and interested parties.

FINANCIAL STATEMENT KPIS:

- IFRS net assets
- IFRS profits

ADDITIONAL METRICS:

- Solvency
 - Own Funds
 - Solvency Capital Requirement (SCR)
 - SCR plus management buffer
 - Solvency position (absolute value)
 - Solvency position ratio
- Cash generation
 - Group cash generation
 - Divisional cash generation
- Economic Value
 - Balance sheet
 - Earnings
- New business
 - EcV
 - Commercial

SOLVENCY

Solvency is a fundamental financial measure which is of paramount importance to investors and policyholders. It represents the relationship between the value of the business as measured on a Solvency II basis and the capital the business is required to hold - the Solvency Capital Requirement (SCR). Solvency can be reported as an absolute surplus value or as a ratio.

Solvency gives policyholders comfort regarding the security of their provider. This is also the case for investors together with giving them a sense of the level of potential surplus available to invest in the business or distribute as dividends (subject to other considerations and approvals).

ECONOMIC VALUE

Economic Value (EcV) is deemed to be a more meaningful measure of the long-term value of the group than Own Funds. In essence, the IFRS balance sheet is not generally deemed to represent a fair commercial value of our business as it does not fully recognise the impact of future profit expectations of long-term policies.

EcV is derived from Solvency II Own Funds and recognises the impact of future profit expectations from existing business.

An element of the EcV earnings each period is the Economic Value of new business. By factoring in real world investment returns and removing the impact of risk margins, the group determines the value of new business on a commercial basis.

CASH GENERATION

Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.

Group cash generation is calculated as the movement in the group's surplus Own Funds above the group's internally required capital, as determined by applying the group's capital management policy, which has Solvency II rules at its heart.

Divisional cash generation represents the movement in surplus own funds above local capital management policies within the three operating divisions of Chesnara. Divisional cash generation is used as a measure of how much dividend potential a division has generated, subject to ensuring other constraints are managed.

Commercial cash generation excludes the impact of technical adjustments, modelling changes and corporate acquisition activity; representing the group's view of cash generated by the business.

OPERATIONAL AND OTHER PERFORMANCE MEASURES

In addition to the financial performance measures, this Report & Accounts includes measures that consider and assess the performance of all our key stakeholder groups. The table below summarises the performance measures adopted throughout the Report & Accounts.

MEASURE	WHAT IS IT AND WHY IS IT IMPORTANT?
Customer service levels	How well we service our customers is of paramount importance and so through various means we aim to assess customer service levels. The business reviews within the Report & Accounts refer to a number of indicators of customer service levels.
Broker satisfaction	Broker satisfaction is important because they sell our new policies, provide ongoing service to their customers and influence book persistency. We include several measures within the Report & Accounts, including direct broker assessment ratings for Movestic and general assessment of how our brands fare in industry performance awards in the Netherlands.
Policy investment performance	This is a measure of how the assets are performing that underpin policyholder returns. It is important as it indicates to the customer the returns that their contributions are generating, and options available to invest in funds that focus on environmental, social and governance factors.
Industry performance assessments	This is a comparative measure of how well our investments are performing against the rest of the industry, which provides valuable context to our performance.
Funds under management	This shows the value of the investments that the business manages. This is important because scale influences operational sustainability in run-off books and operational efficiency in growing books. Funds under management are also a strong indicator of fee income.
Policy count	Policy count is the number of policies that the group manages on behalf of customers. This is important to show the scale of the business, particularly to provide context to the rate at which the closed book business is maturing. In our open businesses, the policy count shows the net impact of new business versus policy attrition.
Total shareholder returns	This includes dividend growth and yield and shows the return that an investor is generating on the shares that they hold. It is highly important as it shows the success of the business in translating its operations into a return for shareholders.
New business profitability	This shows our ability to write profitable new business which increases the value of the group. This is an important indicator given one of our core objectives is to "enhance value through profitable new business".
New business market share	This shows our success at writing new business relative to the rest of the market and is important context for considering our success at writing new business against our target market shares.
Gearing ratio	The gearing is a ratio of debt to IFRS net assets and shows the extent to which the business is funded by external debt versus internal resources (defined as debt divided by debt plus equity). The appropriate use of debt is an efficient source of funding.
Knowledge, skills and experience of the Board of	This is a key measure given our view that the quality, balance and effectiveness of the board of directors has a direct bearing on delivering positive outcomes to all stakeholders. This includes holding the management teams accountable for the delivery of set objectives and the proper assessment of known and emerging risks and opportunities, e.g., those arising from climate change.

* For the purposes of this key performance indicator assessment business partners refers to major suppliers and outsource partners.

CHAIR'S STATEMENT

Despite the general level of uncertainty and challenges that have prevailed over much of 2021, we have achieved a huge amount during the year. This, coupled with the successful debt raise at the start of 2022, leaves me confident about the continued success of the Chesnara group.

LUKE SAVAGE, CHAIR

CASH EMERGENCE, DIVIDEND AND FINANCIAL STABILITY

Chesnara has a strong track record over its history of delivering cash generation across a variety of market conditions. 2021 has been no different and this delivery has supported 17 years of continued dividend growth for our shareholders.

Financial stability is at the heart of the Chesnara business and its financial model. First and foremost, it is fundamental to providing financial security to our customers. Strong and stable solvency is also critical to the investment case for both equity and debt investors. In light of this, I am pleased to report the continuation of our stable solvency track record.

The closing Solvency II ratio of 152% (which does not adopt any of the temporary benefits available from Solvency II transitional arrangements) is well within our target operating range. The ratio is underpinned by a well-diversified business model, a focus on responsible risk-based management and resilient and reliable cash flows from businesses. These factors have again enabled our divisions to propose dividends to the group sufficient to support a continuation of our attractive shareholder dividend.

PEOPLE

Operating conditions remained difficult in 2021 with continued COVID-19 related restrictions. The fact that we have continued to operate so effectively is testament to the professionalism, flexibility and diligence of staff across all of our territories. I would like to take this opportunity to again thank every member of our team for their remarkable level of resilience. We intend to continue our hybrid working model in 2022 and this will provide staff with the undoubted benefits of face-to-face team interaction and will also provide an increased level of flexibility which will help with work/life balance.

During the year, John Deane announced his retirement as CEO. During John's time at Chesnara, we continued the uninterrupted dividend growth track record and the post dividend Economic Value¹ increased by 50%. Perhaps just as importantly, John navigated the group through a challenging period of regulatory change and review and of course the huge challenges brought by the COVID-19 pandemic. John leaves the group with solid foundations for Steve Murray, our new CEO, to lead Chesnara through the next stage of its development. Steve's background and track record in delivering successful M&A activity gives me confidence that there is a promising future ahead for Chesnara.

We have also had changes in our non-executive team with Veronica Oak retiring in January 2022. Veronica, who was also Chair of the Remuneration Committee, served nine years as a director of the group and has been a fundamental part of the Chesnara success story over that period.

My fellow directors and I sincerely thank John and Veronica for their dedication and contribution to the group. We wish them both a long, enjoyable and happy retirement.

Replacing Veronica, we have appointed two new independent non-executive directors, Carol Hagh and Karin Bergstein, bringing a wealth of experience to the group. We are delighted to have attracted two highly talented individuals with such diverse expertise and experience. Their insight and skills, particularly from an international perspective, will be of significant benefit to the group as we continue to execute our ambitious strategy and deliver value to our policyholders and shareholders.

PURPOSE

At Chesnara, we help protect customers and their dependents through the provision of life, health, and disability cover or by providing savings and pensions to meet future financial needs. These are very often customers that have come to us through acquisition, and we are committed to ensuring they are positively supported by us.

We have always managed our business in a responsible way and have a strong sense of acting in a fair manner, giving full regard to the relative interests of all stakeholders.

Our equity investors are a key stakeholder, and I am pleased that we have been able to propose a 3% increase in total dividend.

We have always been fully respectful of Environmental, Social and Governance ('ESG') matters. In particular, we have positioned governance as being a core foundation to the business model and have a well-established governance framework.

Over recent years we have increased our focus on environmental matters. We have reduced our operational carbon footprint to net neutral and continue to identify areas to reduce this further. All residual direct carbon usage is fully offset. We have started the journey regarding transitioning assets to support a net zero outcome. In particular, in Sweden, which has the largest proportion of our assets, we have commenced a shift to a more sustainable investment profile. We are however hugely aware of the need to do more and it is increasingly recognised that the financial services industry has an incredibly important role to play in the fight against climate change. At Chesnara, not only do we commit to increasing the formality and visibility of ESG matters. We aim to ensure we deliver the necessary real-world change in the way we operate and the assets we manage.

OUTLOOK

Like many others around the world, we have watched the unfolding events in Ukraine with shock and horror. We hope the conflict can be ended quickly but recognise that however quickly the immediate situation is resolved it will take years for those impacted to rebuild their lives. To help those impacted by the troubles, the group has made donations totalling £50,000 predominantly to the Disaster Emergency Committee's Ukraine Appeal.

We have no shareholder assets invested in Russia and have confirmed that our major partners and suppliers also have no material exposure to Russia. None of our customers are subject to sanctions imposed on the back of the invasion of Ukraine.

For as long as the conflict and associated sanctions persist, we expect markets to be more volatile. Our 2021 results yet again demonstrate the continued ability of the business to generate cash across a variety of market conditions to fund shareholder dividends and interest payments. The line of sight for future cash generation is strong.

Upon completion of the acquisitions announced in 2021, the Chesnara group will have grown significantly in terms of both Funds under Management and policies in force compared to the position at the start of the year.

Sources of future growth also remain strong. In particular, the outlook for acquisitions is positive. We expect the market to be active and we have taken actions to enhance our opportunity to participate in that market. Our new CEO, Steve Murray has strong M&A credentials and the appointment of Sam Perowne into a new Head of Strategic Development role brings further experience, with his previous role being Head of Corporate Strategy and M&A at Phoenix.

Since the year end, we have completed our inaugural Tier 2 debt raise, raising £200m with a 10.5-year term at a competitive coupon of 4.75%. The strengthening of the team from an M&A perspective, alongside the increased funding capacity creates an increased level of confidence that we can enhance the growth potential from our existing businesses with additional growth through acquisitions.

Luke Savage,
Chair
30 March 2022

CHIEF EXECUTIVE OFFICER'S REPORT

It's been another good year of performance at Chesnara with strong Commercial cash generation supported by strong and stable solvency. Looking forward, we have clear line of sight to future sources of cash generation and remain positive about the outlook for acquisitions.

STEVE MURRAY, CEO

INTRODUCTION & RESULTS

I am delighted to introduce my first CEO report since joining last year. I wanted to start with what we focus on strategically every day here at Chesnara through our teams and partners across the UK and Europe.

We do three things:

1. We run in force insurance and pensions books efficiently and effectively. We look after c876,000 policyholders and customers who have c£9.1bn of their assets with us;
2. We seek out and deliver value enhancing M&A opportunities. 9 acquisitions over our history so far with two further deals announced in the second half of 2021. These deals once completed will add a further £3.2bn of Funds Under Management in the UK, increasing total group assets by 35%, and 90,000 policyholders (c10% increase) to the group. Our Tier 2 debt raise of £200m (in February 2022) provides further financial flexibility to support further acquisitions; and
3. We write focused, profitable new business where we are satisfied an appropriate return can be made. Our medium-term aim is to cover c50% of the total dividend from new business profits.

Remaining focussed on these areas in 2021 has resulted in another good year of delivery at Chesnara, with IFRS pre-tax profits of £28.8m (2020: £24.6m) and presents us with positive growth opportunities as we look further forward. Looking at our key performance metrics in turn:

CONTINUED DELIVERY OF RESILIENT CASH GENERATION AND STABLE SOLVENCY

At the heart of the Chesnara financial model and investment case is resilient cash generation and stable solvency.

RESILIENT CASH GENERATION

We yet again delivered positive group cash generation in 2021 of £20.3m (2020: £27.7m). As a reminder, we define cash as the movement in the group's surplus Own Funds above the group's internally required capital. This surplus can be impacted by equity markets and currency movements in the near term. In 2021, group cash generation was adversely impacted by £26.1m by factors such as the symmetric adjustment (SA) a feature of the Solvency II Standard Formula whereby additional capital needs to be held following periods of strong equity growth which we have seen this year. And we also experienced a £14.3m negative impact from foreign exchange (FX) movements (2020: £14.1m gain) primarily as a result of sterling strengthening against both the Swedish krona and the euro.

To get a better sense of the inherent cash generation in Chesnara, our alternative Commercial cash metric looks through the SA and FX translation impacts, along with other less material technical impacts, (see Financial Review section for more detailed cash generation analysis). All divisions have delivered material levels of Commercial cash with total Commercial cash generation of £53.0m (2020: £27.7m) well above the dividend and interest funding cash cost in 2021 of £34.3m. This continues to illustrate the ongoing inherent cash generative nature of the businesses, a key feature of Chesnara over the last 17 years.

Commercial cash generation by division:

£m	2021
CA	47.7
Movestic	1.9
Scildon	6.0
Waard	3.0
£m	Cumulative 2019-2021
CA	118.6
Movestic	22.1
Scildon	47.1
Waard	8.0

Based on this cash generation and despite the symmetric adjustment strain, the divisions have proposed aggregate dividends of £38.6m against a dividend payment to shareholders of £33.9m.

COMMERCIAL CASH GENERATION IN 2021 REPRESENTS 156% COVERAGE OF THE TOTAL DIVIDEND

The Chesnara parent company cash and instant access liquidity fund balance at 31 December remains healthy at £46.1m, and further supports the sustainability of the funding of the group dividend. Cash reserves have increased further as a result of the post year end Tier 2 debt raise.

Looking forward, we have a strong line of sight to future cash generation from the unwind of risk margin and SCR, investment returns above risk free rates, wider synergies, management actions and potential acquisition activity.

STABLE AND ROBUST SOLVENCY

The strong and stable track record for solvency has continued through 2021.

	Solvency ratio %*	Solvency surplus £m
2017	146	193.4
2018	158	202.4
2019	155	210.8
2020	156	204.0
2021	152	190.7

*Preferred operating solvency range = 140% to 160%

The closing headline solvency ratio of 152% remains comfortably within our target operating range of between 140% and 160%. This solvency ratio does not adopt any of the temporary benefits available from Solvency II transitional arrangements. Conversely, the ratio is impacted by the symmetric adjustment; a feature of the Solvency II Standard Formula whereby additional capital needs to be held following periods of strong equity growth. The adjusted solvency, looking through the symmetric adjustment (which is expected to reverse over time) is 160%.

Looking forward, during the second quarter of 2022, we expect to complete the acquisitions of Sanlam Life & Pensions and Robein Leven. In addition, in February we raised £200m of Tier 2 debt at a coupon of 4.75%. The estimated solvency ratio including the impact of these post balance sheet events is estimated to be in excess of 180%. This will not be the new long-term position as we expect to utilise this additional capital surplus when we take value adding actions, which should result in the ratio reverting back within the robust and stable 140% to 160% historical range.

THE OUTLOOK FOR GROWTH REMAINS POSITIVE, PARTICULARLY THROUGH M&A

Over the medium term, we expect all components of the growth model to be positive, although there can be a level of shorter-term volatility in each element.

A key element of the growth model is real world investment returns. The reported EcV of the group assumes risk free returns on shareholder and policyholder assets. Over time, as we have seen historically, we expect average returns in excess of risk free. In 2021 this represented growth of c£110m. Valuing the group assuming relatively conservative returns above risk free, for example an average 5% equity returns per annum, would add significantly upwards of £150m of incremental EcV.

FOCUSED WRITING OF NEW BUSINESS

Writing new business is the third area of focus in the Chesnara strategy. Not only is new business value adding in its own right, importantly it adds scale which in turn enhances operational effectiveness and improves the sustainability of the financial model. Even under the current difficult conditions, we have seen Commercial new business profits of c£10m. New business has also been a key component in the overall 19% increase in Movestic's FuM and new business volumes have driven a 7% growth in policy numbers in Scildon.

Over time, we expect improvements to operational effectiveness to be a source of value creation, be that through M&A synergies, scale or other positive management actions. Over recent years, including 2021, we have suffered some operational losses particularly relating to investments made in systems (especially in Scildon), some regulatory changes, and higher than expected pension transfer outflows in Sweden.

The outflows in Sweden are fully recognised in the closing figures; and further changes in transfer regulations are anticipated to come into force in July 2022. These are expected to have a positive impact on the Movestic transfer ratio with books that were not previously open to transfers becoming open. All of Movestic's existing unit linked books are already open to transfers. Along with COVID-19 impacts on broker behaviour, we know a large driver of the higher recent outflows was more aggressive pricing from a competitor. The competitor has retracted their special offer pricing from 1 January 2022, and early indications support our confidence of a material rebalance to the transfer ratio in 2022.

EACH DIVISION HAS DELIVERED EcV GROWTH

All divisions delivered positive growth during the year, with a total growth in divisional EcV (before dividends and FX movements) of £62.3m (2020: £19.6m loss) and a total growth in group EcV before dividend and FX movements of £57.8m (2020: £37.6 loss). The acquisitions that were announced during 2021, which are expected to complete in the first half of 2022, are expected to add approximately £15m of EcV on completion and importantly will also enhance longer term cash and value creation prospects from the sources of growth detailed above.

We have also grown our Funds Under Management (FuM) in 2021 with positive equity markets providing positive support here. We expect FuM post completion of Sanlam and Robein Leven to be over £12bn for the first time in Chesnara's history.

OVER £203m OF EcV GROWTH, EXCLUDING DIVIDEND PAYMENTS AND FOREX MOVEMENTS, SINCE 2016

Growth in FuM

Funds Under Management	£bn
2017	7.7
2018	7.1
2019	7.7
2020	8.5
2021	9.1

Growth in policies in force

Policies	000's
2019	891
2020	894
2021	877
2021 pro forma acquisitions	967

Note: acquisitions included in the charts above were announced in 2021 and expected to complete in 2022.

AN INCREASED FOCUS ON ACQUISITION ACTIVITY

The primary purpose of Chesnara when it was formed back in 2004 was to acquire other closed book businesses. Acquisition activity has been a core component of our historical EcV growth. They create growth through any price to EcV discount and also improve the future growth outlook by enhancing the potential from the other elements for the 'value growth source fan'.

Successful acquisitions have been key to Chesnara's development and will remain so in the future. During 2021, we announced two acquisitions, Robein Leven in the Netherlands and Sanlam Life and Pensions in the UK. Robein Leven will add further scale to the Dutch closed book operations and Sanlam will increase the UK Funds Under Management¹ by £2.9bn (128% increase). Together they are expected to add Economic Value¹ of c£15m on completion and additional steady cash generation potential of c£6m per annum.

Looking back at historic deals and the value we have created from them provides us with further confidence in our ability to add value through acquisitions in current and new territories.

**CASE STUDY 1 –
ENTERING THE DUTCH CLOSED BOOK MARKET**

We entered the Dutch closed book market with the purchase of Waard in 2015 for £50.1m. We have subsequently acquired and successfully consolidated three further closed books which have been self-funded by capital residing in Waard. Despite the natural run-off of a closed book, we expect to have over 133k policies in force on completion of Robein Leven acquisition compared to 56k policies in force in 2015. If we add back the total dividend payments made by Waard since acquisition, we have a closing EcV of £110m which represents an 220% return on the initial investment.

**CASE STUDY 2 –
ENTERING THE SWEDISH MARKET**

Chesnara paid £22.1m¹ in 2009 for Movestic when it had £962m² of Funds Under Management and an Embedded Value of £91m³. When adjusted for capital injections and dividends paid, as at the end of 2021, Movestic has an adjusted EcV of £255m and £4.4bn of Funds Under Management. This demonstrates a 10-fold return on the initial investment.

¹ - the purchase price includes the purchase of Moderna and Aspis

² - the Embedded Value and assets under management of Movestic is taken as the 31 December 2009 position)

CONFIDENCE IN OUR ABILITY TO EXECUTE M&A IN THE FUTURE

We remain optimistic about the prospect of future acquisitions and believe that we can deliver more transformational deals looking forward. Equally smaller deals, especially if well-priced, can and do have a material positive cumulative impact, as the case studies above show.

2021 saw an active M&A market across European insurance with sources of capital (particularly through private equity firms) readily available to support transactions, large international insurance groups refocusing their strategies away from legacy businesses and management teams that actively managed their business portfolios getting rewarded by shareholders.

Whilst events in Ukraine may dampen the M&A market in the short term, we expect the high activity levels we have seen in insurance M&A to continue. A market with plenty of activity provides lots of opportunity for Chesnara as a consolidator. We continue to believe there is also likely to be a little less competition in the sub £500m valuation deal end of the market that we currently participate in.

We have taken further steps to enhance our ability to execute M&A further. The recent appointment of a new Head of Strategic Development & Investor Relations, Sam Perowne, who starts with us in April will provide us with further experience in this area. We

have also raised £200m of Tier 2 debt which, which after paying down existing debt and funding the Sanlam Life & Pensions UK deal, gives us capacity in terms of liquidity and solvency to fund deals of c£100m directly from our own balance sheet. Our revolving credit facility that sits alongside the longer-term debt creates an additional level of working capital flexibility. For more transformational deals, we retain the ability to raise equity and are mindful of the potential benefits from other funding arrangements such as joint ventures or vendor part-ownership.

Our assessment of the market potential, our track record of delivery and the actions we have taken to enhance our ability to execute M&A means we are confident that acquisitions will continue to contribute to Chesnara's success in the future.

MORE TO DO ON ESG

We believe that positive outcomes for any particular stakeholder at the cost of inappropriate outcomes for other stakeholders is not acceptable. Our Section 172 reporting demonstrates how we actively consider a broad range of stakeholder outcomes when making key decisions.

Looking at our current position on ESG, we believe we start from a relatively positive position with regards to our carbon footprint (direct and indirect). And we can point to positive progress in a number of areas of our business on environmental matter, for example, further development of our 'green' funds in Movestic and enhanced reporting on ESG matters through our UK fund management partner Schroders. Equally we are increasingly aware that we need to drive further change to support the just transition we all need to make and that the change has to be meaningful in relatively short order.

More formality is required around some of our processes and disclosures to make sure we inform and educate our stakeholders about what we are doing well and to validate our opinion that, at least for now, our environmental credentials are sound. We also need to enhance our disclosures and more importantly, we need to better define meaningful and transparent action plans with clear targets and to demonstrate how we are delivering those plans and the impacts they are having. In 2022, we have established a group wider programme of work to accelerate our efforts in this area.

We recognise that the financial services sector has to play a significant role in addressing climate change and are fully committed to playing our part (see our TCFD report within the CSR section).

OUTLOOK

Chesnara has a fantastic track record of sustainable long term cash generation over its history through recessions, pandemics, global financial crisis and other variable market conditions. 2021 has seen us continue this impressive record of cash generation.

It is impossible to look forward and not reflect on what is happening in Ukraine. Trying to explain to my three young children with any logic or sense how a war of this nature is being waged in this modern age is a futile exercise. Our thoughts and prayers are with the people of Ukraine at this difficult time. As Luke highlighted in his report, we have made a donation to the DEC for the people of Ukraine and assured ourselves that our assets, operations and partners are not exposed directly to Russia. We will continue to actively manage and monitor this position and have offered further support for our people with family in Ukraine.

The war in Ukraine has played a large role in the volatile start to the year we have seen across global markets. The Chesnara business model has delivered cash generation in uncertain markets before, and we have confidence it will do so going forward. The strong line of sight we have to future cash generation is even more important in the current environment as do the variety of value levers we continue to have at our disposal.

We have ambitious plans to grow the business and I have been delighted to hear that our people across the group share an ambition to grow further, particularly through acquisitions, and continue our impressive record of cash generation.

I want to thank them for all their remarkable efforts during what has been another tough and troubling period. And with their continued drive and determination, I have every confidence that the future remains bright for Chesnara.

Steve Murray,
Chief Executive Officer
30 March 2022

STRATEGIC REPORT

OVERVIEW OF STRATEGY

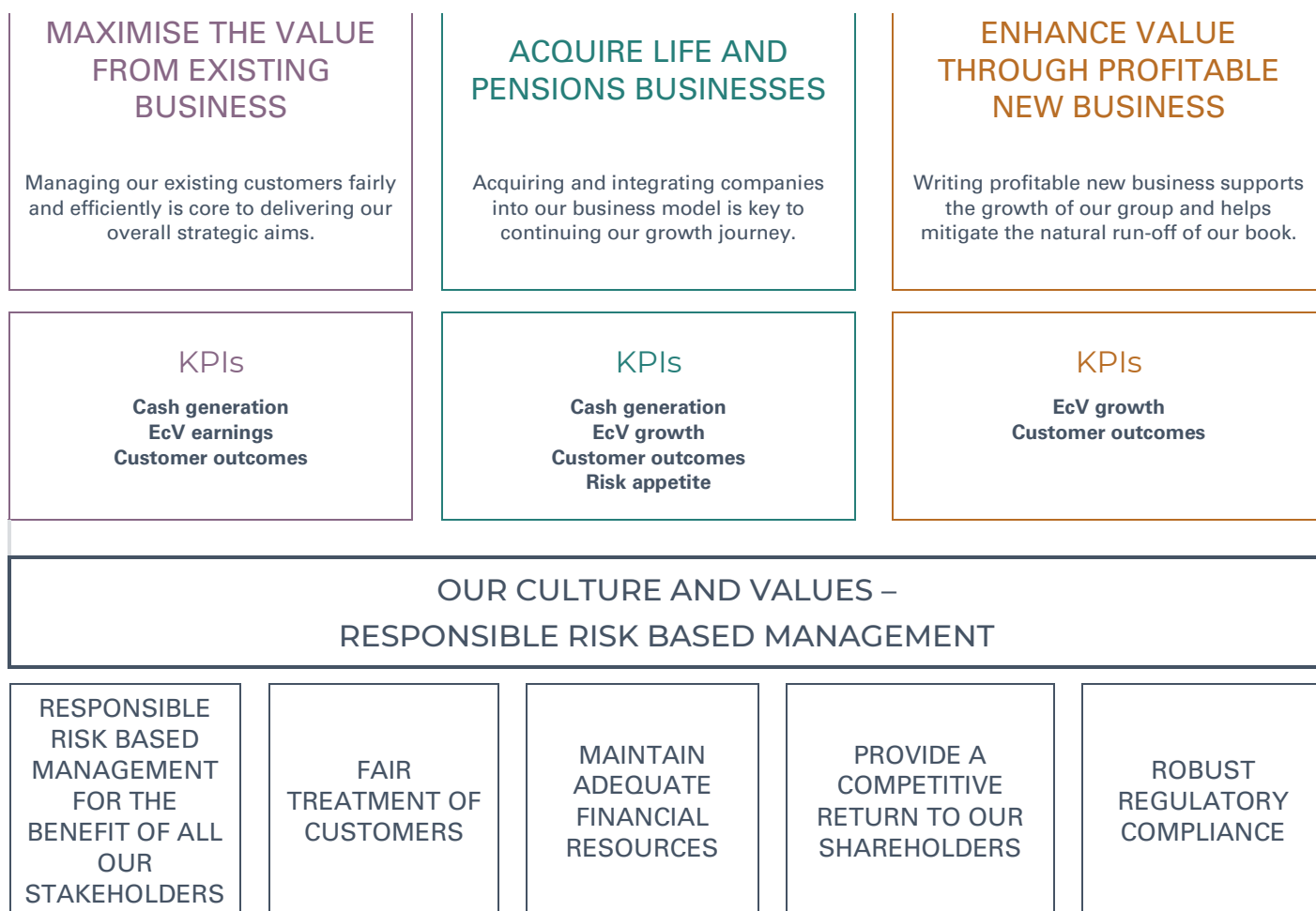
Our strategy focuses on delivering value to customers and shareholders through our three strategic pillars, executed across our three territories.

STRATEGIC OBJECTIVES

1.

2.

3.



BUSINESS REVIEW | UK

The UK division principally consists of the insurance company Countrywide Assured plc. The company manages c219,000 policies and is in run-off. Countrywide Assured follows an outsourcer-based operating model, with functions such as customer services, investment management and accounting and actuarial services being outsourced. A central governance team is responsible for managing all outsourced operations.

MAXIMISE VALUE FROM EXISTING BUSINESS

CAPITAL AND VALUE MANAGEMENT

BACKGROUND INFORMATION

As a closed book, the division creates value through managing the following key value drivers: costs; policy attrition; investment return; and reinsurance strategy.

In general, surplus regulatory capital emerges as the book runs off. The level of required capital is closely linked to the level of risk to which the division is exposed. Management's risk-based decision-making process seeks to continually manage and monitor the balance of making value enhancing decisions whilst maintaining a risk profile in line with the board's risk appetite.

At the heart of maintaining value is ensuring that the division is governed well from a regulatory and customer perspective.

INITIATIVES AND PROGRESS IN 2021

- Entered into a new arrangement during year to reinsure the vast majority of its annuity liabilities, which has reduced the division's exposure to longevity risk. The immediate impact of this arrangement was to increase the solvency surplus of the division by £3.5m.
- Implemented a refinement to its investment approach for assets backing some of its non-linked policies. This has sought to improve the return on investments whilst maintaining an appropriate level of risk. In conjunction with this the division has implemented the Volatility Adjustment ("VA") when calculating its solvency position, following approval by the PRA that was granted during the year. Implementing both at the same time reduces short term solvency volatility that can arise from movements in credit spreads.
- Applied the new industry rules of using the Sterling Overnight Interbank Average Rate ('SONIA') to discount its regulatory liabilities rather than the London Interbank Offered Rate ('LIBOR'). This impact was a decrease in solvency surplus by £5.4m.
- Approved the plan to transfer actuarial services currently provided by Capita to Willis Towers Watson, who currently service the rest of the UK book. This is planned to be delivered in time for half year 2022 reporting.

- The Economic Value of the division, excluding the impact of dividend distributions, has increased by £28.0m since the start of the year.
- Supported our shareholder in the acquisition process for Sanlam Life & Pensions, whilst also ensuring that the existing division continues to be appropriately governed.

FUTURE PRIORITIES

- Once the acquisition has completed, bring the Sanlam business into the wider UK division in an efficient manner, and continue the planning for delivering the longer-term operating model.
- Continue to focus on maintaining an efficient and cost-effective operating model.
- Continue to support Chesnara in identifying and delivering UK acquisitions.

KPIs

Economic Value

£m	2017	2018	2019	2020	2021
EEV / EcV	255.5	214.7	204.6	187.4	181.9
Cumulative dividends		32.0	91.0	120.0	153.5
Total	255.5	246.7	295.6	307.4	335.4

Cash generation

£m	2017	2018	2019	2020	2021
Cash generation	34.5	55.8	33.6	29.5	27.4

CUSTOMER OUTCOMES

BACKGROUND INFORMATION

Treating customers fairly is one of our primary responsibilities. We seek to do this by having effective customer service operations together with competitive fund performance whilst giving full regard to all regulatory matters. This supports our aim to ensure policyholders receive good returns, appropriate communication, and service in line with customer expectations.

INITIATIVES AND PROGRESS IN 2021

- A key priority for the year has been to continue to ensure we meet the needs of our customers during the ongoing pandemic.
- The operational resilience programme continued to be progressed throughout 2021. This has enabled us to meet the first regulatory deadline of 31 March 2022.
- Work to ensure we do what is reasonably expected of us to stay in contact with customers continues, together with activity to reunite customers with unclaimed assets. Focus will remain on these activities during 2022.

FUTURE PRIORITIES

- The operational resilience programme is a multi-year project and will continue to be a key priority to ensure we meet the final regulatory deadline of 31 March 2025.
- Following the acquisition of Sanlam Life & Pensions, work will commence on transition of the business to CA and our standard operating model.
- In February 2022, the FCA published its second consultation paper on Consumer Duty, with the final policy statement expected in July 2022. A gap analysis is being performed and we will complete any actions required to ensure we meet the FCA's expectations.

KPIs

Policyholder fund performance

	2021	2020
CA Pension Managed	10.8%	3.0%
CWA Balanced Managed Pension	10.8%	2.9%
S&P Managed Pension	10.4%	1.6%
Benchmark - ABI Mixed Inv 40%-85% shares	10.8%	4.7%

Throughout the year our main managed funds performed well and in line with industry benchmarks.

GOVERNANCE

BACKGROUND INFORMATION

Maintaining effective governance and a constructive relationship with regulators underpins the delivery of the division's strategic plans.

Having robust governance processes provides management with a platform to deliver the other aspects of the business strategy. As a result, a significant proportion of management's time and attention continues to be focused on ensuring that both the existing governance processes, coupled with future developments, are delivered.

INITIATIVES AND PROGRESS IN 2021

- The governance oversight team and a large portion of the outsourced staff have needed to continue to work remotely over the majority of 2021.
- Successfully delivered against 2021 plans regarding the group's multi-year IFRS 17 programme. The calculation engine went live for user acceptance testing and the division completed a dry run during the second half of the year. We have continued to work with our auditors on the technical decisions underpinning the implementation.

FUTURE PRIORITIES

- Oversee the completion of the Sanlam acquisition and its integration into the division. Whilst initially the operating models will be relatively independent, initial focus will be on ensuring appropriate oversight over the business and aligning our systems of governance and corporate responsibilities map.
- From an IFRS 17 point of view, 2022 is a critical year. Activity will focus on calculating the opening balance sheet position at 1 January 2022 as well as continuing with the operational implementation at both head office and within our outsourcers.

KPIs

SOLVENCY RATIO: 158%

Surplus generated in the year increases solvency ratio from 130% to 158%. After the dividend, due to be paid in 2022, the ratio is 130%.

	£m	Solvency Ratio
31 Dec 2020 surplus	30.9	130%
Surplus generation	27.0	
31 Dec 2021 surplus (pre-dividend)	58.0	158%
2021 dividend	(27.5)	
31 Dec 2021 surplus	30.5	130%

BUSINESS REVIEW | SWEDEN

Movestic is a life and pensions business based in Sweden and is open to new business. From its Stockholm base, Movestic operates as an innovative brand in the Swedish life insurance market. It offers personalised unit-linked pension and savings solutions through brokers and is well-rated within the broker community.

MAXIMISE VALUE FROM EXISTING BUSINESS

CAPITAL AND VALUE MANAGEMENT

BACKGROUND INFORMATION

Movestic creates value predominantly by generating growth in the unit-linked Funds Under Management (FuM), whilst assuring a high-quality customer proposition and maintaining an efficient operating model. FuM growth is dependent upon positive client cash flows and positive investment performance. Capital surplus is a factor of both the value and capital requirements and hence surplus can also be optimised by effective management of capital.

INITIATIVES AND PROGRESS IN 2021

- Investment markets were characterised by a strong upward trend on global stock exchanges, while interest rates remained historically low during 2021.
- The favourable developments on the stock market were reflected in the returns on the policyholders' investment assets.
- During 2021, Movestic has continued to diversify its distribution channels and business model through strengthening its offer and distribution within the custodian business and extended cooperation has been entered into with custody institutions in the Swedish market. The business volume has grown significantly, with FuM having increased by 22% to a total of £ 4.4bn.
- Policyholder transfers continue to be a feature of the business due to new regulations that limit the amount that can be charged when transferring policies and the competitive Swedish market. The negative trend for the transfer ratio has continued, with an impact on EcV, but the net client cashflows remain positive. The company has continued its focus on business retention activity.
- 2021 has continued to be marked by the COVID-19 pandemic and the business has reserved for the uncertainties of future development and the effect on employee absence and longer or more severe sickness claims due to postponed operations.

FUTURE PRIORITIES

- Continue the journey of digitalising and automating processes, with a view to improving both efficiency and control.
- Continue to develop more digitalised and customised customer propositions and experience.
- Strengthen capabilities and distribution capacity within custodian and direct business, as a complement to the broker channel.
- Increased focus on retention and to reverse the transfer ratio seen in 2021.

KPIs (all comparatives have been presented using 2021 exchange rates)

Economic Value

£m	2017	2018	2019	2020	2021
Reported value	224.9	212.8	253.4	225.0	244.9
Cumulative dividends		2.5	5.3	11.5	20.8
Total	224.9	215.3	258.6	236.5	265.7

CUSTOMER OUTCOMES

BACKGROUND INFORMATION

Movestic provides personalised long-term savings, insurance policies and occupational pensions for individuals and business owners. We believe that recurring independent financial advice increases the likelihood of a solid and well-planned financial status, hence we are offering our products and services through advisors and licenced brokers.

INITIATIVES AND PROGRESS IN 2021

- Policyholder average investment return were 23.3% (2020: 2.7%) arising from investments in equity, interest bearing securities and hedge funds.
- Broker and customer servicing have been a key focus during the pandemic. The company has continued the efforts to ensure effective servicing during the remote working environment.
- Increased demands on digital processes and availability have also led to the division increasing efforts to create services, such as customised advice, for both customers and brokers.
- The allocation of funds away from equity seen in 2020 was reversed during the year showing a renewed confidence in equity markets.
- During the year, the company's unit-linked products were classified as 'Article 8' products under the EU regulation on Sustainability disclosure, i.e., they promote environmental or social characteristics by customers choosing to invest their capital in funds with such focus.

FUTURE PRIORITIES

- Continue to develop new solutions and tools to support the brokers' value enhancing customer proposition.
- Strengthen the relationship with brokers further and continue to develop improved functionality and digital administration self-services for brokers.
- Pursue a broader distribution with brokers within risk product and custodian business.
- Broaden product and service offering to match relevant customer segments.

KPIs (all comparatives have been presented using 2021 exchange rates)

Broker assessment rating (out of 5)

	2017	2018	2019	2020	2021
Rating	3.7	3.8	3.5	3.3	3.6

Following the broker assessment review we have conducted our own satisfaction surveys. These surveys gave a more positive result in 2021 than in 2020, and constructive feedback helped identify further actions as we continue to work on improving broker satisfaction.

POLICYHOLDER AVERAGE INVESTMENT RETURN:

23.3%

GOVERNANCE

BACKGROUND INFORMATION

Movestic operates to exacting regulatory standards and adopts a robust approach to risk management.

Maintaining strong governance is a critical platform to delivering the various value-enhancing initiatives planned by the division.

INITIATIVES AND PROGRESS IN 2021

- Dealing with the impact of COVID-19 has continued to be a key management focus.
- The company has ensured that it is operating in line with local government guidelines, which has been working from home, if possible, for part 2021. However, restrictions have eased during parts of the year and the company has established a more permanent way of working and considered the new experience and insights gained because of the pandemic.
- Sustainability Reporting has been a major focus area and the Disclosure Regulation was applied in March 2021. The company has made all relevant actions to be compliant and to improve the communication and value proposition to customers and brokers.

- The implementation of IFRS17 for group purposes has continued during 2021 and the company has analysed the scope and impact of IFRS17 on its product portfolio, actuarial models, systems, and overall financial statements.

FUTURE PRIORITIES

- The COVID-19 situation will continue to be monitored closely, with a return to the office working in 2022, though arrangements will remain under continuous review.
- Continue delivering the IFRS17 implementation program.

KPIs (all comparatives have been presented using 2021 exchange rates)

SOLVENCY RATIO: 148%

Solvency remains strong.

	£m	Solvency Ratio
31 Dec 2020 surplus	74.9	158%
Surplus generation	0.9	
31 Dec 2021 surplus	75.8	148%

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

BACKGROUND INFORMATION

As an “open” business, Movestic not only adds value from sales but as it gains scale, it will become increasingly cash generative which will fund further growth or contribute towards the group’s attractive dividend. Movestic has a clear sales focus and targets a market share of 6% -10% of the advised occupational pension market. This focus ensures we are able to adopt a profitable pricing strategy.

INITIATIVES AND PROGRESS IN 2021

- Movestic reported commercial new business profit of £4.3m (2020: £1.6m) which consists largely of sales volumes within custodian business but also from increased sales, and increased increments and spontaneous premiums due to inter alia salary and bonus processes being postponed from 2020 to 2021.
- Sales activities were higher across the market during 2021 and Movestic sales volumes were more than 100% above 2020. The high growth was mainly generated through the new partnership with Carnegie within the custodian business, as opposed to our more traditional broker led occupational pension products. Movestic will continue to develop its offering to increase competitiveness and build customer loyalty for the future.

FUTURE PRIORITIES

- Continued focus on sales activities and competitive offerings in the broker channel.
- Strengthen capabilities and distribution capacity within custodian and direct business.
- Ongoing development of the products and digital services for relevant customer segments and delivery of new functionality on web platforms to improve customer and broker experience.
- Capitalise on the opportunities expected when transfer back barriers are removed during the year.

KPIs (all comparatives have been presented using 2021 exchange rates)

Occupational pension market share %

%	2017	2018	2019	2020	2021
Market share	7.6	6.6	6.5	4.5	3.6

New business profit*

£m	2017	2018	2019	2020	2021
New business profit	11.0	11.2	7.0	1.6	4.3

**New business figures from 2018 onwards represent commercial new business. Values prior to this are retained at that which they were previously reported.*

BUSINESS REVIEW | NETHERLANDS

Our Dutch businesses aim to deliver growth and earnings through their dual closed and open book approach and through the group acquisition strategy will integrate portfolios and

businesses into their operations.

MAXIMISE VALUE FROM EXISTING BUSINESS

CAPITAL AND VALUE MANAGEMENT

BACKGROUND INFORMATION

Both Waard and Scildon have a common aim to make capital available to the Chesnara group to fund further acquisitions or to contribute to the dividend funding. Whilst their aims are common, the dynamics by which the businesses add value differ:

- Waard is in run-off and has the benefit that the capital requirements reduce in-line with the attrition of the book.
- As an "open business", Scildon's capital position does not benefit from book run-off. It therefore adds value and creates surplus capital through writing new business and by efficient operational management and capital optimisation.

INITIATIVES AND PROGRESS IN 2021

- Waard completed the acquisition of a portfolio of policies from Brand New Day and has migrated them onto its systems.
- Waard has also entered into an agreement, subject to regulatory approval, to acquire Robein Leven, a specialist provider of traditional and linked savings products, mortgages and annuities.
- Both businesses continue to report strong solvency positions. Scildon remains strong at 192%. Waard continued to maintain significant solvency levels, the ratio ending the year at 399%.
- Scildon entered into a new catastrophe risk reinsurance contract and renegotiated its reinsurance for the term assurance business, with the benefit of improving the capital efficiency of the division.
- Following agreement from the DNB and reflective of the strong solvency position of the company, we have reduced the solvency buffer in Waard to 150% for dividend eligibility purposes.

FUTURE PRIORITIES

- Integrate the new acquisition into the Waard business and continue to support Chesnara in identifying and delivering Dutch acquisitions.
- Effective management of the closed book run-off in Waard to enable ongoing dividend payments to Chesnara.
- Continue to deliver the ongoing IT development programme in Scildon.

KPIs (all comparatives have been presented using 2021 exchange rates)

Economic Value – The Netherlands

£m	2017	2018	2019	2020	2021
EcV	256.4	209.4	217.5	204.6	212.7
Cumulative dividends		33.3	41.2	46.0	46.0
Total	256.4	242.8	258.7	250.6	258.7

CUSTOMER OUTCOMES

BACKGROUND INFORMATION

Great importance is placed on providing customers with high quality service and positive outcomes.

Whilst the ultimate priority is the end customer, in Scildon we also see the brokers who distribute our products as being customers and hence developing processes to best support their needs is a key focus.

INITIATIVES AND PROGRESS IN 2021

- A key focus during the year has been ensuring that we provide flexible solutions and offerings to our clients and our people to ensure we continue to meet the needs of our customers during the ongoing COVID-19 pandemic.
- Scildon has launched its group pensions portal during 2021 following the migration and digitalisation of its policy administration system. This work will continue during 2022 for which the expected costs are included within the 2021 year end position. The remaining products will remain on existing platforms with further digitalisation and improvements to the customer offering being assessed.

FUTURE PRIORITIES

- Regular engagement with customers to improve service quality and to enhance and develop existing processes, infrastructure and customer experiences in Scildon.

KPIs (all comparatives have been presented using 2021 exchange rates)

Scildon client satisfaction rating (out of 10)

	2017	2018	2019	2020	2021
Rating	7.6	7.7	7.8	8.1	8.1

GOVERNANCE

BACKGROUND INFORMATION

Waard and Scildon operate in a regulated environment and comply with rules and regulations both from a prudential and from a financial conduct point of view.

INITIATIVES AND PROGRESS IN 2021

- We have engaged with the regulator throughout the year and the business continued its enhanced monitoring of key measures, such as claims and customer service, to ensure performance levels were maintained during the pandemic.
- In line with auditor rotation requirements, Waard and Scildon have completed an audit tender process and have appointed EY to replace Deloitte for the 2022 audit.
- The IFRS 17 and IFRS 9 programme has continued to progress in line with plans.

FUTURE PRIORITIES

- For IFRS 17, 2022 is a year that will see us finalising technical and operational changes and perform dry runs of the group's numbers.

KPIs (all comparatives have been presented using 2021 exchange rates)

SOLVENCY RATIO: SCILDON 192%; WAARD 399%

Solvency is robust in both businesses, with post-dividend solvency ratios of 192% and 399% for Scildon and Waard respectively.

Scildon

	£m	Solvency Ratio
31 Dec 2020 surplus	62.3	178%
Surplus generation	12.8	
31 Dec 2021 surplus (pre-dividend)	75.1	
2021 dividend	(5.0)	
31 Dec 2021 surplus	70.1	192%

Waard

	£m	Solvency Ratio
31 Dec 2020 surplus	34.3	438%
Surplus generation	5.1	
31 Dec 2021 surplus (pre-dividend)	39.4	454%
2021 dividend	(6.1)	
31 Dec 2021 surplus	33.3	399%

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

BACKGROUND INFORMATION

Scildon brings a "New business" dimension to the Dutch division. Scildon sell protection, individual savings and group pensions contracts via a broker-led distribution model. The aim is to deliver meaningful value growth from realistic market share. Having realistic aspirations regarding volumes means we are able to adopt a profitable pricing strategy. New business also helps the business maintain scale and hence contributes to unit cost management.

INITIATIVES AND PROGRESS IN 2021

- Despite a tough and uncertain market, we continue to generate commercial new business profits, with £5.2m earned in the year. The market remains challenging but we have a solid base to take advantage.
- Underpinning this, Scildon APE and policy count continue to increase, now with in excess of 218,00 policies. Also, whilst in a reduced market size, the term market share for Scildon has increased to 16.1% (2020: 14.2%).
- We continue to grow our portfolio through our white labelling relationship with Dazure (a distribution partner), demonstrating a positive additional route to market to enable us to service more policyholders.

FUTURE PRIORITIES

- Continue to deliver product innovation and cost management actions to ensure we meet our full potential in terms of new business value.
- Consider alternative routes to market that do not compromise our existing broker relationships, such as further product white labelling.

KPIs (all comparatives have been presented using 2021 exchange rates)

Scildon – term assurance market share %

%	2017	2018	2019	2020	2021
Market share	7.3	7.6	11.6	14.2	16.1

Scildon – new business profit*

£m	2017	2018	2019	2020	2021
New business profit	2.0	1.9	4.8	7.9	5.2

**New business figures from 2018 onwards represent commercial new business. Values prior to this are retained at that which they were previously reported.*

BUSINESS REVIEW | ACQUIRE LIFE AND PENSION BUSINESSES

Well considered and appropriately priced acquisitions maintain the effectiveness of the operating model, create a source of value enhancement and sustain the cash generation potential of the group.

HOW WE DELIVER OUR ACQUISITION STRATEGY

- Identify potential deals through an effective network of advisers and industry associates, utilising both group and divisional management expertise as appropriate.
- We primarily focus on acquisitions in the UK and Netherlands, although will consider other territories should the opportunity arise and this is supportive of our strategic objectives.
- We assess deals applying well established criteria which consider the impact on cash generation and Economic Value under best estimate and stressed scenarios.
- We work cooperatively with regulators.
- The financial benefits are viewed in the context of the impact the deal will have on the enlarged group's risk profile.
- Transaction risk is reduced through stringent risk-based due diligence procedures and the senior management team's acquisition experience and positive track record.
- We fund deals with a combination of debt, equity or cash depending on the size and cash flows of each opportunity and commercial considerations.

HOW WE ASSESS DEALS

Cash generation

- Collectively our future acquisitions must be suitably cash generative to continue to support Chesnara delivering attractive dividends.

Value enhancement

- Acquisitions are required to have a positive impact on the Economic Value per share in the medium term under best estimate and certain more adverse scenarios.

Customer outcomes

- Acquisitions must ensure we protect, or ideally enhance, customer interests.

Risk appetite

- Acquisitions should normally align with the group's documented risk appetite. If a deal is deemed to sit outside our risk appetite the financial returns must be suitably compelling.

INITIATIVES AND PROGRESS IN 2021

During 2021, Chesnara has been successful in its two key markets. With two deals in the Netherlands (Brand New Day completed on 15 April 2021 and Robein Leven announced on 25 November 2021) and a further transaction in UK (Sanlam Life & Pensions announced on 13 September 2021).

In total these three transactions were reported to increase Chesnara EcV by c£17m, with further value that is not captured within EcV expected, and our expectation is an increase of cash generation of c£7m p.a. under steady state conditions. These demonstrate that Chesnara is able to source transactions, is seen within the market as an attractive buyer of life and pension businesses and is able to acquire on terms that provide financially beneficial outcomes to Chesnara.

We continue to see an attractive pipeline within our key territories. To support our ability to continue to acquire businesses, we announced on 2 February 2022 the successful inaugural Tier 2 subordinated debt raise of £200m. This improves Chesnara's position in three ways:

- Chesnara, post repayment of existing debt and consideration of the Sanlam transaction, has capital available to deploy quickly for transactions;
- Chesnara strengthens its solvency position, which creates capacity for further transactions; and

- iii) Allows Chesnara to develop a relationship with debt investors and create optionality for future financing of transactions.

ACQUISITION OUTLOOK

- Despite the COVID-19 restrictions, we have continued to see a healthy flow of acquisition activity in the year across European insurance including UK and the Netherlands. Sources of capital particularly from private equity have remained high.
- We recognise that the consolidation markets in these countries are mature but the key general drivers for the owners of portfolios to offload business continue to remain relevant and create a strong pipeline. These includes better uses of capital (e.g. return to investors or supporting other business lines), operational challenges (e.g. end of life systems), management distraction, regulatory challenges, business change (e.g. IFRS 17) and wider business and strategic needs.
- Our expectation is that portfolio transactions become more likely; a number came to market in 2021. Our strong expertise and knowledge in the markets, good regulatory relationships and the flexibility of our operating model means that Chesnara is very well placed to manage the additional complexity associated with these portfolio transfers and provide beneficial outcomes for all stakeholders. These transactions may not be suitable for all potential consolidators, in particular those who do not have existing licenses in these territories.
- Chesnara will continue its robust acquisition assessment model which takes into account; (a) the price compared to the EcV; (b) the cash generation capability; (c) the strategic fit; and (d) the risks within the target. We will also continue to assess the long-term commercial value of acquisitions as part of our objective to maximise the value from in-force business.
- The subordinated debt raise in February 2022 as well as the £100m Revolving Credit Facility arrangement, with a £50m accordion option entered into in July 2021 provide funding capability on commercially attractive terms and enable us to provide strong returns to investors. We will continue to explore how we can increase our funding capability further, including consideration of partnerships
- Our good network of contacts in the adviser community, who understand the Chesnara acquisition model, supported by our engagement activity with potential targets, ensures that we are aware of most viable opportunities in the UK and Western Europe. With this in mind, we are confident that we are well positioned to continue the successful acquisition track record in the future.

CAPITAL MANAGEMENT | SOLVENCY II

Subject to ensuring other constraints are managed, surplus capital is a useful proxy measure for liquid resources available to fund items such as dividends, acquisitions or business investment. As such, Chesnara defines cash generation as the movement in surplus, above management buffers, during the period.

What is solvency and capital surplus?

- Solvency is a measure of how much the value of the company exceeds the level of capital it is required to hold.
- The value of the company is referred to as its "Own Funds" (OF) and this is measured in accordance with the rules of the newly adopted Solvency II regime.
- The capital requirement is again defined by Solvency II rules and the primary requirement is referred to as the Solvency Capital Requirement (SCR).
- Solvency is expressed as either a ratio: **OF/SCR %** or as an absolute surplus **OF less SCR**

WHAT ARE OWN FUNDS?

A valuation which reflects the net assets of the company and includes a value for future profits expected to arise from in-force policies.

The Own Fund valuation is deemed to represent a commercially meaningful figure with the exception of:

- **Contract boundaries:** Solvency II rules do not allow for the recognition of future cash flows on certain policies despite a high probability of receipt.
- **Risk margin:** The Solvency II rules require a "risk margin" liability which is deemed to be above the realistic cost.
- **Restricted with profit surpluses:** Surpluses in the group's with-profit funds are not recognised in Solvency II Own Funds despite their commercial value.

We define Economic Value (EcV) as being the Own Funds adjusted for the items above. As such our Own Funds and EcV have many common characteristics and tend to be impacted by the same factors.

Transitional measures, introduced as part of the long-term guarantee package when Solvency II was introduced, are available to temporarily increase Own Funds. Chesnara does not take advantage of such measures, however we do apply the volatility adjustment within our Dutch and UK divisions.

How do Own Funds change?

Own Funds (and Economic Value) are sensitive to economic conditions. In general, positive equity markets and increasing yields lead to OF growth and vice versa. Other factors that improve OF include writing profitable new business, reducing the expense base and improvements to lapse rates.

WHAT IS CAPITAL REQUIREMENT?

The solvency capital requirement can be calculated using a “Standard formula” or “internal model”. Chesnara adopts the “Standard formula”.

The standard formula requires capital to be held against a range of risk categories. The following table shows the categories and their relative weighting for Chesnara:

£m	2021
Total market risk	292.6
Counterparty default risk	11.9
Total life underwriting risk	184.4
Total health underwriting risk	12.7
Diversification risk	(108.2)
Capital requirement for other sub	0.3
Operational risk	12.5
ALAC DT	(39.3)
SCR	366.8

There are three levels of capital requirement:

Minimum dividend paying requirement/risk appetite requirement

The board sets a minimum solvency level above the SCR which means a more prudent level is applied when making dividend decisions.

Solvency Capital Requirement

Amount of capital required to withstand a 1 in 200 event. The SCR acts as an intervention point for supervisory action including cancellation or the deferral of distributions to investors.

Minimum Capital Requirement

The MCR is between 45% and 25% of the SCR. At this point Chesnara would need to submit a recovery plan which if not effective within three months may result in authorisation being withdrawn.

How does the SCR change?

Given the largest component of Chesnara’s SCR is market risk, changes in investment mix or changes in the overall value of our assets has the greatest impact on the SCR. For example, equity assets require more capital than low risk bonds. Also, positive investment growth in general creates an increase in SCR. Book run-off will tend to reduce SCR, but this will be partially offset by an increase as a result of new business.

CHESNARA GROUP SOLVENCY METRICS

£m	2021	2020
Own funds	558	568
SCR	367	364
Solvency surplus	191	204
Solvency ratio %	152%	156%

A review of the UK’s application of Solvency II is currently underway, led by HM Treasury. To support this the PRA oversaw a Quantitative Impact Study (QIS) in 2021, which will inform a potential “comprehensive package of reforms”, expected to be issued for consultation during 2022. Consequently, the Solvency II regime as applied in the UK may diverge from the EU’s approach going forward. We are monitoring this closely and future financial statements will report on the UK specific application of Solvency II. We see no specific reason to expect the PRA to use their enhanced freedoms take a route that systemically makes it harder to do business in the UK.

We are well capitalised at both a group and subsidiary level. We have applied the volatility adjustment in our Dutch businesses and the UK but have not used any other elements of the long-term guarantee package within the group. The volatility adjustment is an optional measure that can be used in solvency calculations to reduce volatility arising from large movements in bond spreads.

CHESNARA GROUP SOLVENCY SURPLUS

£m

Group solvency surplus at 31 Dec 2020	204.0
CA	27.0
Movestic	(3.2)
Waard	1.3
Scildon	13.1
Chesnara / consol adj	(1.5)
Exchange rates	(16.1)
Dividends	(33.9)
Group solvency surplus at 31 Dec 2021	190.7

Surplus: The group has £191m of solvency surplus (2020: £204m). The group solvency ratio has reduced from 156% to 152% but remains comfortably within our target range. Solvency surplus has fallen due to a reduction in own funds (after the proposed dividend is taken into account) and a small rise in SCR.

Dividends: The closing solvency position is stated after deducting the £22.1m proposed dividend (31 December 2020: £21.4m) and reflects the payment of an interim dividend of £11.8m.

Own Funds: Own Funds have risen by £20.7m (pre-dividends). Drivers of growth include rising yields, strong equity growth, a UK with-profit transfer of £8.3m and completion of the Brand New Day acquisition. These factors were partly offset by the impact of operating losses on transfers out and expenses.

SCR: The SCR has risen by £3.1m, mainly due to a material rise in equity, interest and spread risk as a result of the strong economic growth. This is partially offset by a material fall in catastrophe and longevity risk, and an increase in the LACDT benefit.

The numbers that follow present the divisional view of the solvency position which may differ to the position of the individual insurance company(ies) within the consolidated numbers. Note that year end 2019 figures have been restated using 31 December 2021 exchange rates in order to aid comparison at a divisional level.

UK

£m	2021	2020
Own funds (post dividend)	131	133
SCR	100	102
Buffer	20	20
Surplus	10	10
Solvency ratio %	130%	130%

Surplus: £10.4m above board's capital management policy.

Dividends: Solvency position stated after £27.5m proposed dividend (2020: £33.5m)

Own Funds: Risen by £25.1m (pre-dividend), including the benefits of rising yields, equity growth, VA implementation, annuity reinsurance and improvements to modelling of guarantees.

SCR: Fallen by £1.9m, driven by fall in longevity and counterparty default risk capital, offset by a rise in market risk.

SWEDEN

£m	2021	2020
Own funds (post dividend)	234	205
SCR	159	130
Buffer	32	26
Surplus	44	49
Solvency ratio %	148%	158%

Surplus: £44.1m above board's capital management policy.

Dividends: No foreseeable dividend is proposed for 2021 (2020: £5.3m).

Own Funds: Risen by £29.1m (pre-dividend) mainly due to strong economic growth, offset by an increase in assumed transfers out and a small operating loss on transfers out in 2021.

SCR: Risen by £28.6m, driven by material rise in equity, spread and currency risk capital.

NETHERLANDS - WAARD

£m	2021	2020
Own funds (post dividend)	44	44
SCR	11	10
Buffer	4	8
Surplus	29	27
Solvency ratio %	399%	438%

Surplus: £29.4m above board's capital management policy (£4.5m due to buffer reduction: 75% to 35%).

Dividends: Solvency position stated after £6.1m proposed dividend.

Own Funds: Risen, pre-dividend, by £2.3m, mainly due to completion of the Brand New Day acquisition and moderate investment surplus, offset by an increase in costs.

SCR: Increased by £1.0m, with an increase in market and lapse risks, offset by a fall in catastrophe risk.

NETHERLANDS - SCILDON

£m	2021	2020
Own funds (post dividend)	147	142
SCR	76	80
Buffer	57	60
Surplus	13	2
Solvency ratio %	192%	178%

Surplus: £12.8m above board's capital management policy.

Dividends: Solvency position stated after £5.0m proposed dividend (2020: no dividend was paid).

Own Funds: Risen by £9.4m (pre-dividend) due to rising interest rates and a fall in mortgage spreads, offset by an increase in expenses and cost of new catastrophe risk cover.

SCR: Fallen by £3.4m, driven by a material reduction in catastrophe risk capital, offset by increases in market and lapse risk capital.

CAPITAL MANAGEMENT | SENSITIVITIES

The group's solvency position can be affected by a number of factors over time. As a consequence, the group's EcV and cash generation, both of which are derived from the group's solvency calculations, are also sensitive to these factors.

The table below provides some insight into the immediate impact of certain sensitivities that the group is exposed to, covering solvency surplus and Economic Value. As can be seen, EcV tends to take the 'full force' of adverse conditions whereas solvency is often protected in the short term and, to a certain extent, the longer term due to compensating impacts on required capital. Whilst cash generation has not been shown in the diagrams below, the impact of these sensitivities on the group's solvency surplus has a direct read across to the immediate impact on cash generation.

	Solvency ratio	Solvency surplus	EcV
	Impact %	Impact range £m	Impact range £m
20% sterling appreciation	4.1%	(30.0) to (20.0)	(108.0) to (98.0)
20% sterling depreciation	(4.1)%	20.0 to 30.0	98.0 to 108.0

25% equity fall	16.2%	(13.8) to 16.2	(103.2) to (83.2)
25% equity rise	(9.3)%	(9.3) to 20.7	72.1 to 92.1
10% equity fall	6.9%	(1.0) to 9.0	(40.0) to (30.0)
10% equity rise	(4.4)%	(4.4) to 5.6	28.6 to 38.6
1% interest rate rise	7.7%	17.5 to 22.5	1.0 to 7.0
1% interest rate fall	(8.9)%	(37.0) to (17.0)	(18.5) to (3.5)
50bps credit spread rise	(2.0)%	(11.5) to (6.5)	(15.5) to (10.5)
25 bps swap rate fall	(4.8)%	(21.0) to (11.0)	(22.0) to (12.0)
10% mass lapse	1.4%	(13.5) to (8.5)	(55.5) to (40.5)
5% expense increase plus 0.5% inflation rise	(9.7)%	(36.8) to (29.3)	(29.0) to (24.0)
10% mortality increase	(5.2)%	(22.5) to (17.5)	(23.5) to (18.5)

INSIGHT*

20% sterling appreciation/depreciation: A material sterling appreciation reduces the value of surplus in our overseas divisions and hence has an immediate adverse impact on the solvency surplus and EcV. Conversely, a sterling depreciation has the opposite effect.

Equity sensitivities: The equity rise sensitivities cause both Own Funds and SCR to rise, as the value of the funds exposed to risk is higher. The increase in SCR can be larger than Own Funds, resulting in an immediate reduction in the solvency ratio, depending on the starting point of the symmetric adjustment. Conversely, in an equity fall, Own Funds and SCR both fall, to the extent to which the SCR reduction offsets the Own Funds depends on the stress applied. The impacts are not fully symmetrical due to management actions and tax. The change in symmetric adjustment has a significant impact (25% equity fall: -£29m to the SCR, 25% equity rise: +£10m to SCR). The EcV impacts are more intuitive as they are more directly linked to Own Funds impact. CA and Movestic contribute the most due to their large amounts of unit-linked business, much of which is invested in equities.

Interest rate sensitivities: An interest rate rise is generally positive across the group. An interest rate fall results in a larger impact on Own Funds than an interest rate rise, given the current low interest rate environment. CA, Movestic and Scildon all contribute towards the total group impact.

50bps credit spread rise: A credit spread rise has an adverse impact on solvency, particularly in Scildon due to corporate and non-local government bond holdings that form part of the asset portfolios backing non-linked insurance liabilities. The impact on the other divisions is less severe.

25bps swap rate fall: This sensitivity measures the impact of a fall in the swap discount curve with no change in the value of assets. The result is that liability values increase in isolation. The most material impacts are on CA and Scildon due to the size of the non-linked book.

10% mass lapse: This sensitivity has a small impact on solvency as the reduction in Own Funds is largely offset by a reduction in SCR. However, with fewer policies on the books there is less potential for future profits. The division most affected is Movestic; the loss in future fee income following mass lapse hits Own Funds by more than the SCR reduction.

5% expense rise + 0.5% inflation rise: The expense sensitivity hits the solvency ratio immediately as the increase in future expenses and inflation is capitalised into the balance sheet.

10% mortality increase: This sensitivity has an adverse impact on solvency and EcV, particularly for Scildon due to their term products.

*BASIS OF PREPARATION ON REPORTING:

Although it is not a precise exercise, the general aim is that the sensitivities modelled are deemed to be broadly similar (with the exception that the 10% equity movements are naturally more likely to arise) in terms of likelihood. Whilst sensitivities provide a useful guide, in practice, how our results react to changing conditions is complex and the exact level of impact can vary due to the interactions of events and starting position.

FINANCIAL REVIEW

The key performance indicators are a reflection of how the business has performed in delivering its three strategic objectives.

Summary of each KPI:

IFRS

PRE-TAX PROFIT: £28.8M (2020: £24.6M)
TOTAL COMPREHENSIVE INCOME: £3.8M (2020: £43.3M)

What is it?

Presentation of the results in accordance with International Financial Reporting Standards (IFRS) aims to recognise the profit arising from the longer-term insurance and investment contracts over the life of the policy.

Why is it important?

The IFRS results form the core of reporting and hence retain prominence as a key financial performance metric. There is however a general acceptance that the IFRS results in isolation do not recognise the wider financial performance of a typical life and pensions business, hence the use of supplementary alternative performance measures to enhance understanding of financial performance.

Risks

The IFRS profit/(loss) can be affected by a number of our principal risks and uncertainties. Volatility in equity markets and bond yields can result in volatility in the IFRS pre-tax profit/(loss), and foreign currency fluctuations can affect total comprehensive income. The IFRS results of Scildon are potentially relatively volatile, in part, due to the different approach used by the division for valuing assets and liabilities, as permitted under IFRS 4.

£m	2021
Operating profit	40.7
Economic profit	(11.8)
Profit/(loss) on portfolio acquisition	(0.1)
Profit before tax	28.8
Tax	(1.5)
Forex impact & other comprehensive income	(23.5)
Total comprehensive income	3.8

- Divisional pre-tax profits were ahead of expectations for the period, with a particularly strong contribution from the UK business, offsetting marginal losses in the Dutch businesses.
- Operating profits of £40.7m underpin the result and reflect an uplift on the prior year, though a component of this was a release of reserves (c£10m) in Scildon as a result of the LAT no longer biting. Excluding this element, the year-on-year result is broadly similar, demonstrating the stability of the core business.
- The loss on economic activities arises largely from the adverse impact of interest rate increases on Scildon's results (which have an asset and liability mismatch on current IFRS measurement rules).
- Total comprehensive income includes significant foreign exchange losses on translation of the Dutch and Swedish divisional results, owing to sterling appreciation against the euro and Swedish krona.

CASH GENERATION

GROUP CASH GENERATION £20.3M (2020: £27.7M)
DIVISIONAL CASH GENERATION £31.1M (2020: £23.6M)

What is it?

Cash generation is calculated as being the movement in Solvency II Own Funds over the internally required capital. The internally required capital is determined with reference to the group's capital management policies, which have Solvency II rules at their heart. Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.

Why is it important?

Cash generation is a key measure, because it is the net cash flows to Chesnara from its life and pensions businesses which support Chesnara's dividend-paying capacity and acquisition strategy. Cash generation can be a strong indicator of how we are performing against our stated objective of 'maximising value from existing business'. However, our cash generation is always managed in the context of our stated value of maintaining strong solvency positions within the regulated entities of the group.

Risks

The ability of the underlying regulated subsidiaries within the group to generate cash is affected by a number of our principal risks and uncertainties. Whilst cash generation is a function of the regulatory surplus, as opposed to the IFRS surplus, it is impacted by similar drivers, and therefore factors such as yields on fixed interest securities and equity and property performance contribute significantly to the level of cash generation within the group.

£m	2021
UK	27.4
Sweden	(14.4)

Netherlands – Waard	2.9
Netherlands – Scildon	15.2
Divisional cash generation	31.1
Other group activities	(10.8)
Group cash generation	20.3

Divisional cash generation

- Each operating division delivered a strong cash result for the period with the exception of Movestic, which reported material cash utilisation.
- The UK contribution was delivered through significant value growth, supported by a smaller reduction in capital requirements, while cash returns in Waard benefit from a rise Own Funds and fall in required capital, each of a similar magnitude.
- Scildon reported healthy cash generation in 2021 after delivering both value growth and a reduction in required capital. Economic earnings supported growth in Own Funds, while new reinsurance drove a material decrease in SCR due to lower catastrophe risk exposure.
- Own Funds growth in Movestic includes the benefit of equity market growth, off-set by operating losses relating to strengthening future transfer assumptions. The division also reported a corresponding increase in SCR, primarily due to the aforementioned equity market growth and an associated symmetric adjustment strain.

Group cash generation

- Total group cash generation includes the impact of other group activities, primarily the impacts of group expenses on Own Funds and that of foreign exchange movements upon consolidation of the group capital requirements.

ECONOMIC VALUE (EcV)

£624.2M (2020: £636.8M)

What is it?

Economic value (EcV) was introduced following the introduction of Solvency II at the start of 2016, with EcV being derived from Solvency II Own Funds. EcV reflects a market-consistent assessment of the value of the existing insurance business, plus the adjusted net asset value of the non-insurance businesses within the group.

Why is it important?

EcV aims to reflect the market-related value of in-force business and net assets of the non-insurance business and hence is an important reference point by which to assess Chesnara's value. A life and pensions group may typically be characterised as trading at a discount or premium to its Economic Value. Analysis of EcV provides additional insight into the development of the business over time.

The EcV development of the Chesnara group over time can be a strong indicator of how we have delivered to our strategic objectives, in particular the value created from acquiring life and pensions businesses and enhancing our value through writing profitable new business. It ignores the potential of new business to be written in the future (the franchise value of our Swedish and Dutch businesses) and the value of the company's ability to acquire further businesses.

Risks

The Economic Value of the group is affected by economic factors such as equity and property markets, yields on fixed interest securities and bond spreads. In addition, the EcV position of the group can be materially affected by exchange rate fluctuations. For example, a 20.0% weakening of the Swedish krona and euro against sterling would reduce the EcV of the group within a range of £90m-£110m, based on the composition of the group's EcV at 31 December 2021.

£m

2020 Group EcV	636.8
EcV earnings	57.8
Forex loss	(37.1)
Pre-dividend EcV	657.5
Dividends	(33.3)
2021 Group EcV	624.2

- Prior to any dividend payments, the total Economic Value increased by £20.7m in the year.
- The closing position reflects earnings of £57.8m, driven by positive investment market conditions, off-set by some operating losses in both Scildon and Movestic.
- The result also incorporates material forex losses arising on translation of the Dutch and Swedish divisional results, representing the weakening of both the euro and Swedish krona against sterling.
- The change in EcV over the year includes the impact of the payment of the final 2020 and interim 2021 dividends.

ECV EARNINGS

£57.8M 2020: £(37.6)M

What is it?

In recognition of the longer-term nature of the group's insurance and investment contracts, supplementary information is presented that provides information on the Economic Value of our business.

The principal underlying components of the Economic Value result are:

- The expected return from existing business (being the effect of the unwind of the rates used to discount the value in-force);
- Value added by the writing of new business;
- Variations in actual experience from that assumed in the opening valuation;
- The impact of restating assumptions underlying the determination of expected cash flows; and
- The impact of acquisitions.

Why is it important?

A different perspective is provided in the performance of the group and on the valuation of the business. Economic Value earnings are an important KPI as they provide a longer-term measure of the value generated during a period. The Economic Value earnings of the group can be a strong indicator of how we have delivered against all three of our core strategic objectives. This includes new business profits generated from writing profitable new business, Economic Value profit emergence from our existing businesses, and the Economic Value impact of acquisitions.

Risks

The EcV earnings of the group can be affected by a number of factors, including those highlighted within our principal risks and uncertainties and sensitivities analysis. In addition to the factors that affect the IFRS pre-tax profit and cash generation of the group, the EcV earnings can be more sensitive to other factors such as the expense base and persistency assumptions. This is primarily due to the fact that assumption changes in EcV affect our long-term view of the future cash flows arising from our books of business.

£m	2021
Total operating earnings	(58.8)
Economic earnings	109.6
Other	7.1
Total EcV earnings	57.8

- Total group EcV earnings of £57.8m were reported in the year.
- The total operating earnings loss includes material operating assumption changes and other items, amounting to £26.2m. This primarily relates to adverse changes in transfer out assumptions in Movestic.
- Other operating components include losses in Scildon and a group level expense strain, offsetting the positive results in other divisions.
- Economic conditions during the period, with rising equity markets coupled with increases in yields resulted in substantial economic gains of £109.6m (2020: £9.2m).

CASH GENERATION

GROUP CASH GENERATION

£20.3M (2020: £27.7M)

DIVISIONAL CASH GENERATION

£31.1M (2020: £23.6M)

The UK and Dutch divisions delivered solid cash contributions, supporting divisional cash generation of £31.1m in 2021. Cash is generated from increases in the group's solvency surplus, which is represented by the excess of own funds held over management's internal capital needs. These are based on regulatory capital requirements, with the inclusion of additional 'management buffers'.

Definition: Defining cash generation in a Life and Pensions business is complex and there is no reporting framework defined by the regulators. This can lead to inconsistency across the sector. We define cash generation as being the movement in Solvency II surplus own funds over and above the group's internally required capital, which is based on Solvency II rules.

Implications of our cash definition:

Positives

- Creates a strong and transparent alignment to a regulated framework.
- Positive cash results can be approximated to increased dividend potential.
- Cash is a factor of both value and capital and hence management are focused on capital efficiency in addition to value growth and indeed the interplay between the two.

Challenges and limitations

- In certain circumstances the cash reported may not be immediately distributable by a division to group or from group to shareholders.
- Brings the technical complexities of the SII framework into the cash results e.g. symmetric adjustment, with-profit fund restrictions, model changes etc, and hence the headline results do not always reflect the underlying commercial or operational performance.

	2021 £m			2020 £m	
	Movement in Own Funds	Movement in management's capital requirement	Forex impact	Cash generated / (utilised)	Cash generated / (utilised)
UK	25.1	2.3	-	27.4	29.5
Sweden	26.3	(35.5)	(5.2)	(14.4)	12.4
Netherlands – Waard Group	2.3	2.8	(2.3)	2.9	4.1
Netherlands – Scildon	9.6	6.1	(0.5)	15.2	(22.3)
Divisional cash generation / (utilisation)	63.4	(24.3)	(8.1)	31.1	23.6
Other group activities	(4.5)	(0.1)	(6.1)	(10.8)	4.1
Group cash generation / (utilisation)	58.9	(24.4)	(14.2)	20.3	27.7

GROUP

- Group cash generation of £20.3m is lower than the 2020 total, although it is supported by improved divisional results over the prior year. The result includes the adverse impact of a £14.2m foreign exchange loss on consolidation (2020: £14.1m gain).
- Divisional cash generation of £31.1m reflects an improvement on the prior year (2020: £23.6m), despite the cash utilisation reported in Movestic.
- Further analysis of the key drivers of cash generation across the group is provided below and on the following page.

UK

- The division has delivered another year of robust cash generation. Substantial value growth, supported by a smaller reduction in capital requirements, resulted in cash generation of £27.4m for 2021. The growth in Own Funds was assisted by economic conditions (particularly the positive impact of rising yield curves) and supported by solid operating profits. The result includes the benefit of an £8.3m capital transfer from the with-profit funds, off-set by a restricted surplus build up of £14.6m during the year. The new annuity reinsurance arrangement that was entered into during the year contributed to the reduction in SCR.

SWEDEN

- Movestic reported cash utilisation of £14.4m in the year, with Own Funds growth being exceeded by a larger increase in capital requirements. On the own funds side of the equation, growth was driven by economic conditions and strong investment returns, particularly in equity markets, offset by operating losses relating to strengthening future transfer assumptions. From a capital requirements perspective, equity market-driven growth in Own Funds has resulted in an increase in market-risk related capital requirements, including the impact of the symmetric adjustment, which increased significantly in the year.

NETHERLANDS - WAARD

- Waard has reported growth in Own Funds, alongside a similar reduction in capital requirements, resulting in another year of stable cash generation, contributing to the divisional cash total. The result includes the positive impact of the Brand New Day policy portfolio acquisition, as well as a foreign exchange loss due to sterling appreciation against the euro.

NETHERLANDS - SCILDON

- The Scildon result was pleasing, with a rise in Own Funds and reduction in capital requirements yielding healthy cash returns. Value growth was delivered predominantly via economic returns (narrowing of bond spread and positive interest rate movements) offsetting operational strains, largely driven by changes in assumptions relating to one-off expenses. The reduction in required capital was driven by the new reinsurance arrangements entered into during the year, driving a fall in catastrophe risk exposure, while economic conditions saw favourable spread risk movements on the mortgage portfolio.

CASH GENERATION – ENHANCED ANALYSIS

The format of the analysis draws out components of the cash generation results relating to technical complexities, modelling issues or exceptional corporate activity (e.g. acquisitions). The results excluding such items are deemed to better reflect the inherent commercial outcome (Commercial cash generation).

COMMERCIAL CASH GENERATION

£53.0M (2020: £27.7M)

	UK	Sweden	Netherlands Waard	Netherlands scildon	Group adj	Total
Base cash generation	27.4	(14.4)	2.9	15.2	(10.8)	20.3
Symmetric adjustment	9.8	16.2	-	-	-	26.1
WP restriction look through	6.3	-	-	-	-	6.3
Acquisition activity impact	-	-	0.1	-	1.3	1.4
Reallocate lapse risk reversal	-	-	-	(4.0)	4.0	-
Model changes	(3.6)	-	-	(5.2)	-	(8.8)
LIBOR to SONIA	7.7	-	-	-	-	7.7
Commercial cash generation	47.7	1.9	3.0	6.0	(5.5)	53.0

Whilst CA remains the dominant source of cash it is pleasing to note that all divisions have made positive contributions. Economic conditions have been favourable and we have also created cash from a series of management actions. Operating cash is suppressed by the adverse impact of system investments in Scildon and transfer outflows in Movestic. Writing new business creates long term value and enhances business longevity but it does create short term cash strain which is therefore a natural and expected feature of the Scildon and Movestic results. On balance the overall Commercial cash generation outcome benefits from a good level of diversification including the mix between open to new business and closed book businesses.

UK

A strong commercial cash outcome which illustrates that UK remains at the heart of the cash generation model. The acquisition of Sanlam will positively contribute to the longevity of this core source of cash.

CA has delivered strong economic and operating results in line with sensitivities base expectations. Management have enhanced the outcome through management actions including annuity reinsurance and application of the volatility adjustment.

SWEDEN

As an open business with a natural level of new business strain the total outcome is broadly in line with expectations. Economic conditions (predominantly equity growth) have resulted in more cash generation (looking through the symmetric adjustment) than we would expect under more steady state conditions, but this has been largely offset by losses due to higher transfers. An action to reinsure some of our mass lapse exposure has enhanced the outcome in the year.

WAARD

Waard is the only division to report economic losses within the total commercial cash result, predominantly due to foreign exchange impacts. The operating and management action component net results is c£6m which continues to demonstrate the ability of the Dutch closed book division to make meaningful cash contributions. Completion of the Robein Leven acquisition in 2022 is expected to further enhance the cash potential from Waard.

SCILDON

As is the case with Movestic, the results include the short-term adverse impact from writing new business in line with expectations. Similarly economic conditions (predominantly increasing yields and an increase to the value of mortgage based investments) have resulted in more cash generation than we would expect under steady state conditions but this has been largely offset by losses due to IT investment expenses. We have taken out catastrophe risk reinsurance during the year which has had a material positive capital efficiency impact.

GROUP ADJ

The group cash loss relates primarily to foreign exchange impacts.

EcV EARNINGS

£57.8M (2020: £(37.6)M)

Economic conditions, particularly the positive impact of rising yields and interest rates, coupled with equity market growth, underpin healthy EcV earnings of £57.8m, offsetting some large operating losses reflective of difficult trading conditions in Sweden and one-off items in Scildon.

Analysis of the EcV result in the period by earnings source:

£m	2021	2020
Expected movement in period	(1.7)	0.3
New business	2.4	3.7
Operating experience variances	(19.2)	(22.0)
Other operating assumption changes	(13.9)	(35.8)
Other operating variances	(0.2)	3.9
Material operating assumption changes and other items	(26.2)	(16.2)
Total operating earnings	(58.8)	(66.1)
Economic experience variances	79.5	45.7
Economic assumption changes	30.1	(22.8)
Total economic earnings	109.6	22.9
Other non-operating variances	4.5	(2.8)
Risk margin movement	10.8	4.7
Tax	(8.2)	3.7
EcV earnings	57.8	(37.6)

Analysis of the EcV result in the year by business segment:

£m	2021	2020
UK	28.0	11.8
Sweden	26.1	(22.9)
Netherlands	8.3	(8.5)
Group and group adjustments	(4.6)	(18.0)
EcV earnings	57.8	(37.6)

Economic conditions: The EcV result is sensitive to investment market conditions, and reflects material economic earnings in the year. The result includes positive movements in interest rates and spreads, alongside equity market returns, offset by the negative impact of rising inflation. Key movements in investment market conditions during the year that have contributed to the reported economic profits are:

- CPI (UK consumer price index) increased by 4.7% (year ended 31 December 2020: reduced 1%)
- FTSE All Share index increased by 15% (year ended 31 December 2020: decreased by 12%);
- Swedish OMX all share index increased by 35% (year ended 31 December 2020: increased by 13%);
- The Netherlands AEX all share index increased by 23% (year ended 31 December 2020: increased by 4%); and
- 10-year UK gilt yields have increased from 0.24% to 0.98%.

Total operating earnings: In addition to the material operating assumption changes, the result consists of losses in Scildon, coupled with some group expense strain, offsetting positive earnings in both the UK and Waard. The loss in Scildon includes adverse mortality and lapse results. While the division reported positive lapse experience, in the current economic environment this results in EcV losses due to guarantees within certain policies. Scildon also reported an expense assumption strain arising from its digitalisation programme.

A key component of the positive operating result in the UK was fee income, arising from a higher than expected persistency throughout the year. Growth in Waard was largely due to favourable mortality experience and resultant changes in mortality assumptions.

Material operating assumption changes and other items: This includes operating items that are individually material and have therefore been analysed separately. This main component of this relates to Movestic, where assumption strengthening had a significantly negative impact (£28.7m) on earnings in the opening half of the year. Following changes surrounding transfer regulations in the Swedish market during the prior year, transfer experience in 2021, in part due to further aggressive pricing by a competitor, has led to a need for a further strengthening of future transfer assumptions. The other element within this category is a £2.5m gain on the completion of Waard's acquisition of the Brand New Day portfolio during the second quarter.

UK: The UK delivered significant value growth in 2021 with earnings more than double the prior year total, aided by positive investment market conditions, but also supported by solid operational growth. Economic profits of £24.3m arose from the positive impact of rising yields and equity market growth, overshadowing the adverse effect of rising interest rates. Operational performance contributed earnings of £7.2m, with key items including positive outcomes on fee income (due to higher retained policy counts) and changes in assumptions relating to future guarantees and expenses. This offset a strengthening of mortality assumptions and an expense strain (also owing to higher policy counts).

Sweden: Movestic recorded earnings of £26.1m for the period, with strong economic gains off-set by a material non-recurring operational strain. As described above, the operational strain was mainly the consequence of assumption changes in relation to

dynamics around policy transfers. The operational loss, excluding these assumption changes, was £3.3m, with adverse experience on transfers and fee income overshadowing other operational gains. New business profits of £2.9m were delivered, representing an improvement compared to the £1.0m reported in 2020. Volume and margin pressures remain in a challenging Swedish market, though good progress was made in 2021, particularly on single premium and custodian business. Improvements in fund rebate arrangements and corresponding future income, also delivered operational gains for the division. Economic earnings of £56.3m underpin the result (2020: £9.2m) and were primarily the result of strong equity markets during 2021, reflected by an average policyholder investment return of 23.3%.

Netherlands: The Dutch businesses posted combined value growth of £8.3m for the period, with Scildon delivering gains of £6.1m and Waard contributing a further £2.2m. Economic profits support the Scildon result, reflective of positive interest rate movements and narrowing spreads. As indicated earlier, Scildon has reported operating losses, largely the result of incurring guarantee related costs as a consequence of better than expected policy retention, and the impact of higher mortality driven outgoings than anticipated. A strengthening of expense assumptions attributable to its digitalisation programme was another key component of the operating result.

Waard has reported EcV earnings of £2.2m, with modest operating earnings supported by economic profits, arising from investment market conditions. Operationally, positive mortality experience (and subsequent changes to assumptions) was offset by an expense strain a revision of future provisions. The result also includes the benefit delivered by the Brand New Day portfolio acquisition.

Group: This component comprises various group-related costs and includes: non-maintenance related costs (such as acquisition costs); the costs of the group's IFRS 17 programme (the budget of which was increased during the year); and some economic-related costs such as a foreign exchange gain on our euro debt, and the impact of rising interest rates and interest on our bank debt.

EcV

£624.2M (31 DEC 2020: £636.8M)

The Economic Value of Chesnara represents the present value of future profits of the existing insurance business, plus the adjusted net asset value of the non-insurance business within the group. EcV is an important reference point by which to assess Chesnara's intrinsic value.

Value movement: 1 Jan 2021 to 31 Dec 2021:

£m

2020 Group EcV	636.8
EcV earnings	57.8
Forex loss	(37.1)
Pre-dividend EcV	657.5
Dividends	(33.3)
2021 Group EcV	624.2

EcV earnings: Earnings of £57.8m have been delivered in 2021. Economic profits arising from favourable market conditions, with equity growth, rising yields and narrowing spreads, drive the result.

Dividends: Under EcV, dividends are recognised in the period in which they are paid. Dividends of £33.3m were paid during the period, being the final dividend from 2020 and the 2021 interim dividend.

Foreign exchange: The EcV of the group includes the adverse impact of a foreign exchange loss on consolidation, being a consequence of sterling appreciation against the euro and Swedish krona during the year.

EcV by segment at 31 Dec 2021:

£m

UK	181.9
Sweden	244.8
Netherlands	212.7
Other group activities	(15.2)
2021 Group EcV	624.2

The above table shows that the EcV of the group is diversified across its different markets.

EcV to Solvency II:

£m

2021 Group EcV	624.2
Risk margin	(38.2)
Contract boundaries	1.4
Own funds restrictions	(7.8)
Dividends	(22.1)
2021 SII own funds	557.5

Our reported EcV is based on a Solvency II assessment of the value of the business but adjusted for certain items where it is deemed that Solvency II does not reflect the commercial value of the business. The above waterfall shows the key difference between EcV and SII, with explanations for each item below.

Risk margin: Solvency II rules require a significant 'risk margin' which is held on the Solvency II balance sheet as a liability, and this is considered to be materially above a realistic cost. We therefore reduce this margin for risk for EcV valuation purposes from being based on a 6% cost of capital to a 3.25% cost of capital.

Contract boundaries: Solvency II rules do not allow for the recognition of future cash flows on certain in-force contracts, despite the high probability of receipt. We therefore make an adjustment to reflect the realistic value of the cash flows under EcV.

Ring-fenced fund restrictions: Solvency II rules require a restriction to be placed on the value of surpluses that exist within certain ring-fenced funds. These restrictions are reversed for EcV valuation purposes as they are deemed to be temporary in nature.

Dividends: The proposed final dividend of £22.1m is recognised for SII regulatory reporting purposes. It is not recognised within EcV until it is actually paid.

IFRS

IFRS PRE-TAX PROFIT

£28.8M (2020: £24.6M)

IFRS TOTAL COMPREHENSIVE INCOME

£3.8M (2020: £43.3M)

The group IFRS results reflect the natural dynamics of the segments of the group, which can be characterised in three major components: stable core, variable element and growth operation.

Executive summary

Stable core: At the heart of surplus, and hence cash generation, are the core CA (excluding the S&P book) and Waard Group segments. The requirements of these books are to provide a predictable and stable platform for the financial model and dividend funding. As closed books, the key is to sustain this income source as effectively as possible.

Variable element: Included within the CA segment is the S&P book. This can bring an element of short-term earnings volatility to the group, with the results being particularly sensitive to investment market movements due to product guarantees. The IFRS results of Scildon are potentially relatively volatile although this is, in part, due to reserving methodology rather than 'real world' value movements.

Growth operation: The long-term financial models of Movestic and Scildon are based on growth, with levels of new business and premiums from existing business being targeted to more than offset the impact of policy attrition, leading to a general increase in assets under management and, hence, management fee income.

IFRS results

The financial dynamics of Chesnara, as described above, are reflected in the following IFRS results:

	2021 £m	2020 £m	Note
CA	35.6	35.7	1
Movestic	12.1	12.9	2
Waard Group	0.1	4.1	3
Scildon	(0.5)	14.6	4

Chesnara	(12.6)	(9.4)	5
Consolidation adjustments	(5.8)	(6.1)	6
Profit before tax, AVIF impairment and profit on acquisition	28.9	51.8	
AVIF impairment	-	(27.6)	7
Post completion (loss) / gain on portfolio acquisition	(0.1)	0.4	3
Profit before tax	28.8	24.6	
Tax	(1.5)	(3.4)	
Profit after tax	27.4	21.2	
Foreign exchange	(23.9)	22.6	8
Other comprehensive income	0.4	(0.5)	
Total comprehensive income	3.8	43.3	

Operating profit, excluding AVIF impairment	40.7	30.6	9
Economic profit, excluding AVIF impairment	(11.8)	21.2	10
Profit before tax, AVIF impairment and (loss)/gain on acquisition	28.9	51.8	
AVIF impairment	-	(27.6)	7
Post completion (loss) / gain on portfolio acquisition	(0.1)	0.4	3
Profit before tax	28.8	24.6	
Tax	(1.5)	(3.4)	
Profit after tax	27.3	21.2	
Foreign exchange	(23.9)	22.6	8
Other comprehensive income	0.4	(0.5)	
Total comprehensive income	3.8	43.3	

Note 1: The CA segment has continued to post a strong result, which saw a strong emergence of operating profits in the year. This included a one-off gain arising from the inception of a new annuity reinsurance agreement, favourable policyholder tax deductions, positive with-profit modelling impacts and favourable expense assumption impacts. Economic returns were also positive in the year, with favourable valuation interest rate impacts being offset slightly by adverse market and inflation rate related factors.

Note 2: Movestic continues to contribute positively to the overall group IFRS result, with profits broadly in line with the prior year. Higher fund rebates arising from higher assets under management, together with favourable claims experience were the main drivers.

Note 3: The Waard Group result reflects weaker investment performance due to investment market volatility. The result also reflects an adverse expense assumption change in the year and slightly higher than expected acquisition and other project related expenditure.

Note 4: The loss generated by Scildon reflects adverse investment return movements in the year, as rising interest rates have had a negative impact on investment values. Higher than expected expenses have also impacted the results, with higher than anticipated project spend being incurred.

Note 5: The Chesnara result largely represents holding company expenses. The current year loss is higher than last year largely due to 2021 including larger one-off items such as project related expenditure, such as IFRS 17. The result also reflects a foreign exchange gain of £1.5m in respect of the euro denominated loan that it holds.

Note 6: Consolidation adjustments relate to items such as the amortisation and impairment of intangible assets.

Note 7: During 2020 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 were driven by a combination of economic and operating factors, with the exact allocation between the two being impracticable to determine. As a result, this has been reported outside of both operating and economic profits. No further write-downs have been performed in 2021.

Note 8: Sterling strengthened against both the euro and Swedish krona in the period, having a material impact on the 2021 result, creating a sizeable exchange loss at the end of the year.

Note 9: The operating profit, excluding AVIF impairment, includes the positive impact of fully releasing the additional reserve created in 2020 due to the liability adequacy test biting in Scildon, amounting to £10.0m. In the absence of this, operating profits, albeit lower than in 2020, have remained strong, demonstrating the stability of the core business.

Note 10: Economic profit, excluding AVIF impairment, represents the components of the earnings that are directly driven by movements in economic variables. The economic loss in the year, largely reflects adverse investment market factors, particularly

the adverse impact of interest rate rises upon the value of investments in the Netherlands.

IFRS net assets reduced slightly during the year, as did cash generated from operating activities, which also decreased period on period, as positive investment returns were outweighed by corresponding movements in insurance and investment contract liabilities.

FINANCIAL MANAGEMENT

The group's financial management framework is designed to provide security for all stakeholders, while meeting the expectations of policyholders, shareholders and regulators.

Summary:

OBJECTIVES

The group's financial management framework is designed to provide security for all stakeholders, while meeting the expectations of policyholders, shareholders and regulators. Accordingly we aim to:

- Maintain solvency targets
- Meet the dividend expectations of shareholders
- Optimise the gearing ratio to ensure an efficient capital base
- Ensure there is sufficient liquidity to meet obligations to policyholders, debt financiers and creditors
- Maintain the group as a going concern

HOW WE DELIVER OUR OBJECTIVES

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

1. Monitor and control risk & solvency
2. Longer-term projections
3. Responsible investment management
4. Management actions

OUTCOMES

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

1. **SOLVENCY:**
Group Solvency Ratio: 152%
2. **SHAREHOLDER RETURNS**
2019-2021 TSR (0.08)%
2021 dividend yield 8.1%
Based on average 2021 share price and full year 2021 dividend of 22.60p.
3. **CAPITAL STRUCTURE**
Gearing ratio of 6.4%
Pro-forma gearing ratio of 30.4%*

This does not include the financial reinsurance within the Swedish business.

** Unaudited pro-forma figure is based on the 31 December 2021 actual, adjusted for the expected impacts of the pro-forma acquisitions and tier 2 debt.*

4. **LIQUIDITY AND POLICYHOLDER RETURNS**
Policyholders' reasonable expectations maintained.
Asset liability matching framework operated effectively in the year.
Sufficient liquidity in the Chesnara holding company.
5. **MAINTAIN THE GROUP AS A GOING CONCERN**
Group remains a going concern

Further detail on capital structure

The group is funded by a combination of share capital, retained earnings and debt finance. The debt gearing (excluding financial reinsurance in Sweden) was 6.4% at 31 December 2021 (7.4% at 31 December 2020). The level of debt that the board is prepared to take on is driven by the group's "Debt and leverage policy" which incorporates the board's risk appetite in this area. Over time, the level of gearing within the group will change, and is a function of the funding requirements for future acquisitions and the repayment of existing debt. Subsequent to the balance sheet date, the company announced the successful pricing of its inaugural debt capital markets issuance of £200m Tier 2 Subordinated Notes. This is expected to increase group solvency from 152% to 202%.

The net proceeds of the Notes will be used for corporate purposes, including investments and acquisitions.

Acquisitions are funded through a combination of debt, equity and internal cash resources. The ratios of these three funding methods vary on a deal-by-deal basis and are driven by a number of factors including, but not limited to the size of the acquisition;

current cash resources of the group; the current gearing ratio and the board's risk tolerance limits for additional debt; the expected cash generation profile and funding requirements of the existing subsidiaries and potential acquisition; future financial commitments; and regulatory rules. In addition to the above, Movestic uses a financial reinsurance arrangement to fund its new business operation.

OUTCOMES FROM IMPLEMENTING OUR FINANCIAL MANAGEMENT OBJECTIVES

Maintain the group as a going concern

After making appropriate enquiries, including consideration of the emerging potential impact of the invasion of Ukraine and the associated sanctions that have been imposed upon Russia as a consequence and to a lesser extent, the reducing impact of COVID-19 on the group's operations and financial position and prospects, the directors confirm that they are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements.

In performing this work, the board has considered the current solvency and cash position of the group and company, coupled with the group's and company's projected solvency and cash position as highlighted in its most recent business plan and Own Risk and Solvency Assessment (ORSA) process. These processes consider the financial projections of the group and its subsidiaries on both a base case and a range of stressed scenarios, covering projected solvency, liquidity, EcV and IFRS positions. In particular these projections assess the cash generation of the life insurance divisions and how these flow up into the Chesnara parent company balance sheet, with these cash flows being used to fund debt repayments, shareholder dividends and the head office function of the parent company. Further insight into the immediate and longer-term impact of certain scenarios, covering solvency, cash generation and Economic Value, can be found under the section headed 'Capital Management Sensitivities'. The directors believe these scenarios will encompass any potential future impact of the Ukraine crisis and COVID-19 on the group, as Chesnara's most material ongoing exposure to both potential threats are any associated future investment market impacts.

Underpinning the projections process outlined above are a number of assumptions. The key ones include:

- We do not assume that a future acquisition needs to take place to make this assessment.
- We make long term investment return assumptions on equities and fixed income securities.
- The base case scenario assumes exchange rates remain stable, and the impact of adverse rate changes are assessed through scenario analysis.
- Levels of new business volumes and margins are assumed.
- The projections apply the most recent actuarial assumptions, such as mortality and morbidity, lapses and expenses.

The group's strong capital position and business model, provides a degree of comfort that although the Ukraine crisis and COVID-19 both have the potential to cause further significant global economic disruption, the group and the company remain well capitalised and has sufficient liquidity. As such we can continue to remain confident that the group will continue to be in existence in the foreseeable future. The information set out in the Capital Management section indicates a strong Solvency II position as at 31 December 2021 as measured at both the individual regulated life company levels and at the group level. As well as being well-capitalised the group also has a healthy level of cash reserves to be able to meet its debt obligations as they fall due and does not rely on the renewal or extension of bank facilities to continue trading. This position has been further enhanced in early 2022, when the company announced the successful pricing of its inaugural debt capital markets issuance of £200m Tier 2 Subordinated Notes, the net proceeds of which will be used for corporate purposes, including investments and acquisitions. The group's subsidiaries rely on cash flows from the maturity or sale of fixed interest securities which match certain obligations to policyholders, which brings with it the risk of bond default. In order to manage this risk, we ensure that our bond portfolio is actively monitored and well diversified. Other significant counterparty default risk relates to our principal reinsurers. We monitor their financial position and are satisfied that any associated credit default risk is low.

Whilst there was some short-term operational disruption from dealing with the restricted operating environment in light of COVID-19, our assessment has shown that both our internal functions and those operated by our key outsourcers and suppliers adapted to these restrictions and do not cause any issues as to our going concern.

Assessment of viability

The board assesses that being financially viable includes continuing to pay an attractive and sustainable level of dividends to investors and meeting all other financial obligations, including debt repayments over the three-year business planning time horizon. The board's assessment of the viability of the group is performed in conjunction with its going concern assessment and considers both the time horizons required for going concern, and the slightly longer term timelines for assessing viability. The assessment for viability also considers the same key financial metrics as for assessing going concern, being solvency, cash, EcV and IFRS, both on base case and stressed scenarios.

As reported in the going concern section, the group has remained well capitalised throughout the COVID-19 pandemic, and any operational disruption in moving to a largely remote working model in the short term, was minimal. In light of this, should the COVID-19 situation be with us in society over the whole viability period, we do not believe that this factor would cause any concern as to our overall viability.

Viability statement

Based on the results of the analysis above, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment.

Assessment of prospects

Our longer-term prospects are primarily considered through the conclusions drawn from our annual business planning process, updated for key events that may occur in-between business plans.

The business plans include underlying operational deliverables, an assessment of the business model and the financial

consequences of following those plans. As part of this process we also consider the principal risks and uncertainties that the group faces and how these might affect our prospects.

An assessment of our prospects has been shown below, updated for our consideration of the impact of the Ukraine crisis and to a lesser extent COVID-19. This has been structured around our three strategic objectives:

Value from in-force book: The group has c876,000 policies in force at 31 December 2021. These are generally long-term policies, and the associated cash flows can, at an overall portfolio level, be reasonably well predicted on base case and stressed scenarios. The group is well capitalised at both a group and divisional level and we have high quality assets backing our insurance liabilities. Just as equity markets had recovered from the impact of COVID-19, the worsening situation in the Ukraine has caused equity prices to fall. Whilst this may turn out to be a temporary situation, sustained depressed market values do adversely impact fee income streams and therefore if markets fall further then profitability prospects reduce. Similarly, further reductions in yields would adversely impact our prospects. Temporary market volatility is however a natural feature of investment markets and our financial model is well positioned to withstand difficult conditions without creating any permanent harm to the longer-term profitability prospects.

Acquisition Strategy: The outlook and prospects of continuing to deliver against this strategic objective is covered in the Business Review section. We see no reason to expect that the Ukraine crisis or COVID-19 will have a long term impact on the availability of acquisition opportunities. Indeed, during the year we announced two acquisitions in the year, one in the UK and one in the Netherlands. We also completed another small Dutch acquisition in 2021 which has resulted in a £2.5m EcV gain. Waard continue to build a useful market position as a company who are able and willing to acquire books that are sub-scale for the vendors business model. Whilst we maintain our ambition to complete larger deals, the prospects from a steady flow of well-priced smaller acquisitions should not be underestimated. The financial position of the group continues to support financing deals through the use of our own resources or by raising debt, however in the short-term equity funding would likely be less attractive.

Value from new business: Chesnara is in a fortunate position in that its prospects do not fundamentally rely on the ability to sustain new business volumes. New business levels have contributed a small amount of extra value during the year despite the ongoing challenges as a result of COVID-19 and we believe there remains realistic upside potential as we move into 2022.

Our business fundamentals such as assets under management, policy volumes, new business market shares and expenses have all proven resilient to the impact of the Ukraine crisis and pandemic. This, together with the positive assessment of our core strategic objectives and a line of sight to positive management actions over the planning period, leaves us well positioned to deliver ongoing positive outcomes for all stakeholders.

RISK MANAGEMENT

Managing risk is a key part of our business model. We achieve this by understanding the current and emerging risks to the business, mitigating them where appropriate and ensuring they are appropriately monitored and managed.

HOW WE MANAGE RISK

RISK MANAGEMENT SYSTEM

The risk management system supports the identification, assessment, and reporting of risks to monitor and control the probability and/or impact of adverse outcomes within the board's risk appetite or to maximise realisation of opportunities.

Strategy: The risk management strategy contains the objectives and principles of risk management, the risk appetite, risk preferences and risk tolerance limits.

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

Processes: The risk management processes ensure that risks are identified, measured/ assessed, monitored and reported to support decision making.

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

Chesnara adopts the "three lines of defence" model with a single set of risk and governance principles applied consistently across the business.

In all divisions we maintain processes for identifying, evaluating and managing all material risks faced by the group, which are regularly reviewed by the divisional and group Audit & Risk Committees. Our risk assessment processes have regard to the significance of risks, the likelihood of their occurrence and take account of the controls in place to manage them. The processes are designed to manage the risk profile within the board's approved risk appetite.

Group and divisional risk management processes are enhanced by stress and scenario testing, which evaluates the impact on the group of certain adverse events occurring separately or in combination. The results, conclusions and any recommended actions are included within divisional and group ORSA Reports to the relevant boards. There is a strong correlation between these adverse events and the risks identified in 'Principal risks and uncertainties'. The outcome of this testing provides context against which the group can assess whether any changes to its risk appetite or to its management processes are required.

ROLE OF THE BOARD

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

Strategy and Risk Appetite

Chesnara group and its divisions have a defined risk strategy and supporting risk appetite framework to embed an effective risk management framework, culture and processes at its heart and to create a holistic, transparent and focused approach to risk identification, assessment, management, monitoring and reporting.

The Chesnara board approves a set of risk preferences which articulate, in simple terms, the desire to increase, maintain, or reduce the level of risk taking for each main category of risk. The risk position of the business is monitored against these preferences using risk tolerance limits, where appropriate, and they are taken into account by the management teams across the group when taking strategic or operational decisions that affect the risk profile.

Risk and Control Policies

Chesnara has a set of Risk and Control Policies that set out the key policies, processes and controls to be applied. The Chesnara board approves the review, updates and attestation of these policies at least annually.

Risk Identification

The group maintains a register of risks which are specific to its activity and scans the horizon to identify potential risk events (e.g. political; economic; technological; environmental, legislative & social).

On an annual basis the board approves 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 principal and emerging risks are reported to the board, assessing their proximity, probability and potential impact.

Own Risk and Solvency Assessment (ORSA)

On an annual basis, or more frequently if required, the group produces a group ORSA Report which aggregates the divisional 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.

The Chesnara board is responsible for approving the ORSA, including steering in advance how the assessment is performed and challenging the results.

Risk Management System Effectiveness

The group and its divisions undertake a formal annual review of and attestation to the effectiveness of the risk management system. The assessment considers the extent to which the risk management system is embedded.

The Chesnara board is responsible for monitoring the Risk Management System and its effectiveness across the group. The outcome of the annual review is reported to the group board which make decisions regarding its further development.

COVID-19

Although COVID-19 has been a material event, it is not documented here as a principal risk in its own right, as the impacts from COVID-19 are already covered by other principal risks, for example, market risks, mortality risk and other risks associated with operational failure and business continuity. The Chesnara group has continued to remain operationally and financially stable throughout the COVID-19 pandemic, providing a high level of assurance regarding operational resilience processes and the suitability of the approach taken.

CLIMATE CHANGE RISK WITHIN CHESNARA'S RISK FRAMEWORK

Climate change is not considered as a standalone principal risk. Instead, the risks arising from climate change are integrated through existing considerations and events within the framework. The information in the following pages has been updated to reflect Chesnara's latest views on the potential implications of climate change risk and wider developments and activity in relation to Environmental, Social and Governance (ESG).

Chesnara has embedded climate change risk within the group's risk framework during 2021 and included a detailed assessment alongside the group's ORSA, concluding that the group is not materially exposed to climate change risk.

UKRAINE CONFLICT

The invasion of Ukraine by Russia is considered to be an emerging risk for Chesnara Group in the sense that it is a rapidly evolving situation and has potential implications for Chesnara's Principal risks. The risk information on the following pages includes specific commentary where appropriate.

PRINCIPAL RISKS AND UNCERTAINTIES

The following tables outline the principal risks and uncertainties of the group and the controls in place to mitigate or manage their impact. It has been drawn together following regular assessment, performed by the Audit & Risk Committee, of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. The impacts are not quantified in the tables. However, by virtue of the risks being defined as principal, the impacts are potentially significant. Those risks with potential for a material financial impact are covered within the sensitivities

PR1 - INVESTMENT AND LIQUIDITY RISK	
DESCRIPTION	Exposure to financial losses or value reduction arising from adverse movements in currency, investment markets, counterparty defaults, or through inadequate asset liability matching.
RISK APPETITE	The group accepts this risk but has controls in place to prevent any increase or decrease in the risk exposure beyond set levels. These controls will result in early intervention if the amount of risk approaches those limits.
POTENTIAL IMPACT	<p>Market risk results from fluctuations in asset values, foreign exchange rates and interest rates and has the potential to affect the group's ability to fund its commitments to customers and other creditors, as well as pay a return to shareholders.</p> <p>Chesnara and each of its subsidiaries have obligations to make future payments, which are not always known with certainty in terms of timing or amounts, prior to the payment date. This includes primarily the payment of policyholder claims, reinsurance premiums, debt repayments and dividends. The uncertainty of timing and amounts to be paid gives rise to potential liquidity risk, should the funds not be available to make payment.</p> <p>Other liquidity issues could arise from counterparty failures/credit defaults, a large spike in the level of claims or other significant unexpected expenses.</p> <p>Worldwide developments in Environmental, Social, and Governance (ESG) responsibilities and reporting have the potential to influence market risk in particular, for example the risks arising from transition to a carbon neutral industry, with corresponding changes in consumer preferences and behaviour.</p>
KEY CONTROLS	RECENT CHANGE / OUTLOOK
<ul style="list-style-type: none"> Regular monitoring of exposures and performance; Asset liability matching; Maintaining a well-diversified asset portfolio; Holding a significant amount of surplus in highly liquid "Tier 1" assets such as cash and gilts; Utilising a range of investment funds and managers to avoid significant concentrations of risk; Having an established investment governance framework to provide review and oversight of external fund managers; Regular liquidity forecasts; Considering the cost/benefit of hedging when appropriate; Actively optimising the risk / return trade-off between yield on fixed interest assets compared with the associated balance sheet volatility and potential for defaults or downgrades; and Giving due regular consideration (and discussing appropriate strategies with fund managers) to longer term global changes that may affect investment markets, such as climate changes. 	<p>COVID-19 has arguably introduced greater uncertainty into investment markets, given that the longer-term effects of government enforced social and economic restrictions remains unclear, as does the extent to which those restrictions may need to continue or be repeated in future as the virus, and any subsequent mutations, continues to affect different parts of the world. 2021 was a year of high equity growth, but also with an appreciation in sterling and inflation increasing. Chesnara continues to monitor these closely given the heightened level of uncertainty and volatility but remains within risk appetite in terms of its exposures.</p> <p>With greater global emphasis being placed on environmental and social factors when selecting investment strategies, the group has an emerging exposure to "transition risk" arising from changing preference and influence of, in particular, institutional investors. This has the potential to result in adverse investment returns on any assets that perform poorly as a result of "ESG transition". Chesnara's 2021 risk analysis of transition risk demonstrates that this is well within its risk appetite and within its standard economic sensitivities.</p> <p>The conflict in Ukraine / Russia brings additional economic uncertainty and volatility to financial markets, including the potential for higher inflationary pressures in the short term. The group has no direct exposure in terms of investments in Russian funds or companies via customer unit linked funds, and we are working with customers that are exposed to help them.</p>

PR2 - REGULATORY CHANGE RISK (INCLUDING BREXIT)	
DESCRIPTION	The risk of adverse changes in industry practice/regulation, or inconsistent application of regulation across territories.
RISK APPETITE	The group aims to minimise any exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.
POTENTIAL IMPACT	<p>Chesnara currently operates in three regulatory domains and is therefore exposed to potential for inconsistent application of regulatory standards across divisions, such as the imposition of higher capital buffers over and above regulatory minimum requirements. Potential consequences of this risk for Chesnara are the constraining of efficient and fluid use of capital within the group or creating a non-level playing field with respect to future new business/acquisitions.</p> <p>Regulatory developments continue to drive a high level of change activity across the group, with items such</p>

	<p>as operational resilience, climate change and IFRS17 being particularly high profile. Such regulatory initiatives carry the risk of expense overruns should it not be possible to adhere to them in a manner that is proportionate to the nature and scale of Chesnara's businesses. The group is therefore exposed to the risk of:</p> <ul style="list-style-type: none"> incurring one-off costs of addressing regulatory change as well as any permanent increases in the cost base in order to meet enhanced standards; erosion in value arising from pressure or enforcement to reduce future policy charges; erosion in value arising from pressure or enforcement to financially compensate for past practice; and regulatory fines or censure in the event that it is considered to have breached standards or fails to deliver changes to the required regulatory standards on a timely basis.
KEY CONTROLS	RECENT CHANGE / OUTLOOK
<p>Chesnara seeks to limit any potential impacts of regulatory change on the business by:</p> <ul style="list-style-type: none"> Having processes in place for monitoring changes, to enable timely actions to be taken, as appropriate; Maintaining strong open relationships with all regulators, and proactively discussing their initiatives to encourage a proportional approach Being a member of the ABI and equivalent overseas organisations and utilising other means of joint industry representation; Performing internal reviews of compliance with regulations; and Utilising external specialist advice and assurance, when appropriate. <p>Regulatory risk is monitored and scenario tests are performed to understand the potential impacts of adverse political, regulatory or legal changes, along with consideration of actions that may be taken to minimise the impact, should they arise.</p>	<p>The jurisdictions which Chesnara operates in are currently subject to significant change arising from political, regulatory and legal change. These may either be localised or may apply more widely, following from EU-based regulation and law, or the potential unwinding of this following the UK's departure from the EU.</p> <p>The PRA's post Brexit transition period ends on 31 March 2022. In addition, the UK Treasury and EIOPA are both undertaking a review of SII rules implementation. There is potential for divergence of regulatory approaches amongst European regulators with potential implications for Chesnara's capital, regulatory supervision and structure.</p> <p>The group has considered any restructuring which could be required to align to changes in the requirements of cross border regulatory supervision. In extremis, Chesnara could consider the re-domiciling of subsidiaries or legal restructure of the business, should this result in a more commercially acceptable business model in a changed operating environment. In addition, there are a number of potential secondary impacts such as economic implications, and the effect of any regulatory divergence as the PRA progresses SII-equivalent regulation for the UK businesses. Chesnara will monitor the consultation and discussions arising under EIOPA's Solvency II Review, and in the context of Brexit and the UK's ultimate position regarding SII equivalence.</p> <p>The group is subject to evolving regimes governing the recovery, resolution or restructuring of insurance companies. As part of the global regulatory response to the risk that systemically important financial institutions could fail, banks, and more recently insurance companies, have been the focus of new recovery and resolution planning requirements developed by regulators and policy makers nationally and internationally. It remains unclear to what extent any future recovery and resolution regime could apply to the group in the future and, consequently, what the implications of such a development would be for the group and its creditors.</p>

PR3 - ACQUISITION RISK	
DESCRIPTION	The risk of failure to source acquisitions that meet Chesnara's criteria or the execution of acquisitions with subsequent unexpected financial losses or value reduction.
RISK APPETITE	Chesnara has a patient approach to acquisition and generally expects acquisitions to enhance EcV and expected cash generation in the medium term (net of external financing), though each opportunity will be assessed on its own merits.
POTENTIAL IMPACT	<p>The acquisition element of Chesnara's growth strategy is dependent on the availability of attractive future acquisition opportunities. Hence, the business is exposed to the risk of a reduction in the availability of suitable acquisition opportunities within Chesnara's current target markets, for example arising as a result of a change in competition in the consolidation market or from regulatory change influencing the extent of life company strategic restructuring.</p> <p>Through the execution of acquisitions, Chesnara is also exposed to the risk of erosion of value or financial losses arising from risks inherent within businesses or funds acquired which are not adequately priced for or mitigated as part of the transaction.</p> <p>We have assessed that COVID-19 does not materially increase the level by which Chesnara is exposed to this risk.</p>
KEY CONTROLS	RECENT CHANGE / OUTLOOK
Chesnara's financial strength, strong relationships and reputation as a "safe hands acquirer" via regular contact with regulators, banks and target companies enables the company to adopt a patient and risk-based approach to assessing acquisition opportunities. Operating in multi-territories provides some diversification against the risk of changing market circumstances in one of the territories. Consideration of additional	Chesnara has completed a portfolio acquisition in the Netherlands during 2021 and has agreed to complete further acquisitions the first half of 2022, one in the UK and another in the Netherlands, whilst maintaining the established disciplines within the Acquisition Policy.

<p>territories within Western-Europe remains on the agenda, if the circumstances of entry meet Chesnara's stated criteria.</p> <p>Chesnara seeks to limit any potential unexpected adverse impacts of acquisitions by:</p> <ul style="list-style-type: none"> - Applying a structured board approved risk-based Acquisition Policy including CRO involvement in the due diligence process and deal refinement processes; - Having a management team with significant and proven experience in mergers and acquisitions; and - Adopting a cautious risk appetite and pricing approach. 	<p>The successful Tier 2 debt raise, in addition to diversifying the group's capital structure, has provided additional flexibility in terms of funding Chesnara's future growth strategy.</p>
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PR4 - DEMOGRAPHIC EXPERIENCE RISK	
DESCRIPTION	Risk of adverse demographic experience compared with assumptions (such as rates of mortality, morbidity, persistency etc.)
RISK APPETITE	The group accepts this risk but restricts its exposure, to the extent possible, through the use of reinsurance and other controls. Early warning trigger monitoring is in place to track any increase or decrease in the risk exposure beyond a set level, with action taken to address any impact as necessary.
POTENTIAL IMPACT	<p>In the event that demographic experience (rates of mortality, morbidity, persistency etc.) varies from the assumptions underlying product pricing and subsequent reserving, more or less profit will accrue to the group.</p> <p>The effect of recognising any changes in future demographic assumptions at a point in time would be to crystallise any expected future gain or loss on the balance sheet.</p> <p>If mortality or morbidity experience is higher than that assumed in pricing contracts (i.e. more death and sickness claims are made than expected), this will typically result in less profit accruing to the group.</p> <p>If persistency is significantly lower than that assumed in product pricing and subsequent reserving, this will typically lead to reduced group profitability in the medium to long-term, as a result of a reduction in future income arising from charges on those products. The effects of this could be more severe in the case of a one-off event resulting in multiple withdrawals over a short period of time (a "mass lapse" event).</p>
KEY CONTROLS	RECENT CHANGE / OUTLOOK
<p>Chesnara performs close monitoring of persistency levels across all groups of business to support best estimate assumptions and identify trends. There is also partial risk diversification in that the group has a portfolio of annuity contracts where the benefits cease on death.</p> <p>Chesnara seeks to limit the impacts of adverse demographic experience by:</p> <ul style="list-style-type: none"> - Aiming to deliver good customer service and fair customer outcomes; - Having effective underwriting techniques and reinsurance programmes, including the application of "Mass Lapse reinsurance", where appropriate; - Carrying out regular investigations, and industry analysis, to support best estimate assumptions and identify trends; - Active investment management to ensure competitive policyholder investment funds; and - Maintaining good relationships with brokers, which is independently measured via yearly external surveys that considers brokers attitude towards different insurers. 	<p>Legislation introduced at the start of 2020, and enhanced at the start of 2021, made it easier for customers to transfer insurance policies in Sweden. Even before the legislation passed, this resulted in higher transfer activity in the market, particularly driven by brokers. The higher rates of transfers have persisted through 2021 as a result of the legislation and compounded by a competitive market, resulting in further changes to the transfer assumptions.</p> <p>COVID-19 increased the number of deaths arising in 2020 and 2021. The effect of this is expected to be more pronounced in older lives rather than in the typical ages of the assured lives in the Chesnara books. Chesnara does not expect the pandemic to have a material impact on mortality experience and costs in the long-term.</p>

PR5 - EXPENSE RISK	
DESCRIPTION	Risk of expense overruns and unsustainable unit cost growth.
RISK APPETITE	The group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.
POTENTIAL	The group is exposed to expenses being higher than expected as a result of one-off increases in the

IMPACT	<p>underlying cost of performing key functions, or through higher inflation of variable expenses.</p> <p>A key underlying source of potential increases in regular expense is the additional regulatory expectations on the sector.</p> <p>For the closed funds, the group is exposed to the impact on profitability of fixed and semi-fixed expenses, in conjunction with a diminishing policy base.</p> <p>For the companies open to new businesses, the group is exposed to the impact of expense levels varying adversely from those assumed in product pricing. Similar, for acquisitions, there is a risk that the assumed costs of running the acquired business allowed for in pricing are not achieved in practice, or any assumed cost synergies with existing businesses are not achieved.</p>
KEY CONTROLS	RECENT CHANGE / OUTLOOK
<p>For all subsidiaries, the group maintains a regime of budgetary control.</p> <ul style="list-style-type: none"> – Movestic and Scildon assume growth through new business such that the general unit cost trend is positive; – The Waard Group pursues a low cost-base strategy using a designated service company. The cost base is supported by service income from third party customers; – Countrywide Assured pursues a strategy of outsourcing functions with charging structures such that the policy administration cost is more aligned to the book's run off profile; and – With an increased current level of operational and strategic change within the business, a policy of strict Project Budget Accounting discipline is being upheld by the group for all material projects. 	<p>Chesnara has an ongoing expense management programme and various strategic projects aimed at controlling expenses.</p> <p>Inflation has materially increased during 2021 in all territories including both long term measures and short-term distortions in wage inflation due to the economic impacts of COVID-19 e.g., the operation of the furlough scheme. Higher inflation would increase Chesnara's expected longer-term cost base.</p> <p>Through its exposures to investments in real asset classes, both direct and indirect, Chesnara has an indirect hedge against the effects of inflation and will consider more direct inflation hedging options should circumstances determine that to be appropriate.</p>

PR6 - OPERATIONAL RISK	
DESCRIPTION	Significant operational failure/business continuity event.
RISK APPETITE	The group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.
POTENTIAL IMPACT	<p>The group and its subsidiaries are exposed to operational risks which arise through 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. As a result, the group may suffer financial losses, poor customer outcomes, reputational damage, regulatory intervention or business plan failure.</p> <p>Part of the group's operating model is to outsource support activities to specialist service providers. Consequently, a significant element of the operational risk arises within its outsourced providers.</p>
KEY CONTROLS	RECENT CHANGE / OUTLOOK
<p>The group perceives operational risk as an inherent part of the day-to-day running of the business and understands that it can't be completely eliminated. However, the Company's objective is to always control or mitigate operational risks, and to minimise the exposure when it's possible to do so in a convenient and cost-effective way.</p> <p>Chesnara seeks to reduce the impact and likelihood of operational risk by:</p> <ul style="list-style-type: none"> – Monitoring of key performance indicators and comprehensive management information flows; – Effective governance of outsourced service providers including a regular financial assessment. Under the terms of the contractual arrangements the group may impose penalties and/or exercise step-in rights in the event of specified adverse circumstances; – Regular testing of business continuity plans; – Regular staff training and development; – Employee performance management frameworks; – Promoting the sharing of knowledge and expertise; and – Complementing internal expertise with established relationships with external specialist partners. 	<p>Operational resilience remains a key focus for the business and high on the regulatory agenda following the regulatory changes published by the BoE, PRA and FCA. Chesnara Plc is progressing activity as part of a UK Operational Resilience project to identify important business services, carry out scenario testing and establish respective impact tolerances. Each Business Unit continues to carry out assurance activities through local business continuity programmes to ensure robust plans are in place to limit business disruption in a range of severe but plausible events. In response to COVID-19, Chesnara, its subsidiaries and outsourced service providers all adapted to remote working conditions, utilising communication technology as required and implementation of additional controls.</p>

PR7 - IT / DATA SECURITY & CYBER RISK		
DESCRIPTION	Risk of IT/ data security failures or impacts of malicious cyber-crime (including ransomware) on continued operational stability.	
RISK APPETITE	The group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.	
POTENTIAL IMPACT	<p>Cyber risk is a growing risk affecting all companies, particularly those who are custodians of customer data. The most pertinent risk exposure relates to information security (i.e. protecting business sensitive and personal data) and can arise from failure of internal processes and standards, but increasingly companies are becoming exposed to potential malicious cyber-attacks, organisation specific malware designed to exploit vulnerabilities, phishing attacks etc. The extent of Chesnara's exposure to such threats also includes third party service providers.</p> <p>The potential impact of this risk includes financial losses, inability to perform critical functions, disruption to policyholder services, loss of sensitive data and corresponding reputational damage or fines.</p>	
KEY CONTROLS		RECENT CHANGE / OUTLOOK
<p>Chesnara seeks to limit the exposure and potential impacts from IT/data security failures or cyber-crime by:</p> <ul style="list-style-type: none"> Embedding the Information Security Policy in all key operations and development processes; Seeking ongoing specialist external advice, modifications to IT infrastructure and updates as appropriate; Delivering regular staff training and attestation to the information security policy; Regular employee phishing tests and awareness sessions; Ensuring the board encompasses directors with information technology and security knowledge; Conducting penetration and vulnerability testing, including third party service providers; Executive committee and board level responsibility for the risk, included dedicated IT security committees with executive membership; Having established Chesnara and supplier business continuity plans which are regularly monitored and tested; Ensuring Chesnara's outsourced IT service provider maintains relevant information security standard accreditation (ISO27001); and Monitoring network and system security including firewall protection, antivirus and software updates. <p>In addition, a designated Steering Group provides oversight of the IT estate and Information Security environment including:</p> <ul style="list-style-type: none"> Changes and developments to the IT estate; Performance and security monitoring; Oversight of Information Security incident management; Information Security awareness and training; Development of Business Continuity plans and testing; and Overseeing compliance with the Information Security Policy. 		<p>Chesnara continues to invest in the incremental strengthening of its cyber risk resilience and response options.</p> <p>No reports of material data breaches.</p> <p>The move to remote working, as a result of COVID-19, had the potential to increase cyber risk for businesses and therefore various steps were taken to enhance security, processes and controls to protect against this.</p> <p>It is anticipated that cyber crime campaigns originating from Russia will increase, with some suppliers already reporting an increase in information security threats which some are saying is state sponsored. Although Chesnara is not considered to be a direct target of any such campaigns, all business units have confirmed that they have increased monitoring and detection/ protection controls in relation to the increased threat.</p>

PR8 – NEW BUSINESS RISK		
DESCRIPTION	Adverse new business performance compared with projected value.	
RISK APPETITE	Chesnara does not wish to write new business that does not generate positive new business value (on a commercial basis) over the business planning horizon.	
POTENTIAL IMPACT	If new business performance is significantly lower than the projected value, this will typically lead to reduced value growth in the medium to long-term. A sustained low level performance may lead to insufficient new business profits to justify remaining open to new business.	
KEY CONTROLS		RECENT CHANGE / OUTLOOK
<p>Chesnara seeks to limit any potential unexpected adverse impacts of acquisitions by:</p> <ul style="list-style-type: none"> Monitoring quarterly new business profit performance; Investing in brand and marketing; Maintaining good relationships with brokers; Offering attractive products that suit customer 		<p>COVID-19 caused some volatility in new business volumes across markets as well as in individual business' volumes during 2021.</p> <p>Overall volumes during the pandemic have been lower than historic levels, largely as a result of restrictions on face-to-face sales meetings and customer demand.</p> <p>Competition has increased in the Swedish market resulting in lower transfers</p>

<p>needs;</p> <ul style="list-style-type: none"> Monitoring market position and competitor pricing, adjusting as appropriate; Maintaining appropriate customer service levels and experience; and Monitoring market and pricing movements. 	<p>in and higher transfers out. This activity has been further enabled to a degree by new legislation in Sweden. As a result of recent changes in competitor offerings, making them less attractive, 'transfers out' have begun to trend back down towards more normal levels.</p> <p>Scildon has increased market share in protection business within the Netherlands.</p> <p>There is potential for COVID-19 to influence the operating environment on a long-term basis and drive changes in competitor, regulator or counterparty (e.g. broker) behaviours. For example, any restrictions on Brokers meeting new customers face to face could result in increased focus on the existing customers and risk of churn.</p>
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PR9 – REPUTATIONAL RISK	
DESCRIPTION	Poor or inconsistent reputation with customers, regulators, investors, staff or other key stakeholders/counterparties.
RISK APPETITE	The group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.
POTENTIAL IMPACT	<p>The group is exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential client information (including the loss or theft of customer data), IT failures or disruption, cyber security breaches and/or inadequate services, amongst others, whether true or not, could impact its brand or reputation. The group's brand and reputation could also be affected if products or services recommended by it (or any of its intermediaries) do not perform as expected (whether or not the expectations are realistic) or in line with the customers' expectations for the product range.</p> <p>Any damage to the group's brand or reputation could cause existing customers or partners to withdraw their business from the group, and potential customers or partners to elect not to do business with the Group and could make it more difficult for the group to attract and retain qualified employees.</p>
KEY CONTROLS	RECENT CHANGE / OUTLOOK
<p>Chesnara seeks to limit any potential reputational damage by:</p> <ul style="list-style-type: none"> Regulatory publication reviews and analysis Timely response to regulatory requests Open and honest communications HR policies and procedures Fit & Proper procedures Operational and IT Data Security Frameworks Product governance and remediation frameworks Appropriate due diligence and oversight of outsourcers and third parties 	<p>Given the global focus on climate change as well as the significant momentum in the finance industry, the group is exposed to strategic and reputational risks arising from its action or inaction in response to climate change as well the regulatory and reputational risks arising from its public disclosures on the matter.</p> <p>In relation to the Ukraine / Russia conflict, no material exposure has been identified in terms of the group's key counterparty connections. There are limited indirect connections through third parties who have a presence in Russia and Chesnara has confirmed that there are no obvious links with Russia through its shareholders or stockbrokers.</p>

DIRECTORS' RESPONSIBILITIES STATEMENT

With regards to this preliminary announcement, the Directors confirm to the best of their knowledge that:

- The financial statements have been prepared in accordance with United Kingdom adopted international accounting standards and give a true and fair view of the assets, liabilities, financial position and profit for the Company and the undertakings included in the consolidation as a whole;
- Pursuant to Disclosure and Transparency Rules Chapter 4, the Chairman's Statement and Management Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the business.

On behalf of the Board

Luke Savage
Chairman

Steve Murray
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHESNARA PLC ON THE PRELIMINARY ANNOUNCEMENT OF CHESNARA PLC

As the independent auditor of Chesnara plc we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Chesnara plc's preliminary announcement statement of annual results for the year ended 31 December 2021.

The preliminary statement of annual results for the year ended 31 December 2021 includes disclosures required by the Listing Rules and any additional content such as highlights, Chairman's Statement, component business review, a consolidated statement of comprehensive income, balance sheet and statement of cash flows. We are not required to agree to the publication of presentations to analysts.

The directors of Chesnara plc are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council's Bulletin "The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules".

Status of our audit of the financial statements

Our audit of the annual financial statements of Chesnara plc is complete and we signed our auditor's report on 30 March 2022. Our auditor's report is not modified and contains no emphasis of matter paragraph. Our audit report on the full financial statements sets out the following key audit matters which had the greatest effect on our overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those key audit matters and the key observations arising from our work:

Valuation of Scildon insurance liabilities

Key audit matter description Scildon measures the majority of its insurance contract liabilities using historical market rates of interest along with a number of other parameters and assumptions. At 31 December 2021, the Scildon insurance liabilities contributed £1.9bn of the group total of £3.8bn. IFRS 4 requires an insurer, at the end of each reporting period, to assess whether its recognised insurance liabilities are adequate, using current estimates of future cash flows (the "Liability adequacy test", or "LAT"). Given Scildon's accounting policy makes use of historical market interest rates, there is a heightened risk that its reserves under IFRS 4 are not adequate.

We therefore consider the initial parameter setting process and LAT as key audit matters, specifically in relation to the mortality, lapse and expense assumptions which feed into the test, given that the insurance liabilities are most sensitive to these factors.

We have also deemed there to be a risk of fraud, due to the inherent risk of management overriding internal controls around the setting of the parameters used to calculate the reserves at inception.

The accounting policy adopted by the group is documented within note 2(g) to the financial statements, with the assumptions and sensitivities set out within note 28 therewith.

How the scope of our audit responded In respect of the adequacy of Scildon reserves:

- we gained an understanding of the relevant controls around the setting of the assumptions feeding into the LAT;
- with the involvement of actuarial specialists, we challenged the mortality, lapse

to the key audit matter	<p>and expense assumptions which feed into the test, by evaluating experience, supporting documents and calculations;</p> <ul style="list-style-type: none"> • we assessed the results of the experience investigations carried out by management to determine whether they provide support for the assumptions; • we performed analytics on policy cash flows, and carried out further investigation on outliers and movements compared to the prior period; and • for a sample of policies, we recalculated the reserve at a policy level, using our independent replication model, and compared the results to those produced by management.
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Key observations	Based on the procedures performed, we concluded that the initial parameter setting process were reasonable, and LAT performed by management was reasonable, supporting the valuation of Scildon's insurance contract liabilities.
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Valuation of Movestic Deferred Acquisition Costs intangible asset

Key audit matter description	<p>Acquisition costs relating to investment contracts comprise directly attributable incremental acquisition costs, which vary with, and are related to, securing new business, are recognised as an asset to the extent that they represent the contractual right to future benefits from the provision of investment management service. The asset is presented as a deferred acquisition cost asset, and is amortised over the expected term of the contract, as the fees relating to the provision of the services are recognised.</p> <p>There are a number of key judgement areas within this balance, both in terms of the amortisation period selected for the DAC and also in management's assessment of the asset for impairment. The impairment assessment is most sensitive to mortality, transfer, surrender, and expense assumptions.</p> <p>As at year end 2021, the DAC balance held on the group balance sheet totalled £63.3m (2020; £69.1m), of which £53.6m (2020; £58.5m) related to the Movestic component. Due to the significance of the balance and the uncertainty brought about by regulatory changes and competition in the Swedish market, driving an increase in transfers out, we identified a key audit matter related to the valuation of the Movestic DAC.</p> <p>Due to the potential for management to introduce inappropriate bias to judgements made in the impairment assessment, we have determined that there was a risk of misstatement due to fraud.</p> <p>The accounting policy relating to deferred acquisition costs has been presented through note 2(g)iii to the financial statements, and details of the balance and movement are set out in note 18 therewith.</p>
How the scope of our audit responded to the key audit matter	<p>In respect of the Movestic DAC:</p> <ul style="list-style-type: none"> • we gained an understanding of the relevant controls in place around the setting of the amortisation profile, and the impairment test; • we have assessed the rationale for the expense ledger balances capitalised, and performed tests of detail around contracts to assess the valuation of the DAC; • we have created an expectation of the DAC balance using the amounts capitalised through the period, offset with the amortisation charge. We have also performed investigation into any differences; • with the involvement of actuarial specialists, we challenged the amortisation profile adopted by management, by constructing a range of independent amortisation profiles based on alternative data; and • with the involvement of actuarial specialists we challenged the reasonableness of management's assumptions within the impairment test by

evaluating experience, supporting documents and calculations.

Key observations	Based on the procedures performed, we consider the DAC valuation to be appropriate.
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Valuation of Chesnara plc's investment in CA plc

Key audit matter description	Chesnara plc, the group's parent entity, holds a total investment of £354.7m (2020: £354.7m) on the company balance sheet relating to its investment in group subsidiaries, of which £167.9m (2020: £167.9m) related to the UK entity, CA plc. The balance is held at cost less impairment.
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In line with IAS 36 Impairment of Assets, management are required to carry out an impairment assessment annually to ensure that the investment in CA plc is not carried at more than the recoverable amount, which is the higher of fair value less costs of disposal and value in use. Management have historically deemed EcV to be an appropriate proxy for the IAS 36 "value in use" within their impairment assessment. Management's definition of EcV has been set out on page 218 of the financial statements.

The reduction of the CA plc EcV by £19.6m between 31 December 2020 (£187.2m) and 30 June 2021 (£167.6m) was an indicator that the investment could be impaired at 31 December 2021. We therefore identified a key audit matter relating to the balance.

The impairment assessment performed by management as at the balance sheet date highlighted c.£14.0m (2020: £19.3m) of headroom over the carrying value of the investment, and hence no impairment was deemed necessary.

Due to the potential for management to introduce inappropriate bias to judgements made in the impairment assessment, we have determined that there was a risk of misstatement due to fraud.

The accounting policy relating to the valuation of Chesnara plc's investment in CA plc has been presented through note 2(hh) to the financial statements, with details of the balance and movement within note 22 therewith.

How the scope of our audit responded to the key audit matter	<p>In respect of the investment in Countrywide Assured plc:</p> <ul style="list-style-type: none">• we gained an understanding of the relevant controls in place around the impairment assessment;• we evaluated management's methodology and the appropriateness of using EcV as a proxy for the "value in use" with reference to the requirements of IAS 36;• we challenged management's assessment by performing benchmarking against other recent industry transactions to gain corroborative and contradictory evidence; and• with the support of our actuarial specialists, we have challenged the adjustments made to the IFRS balance sheet to arrive at EcV.
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Key observations	Based on the procedures performed, we consider the carrying value of Chesnara plc's investment in CA plc on the company balance sheet to be appropriate.
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These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we did not provide a separate opinion on these matters.

Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement of annual results of Chesnara plc we carried out the following procedures:

- (a) checked that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited or draft financial statements and reflect the presentation to be adopted in the audited financial statements;
- (b) considered whether the information (including the management commentary) is consistent with other expected contents of the annual report;
- (c) considered whether the financial information in the preliminary announcement is misstated;
- (d) considered whether the preliminary announcement includes a statement by directors as required by section 435 of CA 2006 and whether the preliminary announcement includes the minimum information required by UKLA Listing Rule 9.7A.1;
- (e) where the preliminary announcement includes alternative performance measures ("APMs"), considered whether appropriate prominence is given to statutory financial information and whether:
 - the use, relevance and reliability of APMs has been explained;
 - the APMs used have been clearly defined, and have been given meaningful labels reflecting their content and basis of calculation;
 - the APMs have been reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period; and
 - comparatives have been included, and where the basis of calculation has changed over time this is explained.
- (f) read the management commentary, any other narrative disclosures and any final interim period figures and considered whether they are fair, balanced and understandable.

Use of our report

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

Andrew Holland, FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Bristol, United Kingdom

30 March 2022

IFRS FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	2021	2020
	£000	£000
Insurance premium revenue	312,046	293,365
Insurance premium ceded to reinsurers	(115,881)	(42,907)
Net insurance premium revenue	196,165	250,458
Fee and commission income	89,975	92,698
Net investment return	1,172,988	254,568
Other operating income	46,568	40,181

Total income net of investment return	1,505,696	637,905
Insurance contract claims and benefits incurred:		
Claims and benefits paid to insurance contract holders	(506,490)	(420,031)
Net (increase)/decrease in insurance contract provisions	(23,577)	6,869
Reinsurers' share of claims and benefits	60,168	48,178
Net insurance contract claims and benefits	(469,899)	(364,984)
Change in investment contract liabilities	(902,579)	(110,878)
Reinsurers' share of investment contract liabilities	4,110	1,340
Net change in investment contract liabilities	(898,469)	(109,538)
Fees, commission and other acquisition costs	(24,023)	(23,625)
Administrative expenses	(67,925)	(70,952)
Other operating expenses:		
Charge for impairment of acquired value of in-force business	–	(27,623)
Charge for amortisation of acquired value of in-force business	(8,184)	(9,562)
Charge for amortisation of acquired value of customer relationships	(55)	(63)
Other	(5,964)	(5,062)
Total (expenses)/income net of change in insurance contract provisions and investment contract liabilities	(1,474,519)	(611,409)
Total income less expenses	31,177	26,496
Post completion (loss)/gain on portfolio acquisition	(93)	388
Financing costs	(2,272)	(2,299)
Profit before income taxes	28,812	24,585
Income tax expense	(1,518)	(3,394)
Profit for the year	27,294	21,191
Items that may be reclassified to profit and loss:		
Foreign exchange translation differences arising on the revaluation of foreign operations	(23,879)	22,618
Revaluation of land and building	369	(464)
Other comprehensive income for the year, net of tax	(23,510)	22,154
Total comprehensive income for the year	3,784	43,345
Basic earnings per share (based on profit for the year)	18.18p	14.12p
Diluted earnings per share (based on profit for the year)	18.00p	14.03p

CONSOLIDATED BALANCE SHEET

31 December	2021	2019
	£000	£000
Assets		
Intangible assets:		
Deferred acquisition costs	63,327	69,051
Acquired value of in-force business	49,629	61,655
Acquired value of customer relationships	320	409
Software assets	8,885	8,508
Property and equipment	7,830	8,718
Investment properties	1,071	1,124
Reinsurers' share of insurance contract provisions	247,750	197,068
Amounts deposited with reinsurers	38,295	37,026
Financial assets:		
Equity securities at fair value through income	6,352	10,180
Holdings in collective investment schemes at fair value through income	6,858,054	6,714,303
Debt securities at fair value through income	978,199	1,098,559
Policyholders' funds held by the group	990,700	332,117
Financial assets held at amortised cost	293,811	344,918

Derivative financial instruments	264	830
Total financial assets	9,127,380	8,500,907
Insurance and other receivables	35,613	45,048
Prepayments	13,245	13,349
Reinsurers' share of accrued policyholder claims	16,340	12,716
Income taxes	7,233	4,566
Cash and cash equivalents	70,087	105,351
Total assets	9,687,005	9,065,496
Liabilities		
Insurance contract provisions	3,818,412	3,958,037
Other provisions	992	613
Financial liabilities:		
Investment contracts at fair value through income	4,120,572	4,035,040
Liabilities relating to policyholders' funds held by the group	990,700	332,117
Lease contract liabilities	2,019	2,844
Borrowings	47,185	66,955
Derivative financial instruments	–	3
Total financial liabilities	5,160,476	4,436,959
Deferred tax liabilities	15,699	19,086
Reinsurance payables	70,414	2,863
Payables related to direct insurance and investment contracts	129,262	96,337
Deferred income	2,809	3,355
Income taxes	6,527	9,427
Other payables	23,991	50,107
Bank overdrafts	256	1,645
Total liabilities	9,228,838	8,578,429
Net assets	458,167	487,067
Shareholders' equity		
Share capital	7,496	43,768
Merger reserve	36,272	–
Share premium	142,085	142,085
Other reserves	7,262	30,772
Retained earnings	265,052	270,442
Total shareholders' equity	458,167	487,067

Approved by the board of directors and authorised for issue on 30 March 2022 and signed on its behalf by:

Luke Savage Steve Murray
Chairman Chief Executive Officer

Company Number: 04947166

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	2021	2020
	£000	£000
Profit for the year	27,294	21,191
Adjustments for:		
Depreciation of property and equipment	749	637
Amortisation of deferred acquisition costs	13,370	12,845
Impairment of acquired value of in-force business	–	27,623
Amortisation of acquired value of in-force business	8,184	9,562
Amortisation of acquired value of customer relationships	55	63
Amortisation of software assets	1,382	1,292
Depreciation on right of use assets	739	757
Interest on lease liabilities	95	55

Share based payment	593	492
Tax paid	1,518	3,128
Interest receivable	(2,269)	(2,987)
Dividends receivable	(614)	(1,929)
Interest expense	2,177	2,244
Impairment losses	–	1,019
Fair value gains on financial assets	(990,914)	(138,119)
Increase in intangible assets related to insurance and investment contracts	(8,938)	(15,316)
Interest received	2,493	5,335
Dividends received	1,930	3,241
Changes in operating assets and liabilities:		
Increase in financial assets	(187,975)	(150,789)
Increase in reinsurers' share of insurance contract provisions	(37,747)	(6,981)
Decrease in amounts deposited with reinsurers	5,858	304
Decrease in insurance and other receivables	5,980	6,763
Increase in prepayments	(873)	(4,227)
Increase in insurance contract provisions	15,534	233,055
Increase in investment contract liabilities	1,098,809	36,539
Increase in provisions	445	39
Increase/(decrease) in reinsurance payables	67,766	(523)
Increase in payables related to direct insurance and investment contracts	35,701	7,451
(Decrease)/increase in other payables	(24,950)	6,188
Net cash generated from operations	36,392	58,952
Income tax paid	(9,796)	(6,456)
Net cash generated from operating activities	26,596	52,496
Cash flows from investing activities		
Development of software	–	2,734
Purchases of property and equipment	(3,636)	(857)
Net cash (utilised)/generated by investing activities	(3,636)	1,877
Cash flows from financing activities		
Proceeds from issue of share capital	–	1
Share premium arising on issue of share capital	–	32
Repayments of borrowings	(16,102)	(26,094)
Repayment of lease liabilities	(598)	(695)
Dividends paid	(33,276)	(32,294)
Interest paid	(2,271)	(2,295)
Net cash utilised by from financing activities	(52,247)	(61,345)
Net decrease in net cash and cash equivalents	(29,287)	(6,972)
Net cash and cash equivalents at beginning of year	103,706	106,782
Effect of exchange rate changes on net cash and cash equivalents	(4,588)	3,896
Net cash and cash equivalents at end of the year	69,831	103,706

Note: Net cash and cash equivalents includes overdrafts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Merger reserve	Other reserves	Treasury shares	Retained earnings	Total
	£000	£000	£000	£000	£000	£000	£000
Equity shareholders' funds at 1 January 2021 (as previously restated)	43,768	142,085	–	30,772	–	270,442	487,067
Transfer to merger reserve	(36,272)	–	36,272	–	–	–	–

Equity shareholders' funds at 1 January 2021 (restated)	7,496	142,085	36,272	30,772	–	270,442	487,067
Profit for the year	–	–	–	–	–	27,294	27,294
Dividends paid	–	–	–	–	–	(33,277)	(33,277)
Foreign exchange translation differences	–	–	–	(23,879)	–	–	(23,879)
Revaluation of land and buildings	–	–	–	369	–	–	369
Share based payment	–	–	–	–	–	593	593
Equity shareholders' funds at 31 December 2021	7,496	142,085	36,272	7,262	–	265,052	458,167

Year ended 31 December 2020

	Share capital	Share premium	Merger reserves	Other reserve	Treasury shares	Retained earnings	Total
	£000	£000	£000	£000	£000	£000	£000
Equity shareholders' funds at 1 January 2020	43,767	142,053	–	8,618	–	281,053	475,491
Profit for the year	–	–	–	–	–	21,191	21,191
Issue of share capital	1	–	–	–	–	–	1
Issue of share premium	–	32	–	–	–	–	32
Dividends paid	–	–	–	–	–	(32,294)	(32,294)
Foreign exchange translation differences	–	–	–	22,618	–	–	22,618
Revaluation of land and buildings	–	–	–	(464)	–	–	(464)
Share based payment	–	–	–	–	–	492	492
Equity shareholders' funds at 31 December 2020	43,768	142,085	–	30,772	–	270,442	487,067

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

1. Basis of presentation

The preliminary announcement is based on the group's financial statements for the year ended 31 December 2021, which are prepared in accordance with United Kingdom adopted international accounting standards in conformity with the requirements of the Companies Act 2006.

2. Significant accounting policies

The accounting policies applied by the group in determining the IFRS basis results in this report are the same as those previously applied in the group's consolidated financial statements.

3. Operating segments

The group considers that it has no product or distribution-based business segments. It reports segmental information on the same basis as reported internally to the chief operating decision maker, which is the board of directors of Chesnara plc.

The segments of the group as at 31 December 2021 comprise:

- **CA:** This segment represents the group's UK life insurance and pensions run-off portfolio and comprises the original business of Countrywide Assured plc, the group's principal UK operating subsidiary, and of City of Westminster Assurance Company Limited which was acquired in 2005 and the long-term business of which was transferred to Countrywide Assured plc (CA) during 2006. This segment also contains Save & Prosper Insurance Limited which was acquired on 20 December 2010 and its then subsidiary Save & Prosper Pensions Limited. The S&P business was transferred to CA during 2011. This segment also contains the business of Protection Life, which was purchased on 28 November 2013 and the business of which was transferred to CA effective from 1 January 2015. CA is responsible for conducting unit-linked and non-linked business, including a with-profits portfolio, which carries significant additional market risk.
- **Movestic:** This segment comprises the group's Swedish life and pensions business, Movestic Livförsäkring AB ('Movestic') and its subsidiary and associated companies, which are open to new business and which are responsible for conducting both unit-linked and pensions and savings business and providing some life and health product offerings.
- **Waard Group:** This segment represents the group's closed Dutch life and general insurance business, which was acquired on 19 May 2015 and comprised the three insurance companies Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V., and a servicing company, Waard Verzekering. During 2017, the book of policies held within Hollands Welvaren Leven N.V. was successfully integrated into Waard Leven and consequently Hollands Welvaren Leven N.V. was deregistered on 19 December 2018. The Waard Group's 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. On 1 October, the Waard Group acquired a small portfolio of c6,000 policies from Monuta insurance, which consists of term and savings policies. On 21 November 2019, the Waard Group completed a deal to acquire a portfolio of term life insurance policies and saving mortgages insurance policies. The completion took place on the 31 August 2020, at which stage Waard Group obtained control. On 31 December 2020, Waard entered into an agreement to acquire a portfolio of term life insurance policies, Unit Linked policies and funeral insurance policies from Dutch insurance provider Brand New Day Levensverzekering N.V. (BND). The portfolio was successfully migrated on 10 April 2021.

- **Scildon:** This segment represents the Group's open Dutch life insurance business, which was acquired on 5 April 2017. Scildon's policy base is predominantly made up of individual protection and savings contracts. It is open to new business and sells protection, individual savings and group pension contracts via a broker-led distribution model.
- **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.

The accounting policies of the segments are the same as those for the group as a whole. Any transactions between the business segments are on normal commercial terms in normal market conditions. The group evaluates performance of operating segments on the basis of the profit before tax attributable to shareholders of the reporting segments and the group as a whole. There were no changes to the measurement basis for segment profit during the year ended 31 December 2021.

(i) Segmental income statement for the year ended 31 December 2021

	CA (UK) £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other Group Activities (UK) £000	Total £000
Insurance premium revenue	36,004	13,796	32,546	229,700	–	312,046
Insurance premium ceded to reinsurers	(87,353)	(5,374)	(3,406)	(19,748)	–	(115,881)
Net insurance premium revenue	(51,349)	8,422	29,140	209,952	–	196,165
Fee and commission income	22,140	18,029	76	49,730	–	89,975
Net investment return	179,662	821,381	11,928	160,006	11	1,172,988
Other operating income	13,681	32,887	–	–	–	46,568
Segmental revenue, net of investment return	164,134	880,719	41,144	419,688	11	1,505,696
Net insurance contract claims and benefits incurred	(34,545)	(2,787)	(35,849)	(396,718)	–	(469,899)
Net change in investment contract liabilities	(77,568)	(820,901)	–	–	–	(898,469)
Fees, commission and other acquisition costs	(316)	(23,598)	(713)	(1,816)	–	(26,443)
Administrative expenses:						
Amortisation charge on software assets	–	(1,306)	–	(36)	–	(1,342)
Depreciation charge on property and equipment	–	(115)	(54)	(577)	–	(746)
Other	(16,090)	(12,794)	(4,407)	(20,992)	(11,554)	(65,837)
Operating expenses	5	(5,972)	–	–	3	(5,964)
Financing costs	–	(1,179)	(1)	–	(1,092)	(2,272)
Profit before tax and consolidation adjustments	35,620	12,067	120	(451)	(12,632)	34,724
Other operating expenses:						
Charge for amortisation of acquired value of in-force business	(1,443)	(2,467)	(838)	(3,436)	–	(8,184)
Charge for amortisation of acquired value of customer relationships	–	(55)	–	–	–	(55)
Fees, commission and other acquisition costs	–	1,878	–	542	–	2,420
Segmental income less expenses	34,177	11,423	(718)	(3,345)	(12,632)	28,905
Post completion gain on portfolio acquisition	–	–	(93)	–	–	(93)
Profit before tax	34,177	11,423	(811)	(3,345)	(12,632)	28,812
Income tax (expense)/credit	(4,979)	(1)	188	444	2,830	(1,518)
Profit/(loss) after tax	29,198	11,422	(623)	(2,901)	(9,802)	27,294

(ii) Segmental balance sheet as at 31 December 2021

	CA (UK) £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other Group Activities (UK) £000	Total £000
Total assets	2,551,611	4,568,400	389,846	2,122,474	54,674	9,687,005
Total liabilities	(2,420,861)	(4,462,163)	(347,961)	(1,963,052)	(34,801)	(9,228,838)

Net assets	130,750	106,237	41,885	159,422	19,873	458,167
Investment in associates	–	–	–	–	–	–
Additions to non-current assets	–	11,590	197	4,483	–	16,270

(iii) Segmental income statement for the year ended 31 December 2020

	CA (UK)	Movestic (Sweden)	Waard Group (Netherlan ds)	Scildon (Netherlan ds)	Other Group Activities (UK)	Total
	£000	£000	£000	£000	£000	£000
Insurance premium revenue	40,653	16,296	12,768	223,648	–	293,365
Insurance premium ceded to reinsurers	(16,650)	(6,674)	(577)	(19,006)	–	(42,907)
Net insurance premium revenue	24,003	9,622	12,191	204,642	–	250,458
Fee and commission income	23,336	20,229	88	49,045	–	92,698
Net investment return	85,717	89,539	5,735	73,367	210	254,568
Other operating income	11,703	28,037	441	–	–	40,181
Segmental revenue, net of investment return	144,759	147,427	18,455	327,054	210	637,905
Net insurance contract claims and benefits incurred	(72,311)	(952)	(10,362)	(281,359)	–	(364,984)
Net change in investment contract liabilities	(18,515)	(91,023)	–	–	–	(109,538)
Fees, commission and other acquisition costs	(350)	(22,918)	(684)	(2,974)	–	(26,926)
Administrative expenses:						
Amortisation charge on software assets	–	(1,438)	–	(209)	–	(1,647)
Depreciation charge on property and equipment	–	(124)	(53)	(470)	–	(647)
Other	(17,388)	(12,258)	(3,131)	(27,390)	(8,491)	(68,658)
Operating expenses	(500)	(4,565)	–	–	3	(5,062)
Financing costs	(1)	(1,209)	(2)	–	(1,087)	(2,299)
Profit before tax and consolidation adjustments	35,694	12,940	4,223	14,652	(9,365)	58,144
Other operating expenses:						
Impairment charge for acquired value of in-force business	(1,000)	–	–	(26,623)	–	(27,623)
Charge for amortisation of acquired value of in-force business	(2,423)	(2,640)	(720)	(3,779)	–	(9,562)
Charge for amortisation of acquired value of customer relationships	–	(63)	–	–	–	(63)
Fees, commission and other acquisition costs	–	2,126	–	1,175	–	3,301
Segmental income less expenses	32,271	12,363	3,503	(14,575)	(9,365)	24,197
Profit arising on portfolio acquisition	–	–	388	–	–	388
Profit before tax	32,271	12,363	3,891	(14,575)	(9,365)	24,585
Income tax (expense)/credit	(6,081)	(235)	(883)	2,301	1,504	(3,394)
Profit/(loss) after tax	26,190	12,128	3,008	(12,274)	(7,861)	21,191

(iv) Segmental balance sheet as at 31 December 2020

	CA (UK)	Movestic (Sweden)	Waard Group (Netherlands)	Scildon (Netherlands)	Other Group Activities (UK)	Total
	£000	£000	£000	£000	£000	£000
Total assets	2,564,764	3,874,967	437,099	2,127,539	64,646	9,069,015
Total liabilities	(2,429,712)	(3,764,907)	(391,590)	(1,954,287)	(41,452)	(8,581,948)
Net assets	135,052	110,060	45,509	173,252	23,194	487,067
Investment in associates	–	–	–	–	–	–
Additions to non-current assets	–	13,028	2,396	3,929	–	19,353

4. Borrowings

Group
31 December

	2021 £000	2020 £000
Bank loan	31,273	39,010
Amount due in relation to financial reinsurance	15,912	27,945
Total	47,185	66,955
Current	36,907	43,347
Non-current	10,278	23,608
Total	47,185	66,955

**Company
31 December**

	2021 £000	2020 £000
Bank loan	31,273	39,010
Current	31,237	15,402
Non-current	–	23,608
Total	31,237	39,010

The bank loan as at 31 December 2021 comprises the following:

- on 3 April 2017 tranche one of a new facility was drawn down, amounting to £40.0m. This facility is unsecured and is repayable in ten six-monthly instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.00 percentage points above the London Inter-Bank Offer Rate and is repayable over a period which varies between one and six months at the option of the borrower. During the year, the London Inter-Bank Offer Rate changed to Sterling Overnight Index Average (SONIA) as a reference point. The proceeds of this loan facility were utilised, together with existing Group cash, to repay in full, the pre-existing loan facilities totalling £52.8m.
- on 3 April 2017 tranche two of the new loan facility was drawn down, amounting to €71.0m. As with tranche one, this facility is unsecured and is repayable in ten six-monthly instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.00 percentage points above the European Inter-Bank Offer Rate and is repayable over a period which varies between one and six months at the option of the borrower.
- In April 2018 we converted our existing debt arrangement with RBS into a syndicated facility. This will provide access to higher levels of debt financing from a wider panel of lenders, which in turn will enable us to fulfil our appetite of financing future deals up to the maximum levels of gearing set out in our debt and leverage policy, without being restricted by the lending capacity of one individual institution. This facility enables Chesnara to access an increased level of funds efficiently, which in turn supports our acquisition strategy.

The fair value of the sterling denominated bank loan at 31 December 2021 was £12.0m (31 December 2020: £15.0m).

The fair value of the euro denominated bank loan at 31 December 2021 was £18.5m (31 December 2020: £24.1m).

The fair value of amounts due in relation to financial reinsurance was £16.4m (31 December 2020: £27.5m).

Bank loans are presented net of unamortised arrangement fees. Arrangement fees are recognised in profit or loss using the effective interest rate method.

In 2022, the bank loan was fully repaid and replaced by a Tier 2 Subordinated Notes Debt.

5. Earnings per share

Earnings per share are based on the following:

Year ended 31 December	2021	2020
Profit for the year attributable to shareholders (£000)	27,294	21,191
Weighted average number of ordinary shares	150,118,548	150,062,807
Basic earnings per share	18.18p	14.12p
Diluted earnings per share	18.00p	14.03p

The weighted average number of ordinary shares in respect of the year ended 31 December 2021 is based upon 150,065,457 shares in issue at the beginning of the period and 150,145,602 shares in issue at the end of the period. No shares were held in treasury.

There were 1,501,566 share options outstanding at 31 December 2021 (2020: 1,026,664). Accordingly, there is dilution of the average number of ordinary shares in issue in respect of 2020 and 2021.

6. Retained earnings

Group
Year ended 31 December

	2021 £000	2020 £000
Retained earnings attributable to equity holders of the parent company comprise:		
Balance at 1 January	270,442	281,053
Profit for the year	27,294	21,191
Share based payment	593	492
Dividends		
Final approved and paid for 2018		(20,814)
Interim approved and paid for 2019	–	(11,480)
Final approved and paid for 2019	(21,446)	–
Interim approved and paid for 2020	(11,831)	–
Balance at 31 December	265,052	270,442

The interim dividend in respect of 2020, approved and paid in 2020 was paid at the rate of 7.65p per share. The final dividend in respect of 2020, approved and paid in 2021, was paid at the rate of 14.29p per share so that the total dividend paid to the equity shareholders of the parent company in respect of the year ended 31 December 2020 was made at the rate of 21.94p per share.

The interim dividend in respect of 2021, approved and paid in 2021, was paid at the rate of 7.88p per share to equity shareholders of the parent company registered at the close of business on 22 October 2021, the dividend record date.

A final dividend of 14.72p per share in respect of the year ended 31 December 2021 payable on 24 May 2022 to equity shareholders of the parent company registered at the close of business on 8 April 2022, the dividend record date, was approved by the directors after the balance sheet date. The resulting total final dividend of £22.1m has not been provided for in these financial statements and there are no income tax consequences.

The following summarises dividends per share in respect of the year ended 31 December 2020 and 31 December 2021:

Year ended 31 December

	2021 P	2020 P
Interim - approved and paid	7.88	7.65
Final - proposed/paid	14.72	14.29
Total	22.60	21.94

7. Related parties

(a) Identity of related parties

The shares of the company were widely held and no single shareholder exercised significant influence or control over the company.

The company has related party relationships with:

- (i) key management personnel who comprise the directors (including non-executive directors) of the company;
- (ii) its subsidiary companies;
- (iii) its associated company;
- (iv) other companies over which the directors have significant influence; and
- (v) transactions with persons related to key management personnel.

(b) Related party transactions

(i) Transactions with key management personnel.

Key management personnel comprise of the directors of the company. This is on the basis that the group's governance map requires all strategically significant decisions to be approved by the group board. As such, they have the authority and responsibility for planning, directing and controlling the activities of the group. Key management compensation is as follows:

	2021 £000	2020 £000
Short-term employee benefits	2,342	1,614
Post-employment benefits	85	70
Share-based payments	593	492

Total	3,020	2,176
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The share-based payments charge comprises £0.2m (2020: £0.2m) of Short-term Incentive Scheme (STI), and £0.2m (2020: £0.3m) related to Long-term Incentive Scheme (LTI), which is determined in accordance with IFRS 2 'Share based Payment'

In addition, to their salaries the company also provides non-cash benefits to directors, and contributes to a post-employment defined contribution pension plan on their behalf, or where regulatory contribution limits are reached, pay an equivalent amount as an addition to base salary.

The following amounts were payable to directors in respect of bonuses and incentives:

	2021 £000	2020 £000
Annual bonus scheme (included in the short-term employee benefits above)	934	392

These amounts have been included in Accrued Expenses. The amounts payable under the annual bonus scheme were payable within one year.

(ii) Transactions with subsidiaries

The company undertakes centralised administration functions, the costs of which it charges back to its operating subsidiaries. The following amounts which effectively comprised a recovery of expenses at no mark up were credited to the Statement of Comprehensive Income of the company for the respective periods:

	2021 £000	2020 £000
Recovery of expenses	4,771	4,553

(iii) Transactions with persons related to key management personnel

During the year, there were no transactions with persons related to key management personnel.

8. Portfolio acquisition

On 31 December 2020, Waard entered into an agreement to acquire a portfolio of term life insurance policies, Unit Linked policies and funeral insurance policies from Dutch insurance provider Brand New Day Levensverzekeringen N.V. (BND). The portfolio was accompanied by cash assets of EUR 10,059,503 and the unit linked assets of EUR 3,488,343.42.

The transaction has given rise to a post completion loss on acquisition of £0.1m calculated as follows:

	Fair value £000
Assets	
Unit-linked asset	2,994
Cash	8,635
Total assets	11,629
Liabilities	
Insurance contract provisions	11,722
Total liabilities	11,722
Net assets	(93)
Net liabilities acquired	(93)
Total consideration, paid in cash	-
Post completion loss on portfolio acquisition	(93)

Loss on acquisition: A loss of £0.1m has been recognised on acquisition. This loss on acquisition has been recorded as a "post completion loss on portfolio acquisition" on the face of the statement of comprehensive income.

Acquisition-related costs: Waard concluded the deal and obtained control as of 14 April 2021. The portfolio was acquired for a purchase price of EUR 1 as of the effective cut-off date of 1 July 2020. For the period between cut-off date until the completion date of 14 April 2021 a roll-forward period was agreed. No advisory expenses directly related to the deal were accounted for by Waard. These expenses were borne by affiliated companies Chesnara PLC and Chesnara Holdings B.V. As a result, no addition to the consideration was paid.

The assets and liabilities acquired are included within changes in insurance provisions and financial assets within operating cash flows on the face of the cash flow statement.

FINANCIAL CALENDAR

31 March 2022

Results for the year ended 31 December 2021 announced

07 April 2022

Ex-dividend date

08 April 2022

Dividend record date

26 April 2022

Last date for dividend reinvestment plan elections

17 May 2022

Annual General Meeting

24 May 2022

Dividend payment date

31 August 2022

Half year results for the 6 months ending 30 June 2022 announced

KEY CONTACTS

Registered and Head Office

2nd Floor, Building 4
West Strand Business Park
West Strand Road
Preston
Lancashire
PR1 8UY
Tel: 01772 972050
www.chesnara.co.uk

Advisors

Ashurst LLP
Broadwalk House
5 Appold Street
London
EC2A 2HA

Addleshaw Goddard LLP
One St Peter's Square
Manchester
M2 3DE

Auditor

Deloitte LLP
Statutory Auditor
3 Rivergate
Temple Quay
Bristol
BS1 6GD

Registrars

Link Group
10th Floor
Central Square
29 Wellington Street
Leeds
LS1 4DL

Joint Stockbrokers and Corporate Advisors

Panmure Gordon
One New Change
London
EC4M 9AF

Investec Bank plc
30 Gresham Street
London
EC2V 7QP

Bankers

National Westminster Bank plc
135 Bishopsgate
London
EC2M 3UR

The Royal Bank of Scotland
8th Floor, 135 Bishopsgate
London
EC2M 3UR

Lloyds Bank plc
3rd Floor, Black Horse House
Medway Wharf Road
Tonbridge
Kent
TN9 1QS

Public Relations Consultants

FWD
145 Leadenhall Street
London
EC3V 4QT

ALTERNATIVE PERFORMANCE MEASURES

Throughout this report we use alternative performance measures (APMs) to supplement the assessment and reporting of the performance of the group. These measures are those that are not defined by statutory reporting frameworks, such as IFRS or Solvency II.

The APMs aim to assess performance from the perspective of all stakeholders, providing additional insight into the financial position and performance of the group and should be considered in conjunction with the statutory reporting measures such as IFRS and Solvency II.

The following table identifies the key APMs used in this report, how each is defined and why we use them.

APM	What is it?	Why do we use it?
Group cash generation	<p>Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.</p> <p>Group cash generation is calculated as the movement in the group's surplus own funds above the group's internally required capital, as determined by applying the group's capital management policy, which has Solvency II rules at its heart.</p>	<p>Cash generation is a key measure, because it is the net cash flows to Chesnara from its life and pensions businesses which support Chesnara's dividend-paying capacity and acquisition strategy. Cash generation can be a strong indicator of how we are performing against our stated objective of 'maximising value from existing business'.</p>
Divisional cash generation	<p>Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.</p> <p>Divisional cash generation represents the movement in surplus own funds above local capital management policies within the three operating divisions of Chesnara. Divisional cash generation is used as a measure of how much dividend potential a division has generated, subject to ensuring other constraints are managed.</p>	<p>It is an important indicator of the underlying operating performance of the business before the impact of group level operations and consolidation adjustments.</p>
Commercial cash generation	<p>Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.</p> <p>Commercial cash generation excludes the impact of technical adjustments, modelling changes and corporate</p>	<p>Commercial cash generation aims to provide stakeholders with enhanced insight into cash generation, drawing out components of the result relating to technical complexities or exceptional items. The result is deemed to better reflect the underlying commercial</p>

	acquisition activity; representing the underlying commercial cash generated by the business.	performance, show key drivers within that.
Economic Value (EcV)	<p>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.</p> <p>We define EcV as being the Own Funds adjusted for contract boundaries, risk margin and restricted with-profit surpluses. As such, EcV and Own Funds have many common characteristics and tend to be impacted by the same factors.</p>	EcV aims to reflect the market-related value of in-force business and net assets of the non-insurance business and hence is an important reference point by which to assess Chesnara's value. A life and pensions group may typically be characterised as trading at a discount or premium to its Economic Value. Analysis of EcV provides additional insight into the development of the business over time. The EcV development of the Chesnara group over time can be a strong indicator of how we have delivered to our strategic objectives.
Economic Value (EcV) earnings	<p>The principal underlying components of the Economic Value earnings are:</p> <ul style="list-style-type: none"> – The expected return from existing business (being the effect of the unwind of the rates used to discount the value in-force); – Value added by the writing of new business; – Variations in actual experience from that assumed in the opening valuation; – The impact of restating assumptions underlying the determination of expected cash flows; and – The impact of acquisitions. 	By recognising the market-related value of in-force business (in-force value), a different perspective is provided in the performance of the group and on the valuation of the business. Economic Value earnings are an important KPI as they provide a longer-term measure of the value generated during a period. The Economic Value earnings of the group can be a strong indicator of how we have delivered against all three of our core strategic objectives.
EcV operating earnings	This is the element of EcV earnings (see above) that are generated from the company's ongoing core business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future.	EcV operating earnings are important as they provide an indication of the underlying value generated by the business. It can help identify profitable activities and also inefficient processes and potential management actions.
EcV economic earnings	This is the element of EcV earnings (see above) that are derived from investment market conditions in the period and any economic assumption changes in the future.	EcV economic earnings are important in order to measure the additional value generated from investment market factors.
Commercial new business profit	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.	This provides a fair commercial reflection of the value added by new business operations and is more comparable with how new business is reported by our peers, improving market consistency.
Funds under management (FuM)	FuM reflects the value of the financial assets that the business manages, as reported in the IFRS Consolidated Balance Sheet.	FuM are important as it provides an indication of the scale of the business, and the potential future returns that can be generated from the assets that are being managed.
Operating profit, excluding AVIF impairment	A measure of the pre-tax profit earned from the company's ongoing business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future. This also excludes any intangible asset adjustments that are not practicable to ascribe to either operating or economic conditions.	Operating earnings are important as they provide an indication of the underlying profitability of the business. It can help identify profitable activities and also inefficient processes and potential management actions.
Economic profit, excluding AVIF impairment	A measure of pre-tax profit earned from investment market conditions in the period and any economic assumption changes. This also excludes any intangible asset adjustments that are not practicable to ascribe to either operating or economic conditions.	Economic earnings are important in order to measure the surplus generated from investment market factors.
Acquisition value gain (incremental value)	Acquisition value gains reflect the incremental Economic Value added by a transaction, exclusive of any additional risk margin associated with absorbing the additional	The EcV gain from acquisition will be net of any associated increase in risk margin. The risk margin is a temporary Solvency II dynamic which will run off over time.

business.

**Leverage /
gearing**

A financial measure that demonstrates the degree to which the company is funded by debt financing versus equity capital, presented as a ratio. It is defined as debt divided by debt plus equity, as measured under IFRS.

It is an important measure as it indicates the overall level of indebtedness of Chesnara, and it is also a key component of the bank covenant arrangements held by Chesnara.

GLOSSARY

AGM	Annual General Meeting.
ALM	Asset Liability Management – management of risks that arise due to mismatches between assets and liabilities.
APE	Annual Premium Equivalent – an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.
CA	Countrywide Assured plc.
CALH	Countrywide Assured Life Holdings Limited and its subsidiary companies.
BAU Cash Generation	This represents divisional cash generation plus the impact of non-exceptional group activity.
BLAGAB	Basic life assurance and general annuity business
Cash Generation	This represents the operational cash that has been generated in the period. The cash generating capacity of the group is largely a function of the movement in the solvency position of the insurance subsidiaries within the group and takes account of the buffers that management has set to hold over and above the solvency requirements imposed by our regulators. Cash generation is reported at a group level and also at an underlying divisional level reflective of the collective performance of each of the divisions prior to any group level activity.
Commercial Cash Generation	Cash generation excluding the impact of technical adjustments, modelling changes and exceptional corporate activity; the underlying commercial cash generated by the business.
Divisional Cash Generation	This represents the cash generated by the three operating divisions of Chesnara (UK, Sweden and the Netherlands), exclusive of group level activity.
DNB	De Nederlandsche Bank is the central bank of the Netherlands and is the regulator of our Dutch subsidiaries.
DPF	Discretionary Participation Feature – A contractual right under an insurance contract to receive, as a supplement to guaranteed benefits, additional benefits whose amount or timing is contractually at the discretion of the issuer.
Dutch Business	Scildon and the Waard Group, consisting of Waard Leven N.V., Waard Schade N.V. and Waard Verzekeringen B.V.
Economic Profit	A measure of pre-tax profit earned from investment market conditions in the period and any economic assumption changes in the future (alternative performance measure – APM).
EcV	Economic Value is a financial metric that is derived from Solvency II Own Funds that is broadly similar in concept to European Embedded Value. 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.
FCA	Financial Conduct Authority.
FI	Finansinspektionen, being the Swedish Financial Supervisory Authority.
Form of Proxy	The form of proxy relating to the General Meeting being sent to shareholders with this document.
FSMA	The Financial Services and Markets Act 2000 of England and Wales, as amended.
Group	The company and its existing subsidiary undertakings.
Group Cash generation	This represents the absolute cash generation for the period at total group level, comprising divisional cash generation as well as both exceptional and non-exceptional group activity.

Group Own Funds	In accordance with the UK's regulatory regime for insurers it is the sum of the individual capital resources for each of the regulated related undertakings less the book-value of investments by the group in those capital resources.
Group SCR	In accordance with the UK's regulatory regime for insurers it is the sum of individual capital resource requirements for the insurer and each of its regulated undertakings.
Group Solvency	Group solvency is a measure of how much the value of the company exceeds the level of capital it is required to hold in accordance with Solvency II regulations.
HCL	HCL Insurance BPO Services Limited.
IFRS	International Financial Reporting Standards.
IFA	Independent Financial Adviser.
LACDT	Loss Absorbing Capacity of Deferred Tax
KPI	Key performance indicator.
Leverage (gearing)	A financial measure that demonstrates the degree to which the company is funded by debt financing versus equity capital, usually presented as a ratio, defined as debt divided by debt plus equity, as measured under IFRS
London Stock Exchange	London Stock Exchange plc.
LTI	Long-Term Incentive Scheme – A reward system designed to incentivise executive directors' long-term performance.
Movestic	Movestic Livförsäkring AB.
Modernac	Modernac SA, a previously associated company 49% owned by Movestic.
New business	The present value of the expected future cash inflows arising from business written in the reporting period.
Official List	The Official List of the Financial Conduct Authority.
Operating Profit	A measure of the pre-tax profit earned from a company's ongoing core business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future (alternative performance metric – APM).
Ordinary Shares	Ordinary shares of five pence each in the capital of the company.
ORSA	Own Risk and Solvency Assessment
Own Funds	Own Funds – in accordance with the UK's regulatory regime for insurers it is the sum of the individual capital resources for each of the regulated related undertakings less the book-value of investments by the company in those capital resources.
PRA	Prudential Regulation Authority.
QRT	Quantitative Reporting Template.
ReAssure	ReAssure Limited.
Resolution	The resolution set out in the notice of General Meeting set out in this document.
RMF	Risk Management Framework.
Scildon	Scildon NV.
Shareholder(s)	Holder(s) of Ordinary Shares.
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.

Standard Formula	The set of prescribed rules used to calculate the regulatory SCR where an internal model is not being used.
STI	Short-Term Incentive Scheme – A reward system designed to incentivise executive directors' short-term performance.
SCR	In accordance with the UK's regulatory regime for insurers it is the sum of individual capital resource requirements for the insurer and each of its regulated undertakings.
Swedish Business	Movestic and its subsidiaries and associated companies.
S&P	Save & Prosper Insurance Limited and Save & Prosper Pensions Limited.
Transfer ratio	The proportion of new policies transferred into the business in relation to those transferred out.
TCF	Treating Customers Fairly – a central PRA principle that aims to ensure an efficient and effective market and thereby help policyholders achieve fair outcomes.
TSR	Total Shareholder Return, measured with reference to both dividends and capital growth.
UK or United Kingdom	The United Kingdom of Great Britain and Northern Ireland.
UK Business	CA and S&P.
UNSDG	United Nations Sustainable Development Group
VA	The volatility adjustment is a measure to ensure the appropriate treatment of insurance products with long-term guarantees under Solvency II. It represents an adjustment to the rate used to discount liabilities to mitigate the effect of short-term volatility bond returns.
Waard	The Waard Group

NOTE ON TERMINOLOGY

As explained in the IFRS financial statements, the principal reporting segments of the group are:

CA	which comprises the original business of Countrywide Assured plc, the group's original UK operating subsidiary; City of Westminster Assurance Company Limited, which was acquired by the group in 2005, the long-term business of which was transferred to Countrywide Assured plc during 2006; S&P which was acquired on 20 December 2010. This business was transferred from Save & Prosper Insurance Limited and Save & Prosper Pensions Limited to Countrywide Assured plc on 31 December; and Protection Life Company Limited which was acquired by the group in 2013, the long-term business of which was transferred into Countrywide Assured plc in 2014;
Movestic	which was purchased on 23 July 2009 and comprises the group's Swedish business, Movestic Livförsäkring AB and its subsidiary and associated companies;
The Waard Group	which was acquired on 19 May 2015 and comprises two insurance companies; Waard Leven N.V. and Waard Schade N.V.; and a service company, Waard Verzekeringen; and
Scildon	which was acquired on 5 April 2017; and
Other group activities	which represents the functions performed by the parent company, Chesnara plc. Also included in this segment are consolidation adjustments.

