Chesnara plc

Condensed Consolidated Financial Statements
for the Six Months Ended
30 June 2011

Financial Calendar

31 August 2011	Interim results for the six months ended 30 June 2011 announced
7 September 2011	Ex dividend date
9 September 2011	Dividend record date
14 October 2011......................	Dividend payment date
18 November 2011	Interim Management Statement for the quarter ending 30 September 2011
March 2012..............................	Results for the year ending 31 December 2011 announced

Forward-looking statements

This document may contain forward-looking statements with respect to certain of the plans and current expectations relating to 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 and global economic and business conditions, market-related risks such as fluctuations in interest 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.

Key Contacts

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Note on terminology

As explained in Note 4 to the unaudited IFRS Condensed Consolidated Financial Statements, the principal reporting segments of the Group are:

(1) Countrywide Assured Life Holdings Limited and its subsidiary companies (together 'CA');
(2) Save & Prosper Insurance Limited and its subsidiary company Save & Prosper Pensions Limited (together 'S&P' or 'the S&P business', as the context requires); and
(3) Movestic Livförsäkring AB and its subsidiary and associated companies (together 'Movestic').

In addition:

(i) The operating segments under (1) and (2) above may be referred to as the 'UK businesses' and the operating segment under (3) may be referred to as the 'Swedish business' as the context requires;
(ii) The principal operating subsidiary company within the CA segment is Countrywide Assured plc, which is designated as 'CA plc'; and
(iii) Where it is necessary to distinguish Movestic Livförsäkring AB as a separate entity from its subsidiary and associated companies it is designated as 'Movestic Liv'.

Change of name

Movestic Livförsäkring AB was formerly known as Moderna Försäkringar Liv AB. The change of name occurred in November 2010.

Financial Highlights for the Six Months ended 30 June 2011

	Unaudited 6 months ended 30 June 2011	Unaudited 6 months ended 30 June 2010	Year ended 31 December 2010
IFRS basis			
Operating profit/(loss)			
CA	8.0	16.8	25.7
S&P	(1.2)	-	0.2
Movestic	0.6	(4.3)	(2.5)
Other group activities	(1.0)	(0.8)	(3.8)
Profit arising on business combinations	-	1.0	15.9
	6.4	**12.7**	**35.5**
Financing costs	(2.6)	(0.7)	(1.3)
Profit before tax	**£3.8m**	**£12.0m**	**£34.2m**
Basic earnings per share	2.79p	7.71p	29.05p
Dividend per share (including proposed dividend)	5.95p	5.80p	16.40p
Shareholders' net equity	**£196.3m**	**£156.8m**	**£203.3m**
European Embedded Value basis (EEV)			
Operating profit/(loss)			
Covered business			
CA	2.8	10.0	16.0
S&P	0.6	-	0.2
Movestic	(2.6)	(16.5)	(9.8)
Other group activities	(0.6)	(0.8)	(6.1)
	0.2	**(7.3)**	**0.3**
Investment variances and economic assumption changes			
CA	0.2	(4.9)	7.6
S&P	3.4	-	(1.5)
Movestic	(3.4)	7.2	16.4
Profit/(loss) before tax and before exceptional items	**0.4**	**(5.0)**	**22.8**
Exceptional items			
Profit arising on business combinations	-	0.9	41.0
Effect of modelling adjustments	(5.3)	10.4	13.2
(Loss)/profit before tax	**(4.9)**	**6.3**	**77.0**
Tax	(1.9)	(2.4)	(4.0)
(Loss)/profit for the period	**£(6.8)m**	**£3.9m**	**£73.0m**
Shareholders' equity on EEV basis			
Embedded value			
CA	126.4	132.1	149.7
S&P	106.8	-	103.2
Movestic	112.4	93.7	119.4
Embedded value of covered business	**345.6**	**225.8**	**372.3**
Acquired embedded value financed by debt	(39.3)	-	(39.3)
Shareholders' equity in other group companies	33.8	29.3	21.6
	£340.1m	**£255.1m**	**£354.6m**
EEV per share	296.2p	251.3p	308.8p

In contrast with the IFRS basis of reporting, the EEV basis recognises the discounted value of the expected future cash flows, arising from the long-term business contracts in force at the period end, as a component of shareholders' equity. Accordingly, the EEV result recognises, within profit, the movement in this component.

S&P was acquired on 20 December 2010. Accordingly, the results of S&P set out above in respect of the year ended 31 December 2010 are for the 11-day post-acquisition period and the unaudited results for the six months ended 30 June 2010 exclude S&P.

I am pleased to present the eighth interim financial statements of Chesnara plc, which are the first interim statements that incorporate the results of S&P, which was acquired in late December 2010. The first half of the year has been characterised by continuing economic uncertainty and this, together with the associated impact on global investment markets, has had an overall adverse effect on our reported results. It is, however, pleasing that CA's cash generation, on which the Group currently relies to support its dividend policy, has shown a measure of resilience in the face of these pressures.

Review of the Business

The dominating investment market influence in the UK over the period has been the downward drift in short-term interest rates combined with an easing up in longer-term rates, while investment returns in Movestic, our Swedish-based business, have been negatively affected by poor equity and fixed-interest investment performance. These factors have had varying and contrasting impacts on the businesses' IFRS and EEV earnings measures, such that the effects are by no means uniform. While CA's IFRS result has generally benefited from the fall in short-term fixed-interest yields, due to the impact on the capital value of assets backing its insurance liabilities, the corresponding S&P result has experienced a loss of £4.2m arising from strain in its with profits portfolio. This has resulted from a slightly lower actuarial valuation interest rate, driven by general market movements, and the fact that the result is sensitive to relatively minor movements in the rate: this is also true of any upside impact of prospective rate increases. Within these funds, there has also been an increase in the proportion of cash-based investments compared with the position at 31 December 2010. In contrast, S&P's EEV result, which reflects a longer-term view, has benefited from a £2.6m reduction in the estimated cost of guarantees within its with profits portfolio, driven by the prospect of improved longer-term interest rates.

Within Movestic, dull investment market performance has led to an adverse EEV impact of £6.2m in the period, as the projected level of policyholder funds under management, on which its fee income is based, has fallen. In the short-term, however, as reflected in Movestic's IFRS result, this impact is muted.

On an IFRS basis, at the consolidated Group level, we have posted a pre-tax profit of £3.8m for the half year ended 30 June 2011, compared with £12.0m for the corresponding period in 2010. The result was adversely affected by the £4.2m with profits strain arising in S&P, while the 2010 half-year result was enhanced by the release of £3.2m relating to a claims reserve within CA. CA's pre-tax result for the half year is robust at £8.0m, in spite of the impact of a £2m increase in expense provisions. A further highlight of the overall IFRS result is that Movestic's pre-tax loss at £1.2m is on a clearly improving trend, with its core risk insurance and savings operations now trading at, or just above, break even.

On the EEV basis of reporting, excluding modelling adjustments, we have posted a post-tax loss of £1.5m for the half year, compared with a loss of £6.4m for the corresponding period in 2010. The dominating feature has been the adverse investment return variance of £6.2m arising within Movestic. Also within Movestic the value added by new business and the unwind of the discount rate, together some £5m at the pre–tax level, has been offset by an adverse impact of £5m arising from policy discontinuance. Within the UK businesses the EEV result has been supported by the £2.6m reduction in the estimated cost of guarantees within the S&P with profits funds, while continuing favourable lapse and mortality experience in CA, together £2m at the pre–tax level, has offset the impact of the £2m increase in expense provisions.

Other significant movements in Group embedded value are a £5.3m adverse effect in respect of modelling adjustments, offset by a foreign exchange translation gain of £4.5m following the appreciation by 4% of the Swedish Krona against sterling over the first half of the year. Cumulative modelling adjustments, principally arising from the introduction of a new model in Movestic in 2010, are, for the 18-month period ended 30 June 2011, £7.9m favourable, £13.2m having been reflected during the year ended 31 December 2010. The adjustments made in the first half of 2011 are net of the correction of errors of £7.7m, unrelated to the adjustments made in 2010, detected in the operation of the new model. These factors, together with the core trading loss of £1.5m, have given rise to a reduction in Group EEV of £2.3m.

Shareholder Value and Returns to Shareholders

Total shareholder equity on the EEV basis, pre appropriation of the proposed interim dividend, is £340.1m (296.2p per share) compared with £354.6m (308.8p per share) as at 31 December 2010. The difference in total shareholder equity is the £2.3m net reduction referred to above together with the payment of the final 2010 dividend of £12.2m (10.6p per share).

The capacity of the Group to pursue its dividend policy currently continues to rely on the emergence of surplus within CA and, as indicated, this has proved to be resilient in the face of challenging economic and investment market conditions. CA's solvency position stands at a healthy 254% (213% as at 31 December 2010), while S&P's solvency position has improved slightly from 268% to 269% and Movestic's solvency ratio stands at 189% compared with a target of at least 150%. The Group solvency position post the proposed interim dividend accordingly remains healthy at 198% (31 December 2010: 200%).

Based on the strength of our reserves and of our capital solvency ratios, the Board has decided to declare an interim dividend of 5.95p per share (2010 interim dividend: 5.80p per share), which represents a 2.6% increase and equates to a total dividend payable to shareholders of £6.8m. In arriving at this decision the Board has taken careful consideration of the current volatility in global investment markets.

Outlook

Like many businesses, we have been affected by the ongoing turmoil in the equity and debt markets and we provide some guidance to the effect of market volatility in the EV Supplementary Information section of these statements. Reassuringly, cash generation remains robust and, following the successful integration of S&P, our plans to merge it with CA are progressing well. This merger will result in further capital and operating synergies which will support our short to medium-term dividend capability. The strategic rationale for the acquisition of S&P remains sound and we fully expect the generation of surplus from this business to further underpin future dividend capability.

We are making good progress on the implementation of Solvency II and are on target for the current implementation date of 1 January 2013.

As ever, we remain subject to challenges from regulatory or legislative change, the economic environment, low interest rates and volatility in the equity markets. However, we remain strong financially and believe we are well-placed to deliver good ongoing returns to shareholders. We also believe that the current climate and the challenges of Solvency II will give rise to possible acquisition opportunities and we remain keen to progress these.

Peter Mason
Chairman
30 August 2011

Directors' Information

Peter Mason was appointed as Chairman of Chesnara plc and Chairman of the Nomination Committee on 1 January 2009. He was re-appointed as a member of the Remuneration and Audit & Risk Committees with effect from 22 December 2009 and was appointed as Chairman of Movestic Livförsäkring AB with effect from 23 July 2009. He was also appointed as Chairman of the Boards of the S&P companies with effect from 20 December 2010. He is currently a Non-executive Director of Homeowners Friendly Society and is the Investment Director and Actuary of Neville James Group, an investment management company. He was admitted as a Fellow of the Institute of Actuaries in 1979.

Graham Kettleborough is the Chief Executive of Chesnara plc. He joined Countrywide Assured plc in July 2000 with responsibility for marketing and business development and was appointed as Managing Director and to the Board in July 2002. He was appointed as a Non-executive Director of Movestic Livförsäkring AB and as Chairman of Movestic Kapitalförvaltning AB with effect from 23 July 2009. He was also appointed as Managing Director of the S&P companies with effect from 20 December 2010. Prior to joining Countrywide Assured plc, he was Head of Servicing and a Director of the Pension Trustee Company at Scottish Provident. He has lifetime experience in the financial services industry, primarily in customer service, marketing, product and business development, gained with Scottish Provident, Prolific Life, City of Westminster Assurance and Target Life.

Ken Romney is the Finance Director of Chesnara plc. He joined Countrywide Assured plc in 1989 and became a member of the Board in 1997. He was also appointed as Finance Director of the S&P companies with effect from 20 December 2010. He has worked in the life assurance industry for the last 27 years. He was Chief Accountant at Laurentian Life (formerly Imperial Trident) up to 1987 and was Financial Controller at Sentinel Life between 1987 and 1989. He worked for Price Waterhouse in their audit division until 1983 in both the UK and South Africa. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

Frank Hughes is the Business Services Director of Chesnara plc. He joined Countrywide Assured plc in November 1992 as an IT Project Manager and was appointed to the Board as IT Director in May 2002. He has 26 years' experience in the life assurance industry gained with Royal Life, Norwich Union and CMG.

Mike Gordon is an Independent Non-executive Director of Chesnara plc and is Chairman of the Remuneration Committee. He was appointed as Senior Independent Non-executive Director of Chesnara plc on 1 January 2009. He also serves on the Audit & Risk Committee and the Nomination Committee and was appointed as a Non-executive Director of Movestic Livförsäkring AB with effect from 23 July 2009. He spent 12 years as Group Sales Director of Skandia Life Assurance Holdings.

Terry Marris is an Independent Non-executive Director of Chesnara plc and serves on the Audit & Risk Committee, the Remuneration Committee and the Nomination Committee. He was also appointed as a Non-executive Director of the S&P companies with effect from 21 January 2011. He joined Countrywide Assured Group plc in 1992 and was Managing Director of Countrywide Assured plc until July 2002. Previous roles included senior management positions at Lloyds Bank and General Accident.

Peter Wright is an Independent Non-Executive Director who was appointed to the Chesnara plc Board on 1 January 2009. At the same date he was appointed as Chairman of the Audit & Risk Committee and as a member of the Remuneration Committee. He was appointed as a member of the Nomination Committee with effect from 9 July 2009. He was also appointed as a Non-executive Director of the S&P companies with effect from 20 December 2010 and as Chairman of the Risk Committees and With Profits Committees of those companies. He retired as a Principal of Towers Perrin on 1 January 2008 and is a former Vice President of the Institute of Actuaries, having been admitted as a Fellow in 1979.

Interim Management Report

Background and Strategy

Our History and Development

Chesnara was listed on the London Stock Exchange in 2004, when we acquired CA on its demerger from Countrywide plc (‘Countrywide’). CA was established in 1988 as the life assurance division of Countrywide and, predominantly, sold mortgage-related life assurance products through Countrywide’s financial services division. As a substantially closed life business it continues to administer its in-force portfolio which mainly comprises endowment and protection policies, this reflecting CA’s history of providing mortgage-related policies to clients of an estate-agency based financial services group. In 2005 we acquired City of Westminster Assurance Company Limited (‘CWA’) from Irish Life and Permanent plc for a total purchase consideration of £47.8m. CWA is also substantially closed to new business. In common with the CA business, the policies comprising the CWA business include a mix of endowment, protection and pension policies. However, unlike CA, there is a relatively high proportion of pension policies and this helped to improve the overall mix of Chesnara’s UK business by spreading the risk subsisting within the different policy types. On 30 June 2006, the long-term business of CWA was transferred to CA under the provisions of Part VII of the Financial Services and Markets Act 2000 (the ‘Part VII Transfer’). Besides reducing the reporting and regulatory burden, financial and operational synergies resulted.

Opportunities for further similar acquisitions then became limited as valuations increased to levels which would not provide attractive returns for shareholders. This was followed by uncertainty arising from disruption to financial markets and a recessionary environment which prevented any significant acquisition activity.

However, in July 2009 we acquired an open Swedish life assurance and pensions company - then named Moderna Försäkringar Liv AB (‘Moderna’) - for a cash consideration of £20m. This represented a very attractive discount to its embedded value. Moderna (now rebranded Movestic) is an open unit-linked life and pensions business based in Sweden. It started writing business in 2002 and had achieved a market share of 14% of the company-paid pensions market by 2008. This market penetration fell as issues surrounding its then ownership, by an Icelandic financial services organisation, and its proposed sale became a concern to its key distributors – Swedish Independent Financial Advisers – and their clients. Shortly after the acquisition, the Swedish regulator, Finansinspektionen (‘FI’), approved the commencement of operation of a subsidiary company Moderna Fonder & Analys AB (now Movestic Kapitalförvaltning AB) which was established to separate out the fund selection and management activities from the life company and to develop these activities in the wider market. On acquisition, Movestic owned 49% of the share capital in two associated companies, AkademikerRådgivning I Sverige AB (‘AR’) and Modernac SA (‘Modernac’). The former is an Independent Financial Adviser which was jointly owned by Akademikerjänst I.A.S. AB (‘the Akademics’) and a strategic review led to Movestic acquiring a further 42% of the shares resulting in 91% ownership. We are currently in the process of liquidating this business due to unsatisfactory returns. Modernac is a reinsurer based in Luxembourg and was established to reinsure business resulting from a group life cover arrangement with the Akademics which was extended for five years at the time the increased shareholding in AR was acquired.

In February 2010, Movestic acquired the in-force business, personnel, expertise and systems of Aspis Försäkrings Liv AB (‘Aspis’), a small Swedish life and health risk insurer, which complements Movestic’s focus on pensions and savings contracts. The acquisitions of Movestic and Aspis add a growth element to Chesnara’s proposition to shareholders. Whilst requiring additional capital in the early years, the prospect for the creation of value for shareholders in the medium to longer term is significant. On 17 December 2010 we acquired the in-force claims portfolio of Aspis which we had administered since we acquired the in-force business.

On 26 November 2010 we announced the proposed acquisition of Save & Prosper Insurance Limited and its subsidiary Save & Prosper Pensions Limited from JPMorgan Asset Management Marketing Limited for a consideration of £63.5m. The acquisition was financed through a new bank facility of £40m together with the proceeds of a placing of 10,458,877 new ordinary shares and the sale of 2,897,183 shares held in treasury, which together raised gross proceeds of £26.7m. Following the issue of a Circular on 30 November 2010 shareholders approved the acquisition at a General Meeting on 16 December 2010 with completion taking place on 20 December 2010. S&P is a UK-based provider of unit-linked, non-linked and with profits pension and life assurance products which is closed to new business. Like CWA, the company has a high proportion of pension policies and this enhances the longevity of Chesnara’s UK proposition.

An opportunity is presented by the acquisition of S&P to achieve financial and operational synergies from the merger of its life assurance and pensions books with those of Countrywide Assured. Merging them into one legal entity, by means of a transfer under Part VII of the Financial Services and Markets Act 2000 (‘FSMA’), also provides the opportunity for more efficient use, and potential release, of capital from the combined businesses.

As at 30 June 2011 CA managed a portfolio of some 157,000 life assurance and pensions policies, while S&P managed some 167,000 policies. In the UK, therefore, the total number of policies under management is some 324,000. CA sells a small amount of protection business to existing customers while both CA and S&P also benefit from additional inward flows on their existing life and pension contracts by way of inflation-linked increases and rebates received from the government in respect of contracted-out pension policies.

The UK businesses are substantially closed to new business and their primary focus is the efficient run-off of their existing life and pensions portfolios. This gives rise to the emergence of surplus which supports our primary aim of delivering an attractive long-term dividend yield to our shareholders. By the very nature of the life business assets, the surplus arising will deplete over time as the policies mature, expire or are the subject of a claim.

Chesnara Group and the UK business activities are based in Preston, Lancashire with a small office in the City of London. Movestic is based in Stockholm in Sweden and has an administration office in Norrköping in southern Sweden. Chesnara has 22 FTE employees in its corporate governance team in the UK. In Sweden, the headcount, across the two sites, is in the order of 130.

The Swedish business is open to new business and its primary aim is to regain market share in the company-paid and individual pensions market, whilst developing further profitable business in other areas, in particular in the risk and health market. Writing new business requires funding to support the initial costs incurred: this is provided by way of financial reinsurance or cash contributions from Chesnara. As the in-force business portfolio grows in scale the income generated by it eventually allows the business to self fund and become a net generator of cash.

Acquisition Strategy

Chesnara continues to seek to participate in the consolidation of life assurance and pensions businesses in the UK and Western Europe. We primarily target acquisitions with a value of between £50m and £200m, although other opportunities are considered. All opportunities are assessed against a number of key criteria including size, risk (including actual or potential product and financial liabilities), discount to embedded value, capital requirements and the pattern and quality of predicted profit emergence. Our strategic approach, however, remains that such potential acquisitions should contribute to the primary aim of delivering a steady and attractive dividend yield, although opportunities which present a significant value uplift or growth opportunity will also be evaluated.

Developments During 2011

There have been three areas of operational focus in the UK during the first half of 2011.

Firstly, following the successful acquisition of Save & Prosper in late 2010 we have integrated the small team we acquired, opened a small office in London where they are based and strengthened the team at our main office in Preston with two senior management appointments to assist with the incremental governance requirements and improve cover for the existing team. The integration of the S&P operation and oversight has been completed successfully and we have a sound structure and operating model to support the acquired business.

The second area of focus has been progressing the transfer of the acquired Save & Prosper business into our existing company – Countrywide Assured plc - utilising the provisions of Part VII of the Financial Services and Market Act 2000. Whilst the process is proving challenging we are currently on target with our plans to complete this by the end of the year. However, as the transfer requires the sanction of the Courts this cannot be guaranteed. The aim of the transfer is to generate operational and financial synergies through operating one company and regulated entity rather than the three – CA and the S&P Insurance and Pension companies – currently in place.

The third area has been the implementation of the Solvency II regime which, at the time of writing, is expected to be effective from 1 January 2013. Although some extensions to the implementation date have been indicated we continue to focus on this date. Current planning indicates that we are well placed to meet the deadline and that there is not expected to be any increased capital requirements in the Group's UK businesses.

In Sweden, one of the main areas of focus has been a significant systems migration which will provide a more robust and scalable platform for the future. The vast majority of this was successfully implemented in July with a small follow up migration planned for October. In addition to scalability and robustness it also offers a platform on which the time to market for new products and funds is substantially reduced. In conjunction with this migration further transfers of work to our lower operating cost centre in Norrköping have been undertaken. Most of our servicing is now undertaken in this office with corporate functions being focused in Stockholm. Whilst there has been some focus on Solvency II in Movestic the pace of development is now planned to increase following the necessary concentration on the systems migration.

At the Group level we continue to search for value-adding acquisitions in the UK and Western Europe. From discussions with potential financiers and equity underwriters we believe that, if the right opportunity presents itself, we would have strong institutional support to finance a potential transaction.

Key Performance Indicators

Set out below are those indicators, categorised by principal operating segment, which we consider to be key in assessing the Group's performance. They are either in the nature of lead operational indicators or are measurements which reflect outcomes. We explain the significance of each indicator and also set out the way in which it has been formulated to the extent necessary to appreciate its characteristics.

CA

Policy attrition

Generally, the longer that life and pensions policies remain in force the more profit accrues to CA. Over time the value of the in-force policies is realised into surplus within CA and this is, in turn, distributable to Chesnara, subject to regulatory constraints. It is important therefore that CA maximises policy retention through providing an advice service to customers. Different policy product types will naturally be subject to lapse, claim or surrender to varying extents and it is a detailed review and analysis of the experience of each of these types which gives rise to the projected policy in-force assumptions underpinning the projected value of policies in force within the embedded value. A statement of the annual rate of attrition of policies is provided as a broad indicator of the trend in longevity of the in-force base:

Number of in-force policies (000's)	Unaudited 6 months ended 30 June 2011	Unaudited 6 months ended 30 June 2010	Year ended 31 December 2010
Beginning of period	162	176	176
End of period	157	169	162
Rate of attrition (annualised)	6.2%	8.0%	8.0%

Bearing in mind the current economic backdrop in the UK, this notable improvement in the policy attrition rate is counter-intuitive. As the expectation remains that household budgets will come under increasing pressure and unemployment, or moves to part-time working, will increase, we will retain our current assumptions in this area until more enduring experience is available.

Unit-linked funds under management

The continuing level of unit-linked funds under management is an indicator of the ongoing level of profitability of CA as fund-related charges are an important component of CA's profit. Presented below, at each period end, is the level of policyholder unit-linked funds on which charges are based.

	Unaudited 30 June 2011 £m	Unaudited 30 June 2010 £m	31 December 2010 £m
Policyholder unit-linked funds	1,506.6	1,370.4	1,536.4

The movement in the value of unit-linked funds under management is a function of i) performance of the funds across UK equities, international equities, property and fixed interest securities, ii) received and invested premiums and iii) policies closed due to surrender, transfer or claim.

Unit-linked fund performance

Relative outperformance in the unit-linked funds helps promote policy retention and, when positive, increases the embedded value of the Group as future management charges will be of a higher magnitude. The CA Pension Managed Fund, which represents a significant proportion of CA policyholder unit-linked funds under management, provided a return of 15.86% over the year ended 30 June 2011 (year ended 30 June 2010: 19.74%) while the CWA Balanced Managed Pension Fund, which represents a significant proportion of CWA policyholder funds under management, provided a return of 16.04% over the same period (year ended 30 June 2010: 17.53%). These returns compare favourably with the ABI UK – Mixed Investment 40% to 85% - Pensions Fund average of 14.72% for the same period (30 June 2010: 17.77%).

Mortgage endowments

We continue to carry potentially significant exposure to mortgage endowment misselling complaints, which may become subject to redress payments to policyholders. Three of the key statistics which define and limit the extent of this exposure are set out below:

	Unaudited 6 months ended 30 June		Year ended 31 December
	2011	2010	2010
Number of complaints received	390	348	677
% of complaints assessed upheld	35%	26%	24%
% of complaints assessed time barred	46%	57%	54%

The percentage of in-force policies which are time-barred is now 86.1%. Time-barred policies are those mortgage endowment policies for which a misselling complaint is potentially not admissible through the application of rules and guidance issued by the FSA and the ABI. We do not expect the percentage of time-barred cases to increase significantly in future years.

A slight increase in the number of complaints received reflects a higher number of policyholders mailed whilst the increase in uphold rate and reduced time barred rate reflect the reduced number of complaints from policyholders who accept they are time-barred and therefore realise submitting a complaint would be fruitless.

S&P

Information below in respect of the half-year ended 30 June 2010 and the year ended 31 December 2010 includes performance prior to the acquisition of S&P on 20 December 2010 and is presented for illustrative purposes.

Policy attrition

Generally, the longer that life and pensions policies remain in force the more profit accrues to S&P. Over time the value of the in-force policies is realised into surplus within S&P and this is, in turn, distributable to Chesnara, subject to regulatory constraints. Policy attrition is, therefore, an important factor underpinning S&P's ongoing level of profitability. Different policy product types will naturally be subject to lapse, claim, surrender, retirement or transfer to varying extents and it is a detailed review and analysis of the experience of each of these types which gives rise to the projected policy in-force assumptions underpinning the projected value of policies in force within the embedded value. A globalised statement of the annual rate of attrition of policies is provided as a broad indicator of the trend in longevity of the in-force base:

Number of in-force policies (000's)	Unaudited 6 months ended 30 June		Year ended 31 December
	2011	2010	2010
Beginning of period	172	184	184
End of period	167	177	172
Rate of attrition (annualised)	5.8%	7.6%	6.5%

As with CA, the improvement in policy attrition is counter-intuitive. We would expect lower policy attrition in the S&P business as it has been closed longer and is more biased to pensions business. As with CA we will maintain our current assumptions until more enduring experience is available.

Unit-linked funds under management

The continuing level of funds under management is an indicator of the ongoing level of profitability of S&P as fund-related charges are an important component of S&P's profit. Presented below, at each period end, is the level of policyholder unit-linked funds on which charges are based.

	Unaudited 30 June		31 December
	2011 £m	2010 £m	2010 £m
Policyholder unit-linked funds	899.3	844.2	933.6

The movement in the value of unit-linked funds under management is a function of i) performance of the funds across UK equities, international equities, property and fixed interest securities, ii) received and invested premiums and iii) policies closed due to surrender, transfer or claim.

Interim Management Report (continued)

Unit-linked fund performance

Relative outperformance in the unit-linked funds helps promote policy retention and, when positive, increases the embedded value of the Group as future management charges will be of a higher magnitude. The S&P Managed Pension Fund, which represents a significant proportion of S&P policyholder unit-linked funds under management, provided a return of 17.21% over the year ended 30 June 2011 (year ended 30 June 2010: 17.80%). These returns compare favourably with the ABI UK – Mixed Investment 40% to 85% - Pensions Fund average of 14.72% for the same period (30 June 2010: 17.77%).

Valuation interest rate

Due to the existence of guarantees within the with profits business the interest rate used for determining the actuarial liabilities, as part of the period-end actuarial valuation process, has a material impact on the level of surplus arising within the with profits funds. As the valuation rate reduces the surplus arising is expected to reduce. Presented below, at each period end, are the valuation interest rates for the material with-profits fund, that related to the pensions business.

	Unaudited 30 June		31 December
	2011	**2010**	**2010**
With profits valuation interest rate – pensions business	3.00%	3.00%	3.10%

The rate is based on a weighted average, risk adjusted, yield for the matching assets held at the valuation date. Whilst yields on the longer-dated bonds have increased slightly over the six months to 30 June 2011, yields on shorter-dated bonds have fallen to a greater extent. In addition, an increase in cash within the fund, to further reduce investment risk, has reduced the yield being earned. These impacts have been mitigated to some extent by reconsidering the levels of margins within the final rate selected.

Movestic

Premium income

The writing of profitable new business and the continuing flow of premium income are key to the success of Movestic, which focuses primarily on the pensions and savings market, but which also writes risk and health business where the opportunity exists.

	Unaudited 6 months ended 30 June		Year ended 31 December
	2011	**2010**	**2010**
New business premium income*	**£m**	**£m**	**£m**
Pensions and savings	26.7	29.3	52.9
Risk Insurance	1.1	6.9	8.1
Total	**27.8**	**36.2**	**61.0**

*Basis: annualised premium plus 1/10 single premium denominated in SEK and translated into sterling at a constant rate of SEK10.3 = £1

	Unaudited 6 months ended 30 June		Year ended 31 December
	2011	**2010**	**2010**
Total premium income*	**£m**	**£m**	**£m**
Pensions and savings	122.7	136.1	263.1
Risk Insurance	19.9	19.4	38.4
Total	**142.6**	**155.5**	**301.5**

*Basis: total premiums paid denominated in SEK and translated into sterling at a constant rate of SEK10.3 = £1

The fall in new business risk insurance premiums, although apparently significant, reflect the bulk transfer in of business following the acquisition of the operations of Aspis Liv in the first half of 2010. The success in retaining this business is evidenced by the increase in total premium risk insurance premiums. Unfortunately the same cannot be said for pensions and savings where new business is slightly behind target and total premium income has reduced. This can largely be attributed to issues with lapses, transfers and surrenders and the actions we are taking in that respect are outlined in the following section.

Policy attrition

The longer that insurance and investment contracts remain in force, the more profit accrues to the business. Different policy product types will be subject to surrender, transfer or lapse to varying extents.

Annualised rate of attrition	Unaudited 6 months ended 30 June 2011	Unaudited 6 months ended 30 June 2010	Year ended 31 December 2010
Surrenders (endowments)	14.5%	10.7%	13.4%
Transfers (pensions)	5.4%	4.3%	4.6%
Lapses (pensions and endowments)	16.8%	15.4%	19.8%

Despite our initial actions, the rate of surrender and transfer has not improved although the lapse rate has. Further actions are being taken to address this in the face of strong marketing from Swedish banks. These include the imposition of a transfer fee from September 2011 (previously there was none), detailed analysis and follow up of IFAs with relatively high transfer rates, asking potential transfer clients to complete a form confirming their request (with 'reasons to stay' messages accompanying the form), and telephoning all clients who request a surrender. Further consideration is being given to loyalty measures for paid up clients. These initiatives are being developed by a unit specifically formed to analyse the reasons for business loss and to develop measures to mitigate it.

Market share

Movestic's primary target market is that of unit-linked pension business and, within that, company-paid contributions business.

Share of unit-linked pensions market by quarter

	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Total business	3.9%	5.1%	3.1%	5.8%	4.7%	5.6%
Company-paid contributions business	12.3%	12.3%	10.1%	11.3%	12.5%	11.3%

Whilst market share of company-paid business has fallen back to Q4 2010 levels we have made progress in the broader total business measure. This is to be welcomed as it reflectsthe relative performance for all business lines compared to the rest of the market.

Unit-linked funds under management

	Unaudited 30 June 2011 £m	Unaudited 30 June 2010 £m	31 December 2010 £m
Policyholder unit-linked funds	1,364.2	1,180.3	1,354.3

* Translated into sterling at a constant rate of SEK10.1 = £1.

The value of assets under management is a key reference point for establishing the ongoing profit-earning capacity of the business, as fees are received based on these values. Asset growth enables management to negotiate improved rebates from fund managers which drives improved profitability.

Fund performance

Relative fund performance, which is key to maintaining funds under management, obtaining new business and to supporting business retention, is as follows:

Number of funds	Unaudited 6 months ended 30 June 2011	Unaudited 6 months ended 30 June 2010	Year ended 31 December 2010
Outperformed against relevant index	14	9	18
Underperformed against relevant index	18	19	12
No relevant index	7	3	3

Slightly more funds underperformed than over performed in the first half of the year as, generally, we are overweight in 'value' stocks and Swedish equities. Whilst this strategy produced good results in the first four months of the year the latter two months reversed the gains made.

We have continued to review our fund range and have replaced some underperforming funds with similar funds from new managers which have better performance records and improved rebate levels. We have also introduced a number of new funds which will support the distribution and retention sides of the business which, we expect, will lead to increased new fund flows.

Interim Management Report (continued)

IFRS Result

The IFRS result for the six months ended 30 June 2011 comprises:

	Unaudited six months ended 30 June 2011		
	Pre-tax £000	Tax £000	Post-tax £000
CA result	8,012	(1,131)	6,881
S&P result	(1,247)	809	(438)
Movestic result	(1,219)	(281)	(1,500)
Other group activities	(1,736)	-	(1,736)
Total result	**3,810**	**(603)**	**3,207**
Non-controlling interest			-
Total result attributable to shareholders			**3,207**

	Unaudited six months ended 30 June 2010		
	Pre-tax £000	Tax £000	Post-tax £000
Profit arising on business combination			
- Aspis	989	-	989
CA result	16,795	(4,238)	12,557
S&P result	-	-	-
Movestic result	(5,049)	44	(5,005)
Other group activities	(757)	-	(757)
Total result	**11,978**	**(4,194)**	**7,784**
Non-controlling interest			40
Total result attributable to shareholders			**7,824**

	Year ended 31 December 2010		
	Pre-tax £000	Tax £000	Post-tax £000
Profit arising on business combinations			
- Aspis	376	-	376
- S&P	15,488	-	15,488
CA result	25,692	(4,740)	20,952
S&P result	224	(63)	161
Movestic result	(3,730)	176	(3,554)
Other group activities	(3,882)	160	(3,722)
Total result	**34,168**	**(4,467)**	**29,701**
Non-controlling interest			118
Total result attributable to shareholders			**29,819**

The CA pre-tax result, which is net of an amortisation charge of £1.8m in respect of the acquired value of in-force business, continues to be dominated by the strong emergence of surplus from its life and pensions run-off portfolio. A downward drift in short-term fixed-interest yields over the first half of the year, giving rise to an increase in the capital value of assets backing its insurance liabilities, has offset the adverse impact of a £2.0m strengthening of expense reserves, so that, overall, CA's result is in line with expectations. In contrast to this, the S&P result has experienced a pre-tax with profits strain of some £4.2m, principally in its pensions portfolio: this has resulted from the impact of declining short-term fixed-interest yields on reserving for the cost of guarantees within the with profits funds, together with relatively higher cash-based holdings within the investment funds in anticipation of rising interest rates.

This outcome reflects the sensitivity of the S&P result to relatively small movements in yields and these adverse effects will reverse in a rising interest rate environment. A better guide to the underlying longer-term performance of S&P is given by the corresponding EEV result set out in the next section.

As to the Movestic result, the tables above show a clearly improving trend on the IFRS basis, such that the core insurance risk and savings operations are now trading at break-even or slightly above, aided by the effect of the acquisition of the Aspis business in early 2010.

EEV Result

Supplementary information prepared in accordance with European Embedded Value ('EEV') principles issued in May 2004 by the European Insurance CFO Forum ('CFO Forum') supplemented by Additional Guidance on EEV Disclosures issued by the same body in October 2005, and set out in the financial statements on pages 43 to 59 is presented to provide alternative information to that presented under IFRS. EEV principles assist in identifying the value being generated by the UK and Swedish life and pensions businesses. The result determined under this method represents principally the movement in the UK and Swedish businesses' embedded value, before transfers made to the parent company and ignoring any capital movements. Through including the in-force value of insurance and investment contracts, EEV recognises the discounted profit stream expected to arise from those contracts. The principal underlying components of the EEV result are the expected return from existing business, in both the UK and Swedish businesses, being the unwind of the rate used to discount the related cash flows, and the value added by the writing of new business in the Swedish business. Adjustments are made to the result for variations in actual experience from that assumed for each component of policy cash flows arising in the period and for the impact of restating assumptions for each component of the prospective cash flows.

In June 2008, the CFO Forum issued the European Insurance CFO Forum Market Consistent Embedded Value ('MCEV') Principles (Copywright © Stichting CFO Forum Foundation 2008). These principles, with which we had intended to comply with effect from 2009, represent a development of the existing European Embedded Value principles, which form the current basis of preparation of our Supplementary Information. However, on 22 May 2009, the CFO Forum announced that the mandatory MCEV reporting date for all its member firms would be deferred until 2011, in light of developments arising from the recent financial crisis. Further, in April 2011 the Forum withdrew the intention that the MCEV principles should be the only recognised format of embedded value reporting from 31 December 2011. We will continue to consider the appropriateness of retaining our current basis of presentation but have no current plans to adopt MCEV principles.

The movement in Group European Embedded Value may be summarised as:

	Unaudited 6 months ended 30 June		Year ended 31 December
	2011 £000	2010 £000	2010 £000
EEV at beginning of period	**354,636**	**262,585**	**262,585**
Effect of modelling adjustments	(5,267)	10,363	13,239
EEV at beginning of period restated	**349,369**	**272,948**	**275,824**
Profit arising on acquisition of			
Aspis	-	989	376
S&P	-	-	40,667
Result for the period net of tax			
CA	1,578	2,675	18,891
S&P	3,836	-	(924)
Movestic	(6,323)	(9,318)	3,052
Other group activities	(629)	(762)	(2,295)
Movement on non-controlling interest	-	-	118
Foreign exchange reserve movement	4,487	(947)	9,517
Dividends paid	(12,174)	(10,454)	(16,340)
Share capital issued	-	-	22,588
Disposal of Treasury shares	-	-	3,162
EEV at end of period	**340,144**	**255,131**	**354,636**

Interim Management Report (continued)

The dominant influences underlying the EEV outturn are:

(i) modelling adjustments, net £5.3m adverse, so that the cumulative effects arising from this source over the 18-month period to 30 June 2011 are some £7.9m favourable. These effects arise principally within Movestic and generally reflect the ability to project cash flows at a greater level of granularity: the adjustments in respect of the six months ended 30 June 2011 are net of errors of some £7.7m adverse detected in the operation of Movestic's new model (further information is provided in Note 6 of the EEV Supplementary Information);

(ii) an accretion of some £2.6m in the S&P result, in respect of a reduction in the prospective cost of guarantees within the with profits funds: while short-term fixed-interest yields are experiencing a short-term decline, a shift in the yield curve points to an improved outlook for longer-term investment returns; accordingly the overall S&P EEV result at £3.8m net of tax has proved resilient;

(iii) less favourable investment conditions for Movestic, so that £6.2m of its EEV loss of £6.3m has arisen from investment market performance in its policyholder savings funds being significantly less than anticipated. While Movestic's result has benefited to the extent of £2.8m from the unwind of the discount rate and of £2.1m value added by new business in the period, these gains have been almost offset by an adverse impact of £5.0m arising from policy discontinuance. The full impact of Movestic-related losses has, however, been offset by a gain of £4.5m arising from the translation of Swedish Krona-denominated assets into sterling. A 4% appreciation of the Swedish Krona against sterling leads to an appreciation of some £5m in embedded value; and

(iv) a relatively strong pre-tax CA performance, belied by its post-tax result, has sheltered the adverse impact of the £2.0m strengthening of expense reserves, referred to in 'IFRS Result' above. This additional reserve was entirely offset by favourable mortality experience variances of £0.4m, together with favourable policy lapse experience variances of £1.6m. Non-recurring adverse tax impacts have, however led to a somewhat muted result at the post-tax level.

Shareholders' Equity and Embedded Value of Covered Business – EEV Basis

The consolidated balance sheet prepared in accordance with EEV principles may be summarised as:

	Unaudited 30 June 2011				
	CA £000	**S&P £000**	**Movestic £000**	**Other Group Activities £000**	**Total £000**
Value of in-force business	74,109	43,981	147,405	-	265,495
Other net assets	52,274	23,426	(33,557)	32,506	74,649
	126,383	**67,407**	**113,848**	**32,506**	**340,144**
Represented by:					
Embedded value (\`EV') of regulated entities	126,383	106,794	112,457	-	345,634
Less: amount financed by borrowings	-	(39,387)	-	-	(39,387)
EV of regulated entities attributable to shareholders	126,383	67,407	112,457	-	306,247
Net equity of other Group companies	-	-	1,391	32,506	33,897
Shareholders' equity	**126,383**	**67,407**	**113,848**	**32,506**	**340,144**

	Unaudited 30 June 2010				
	CA £000	**S&P £000**	**Movestic £000**	**Other Group Activities £000**	**Total £000**
Value of in-force business	73,581	-	114,493	-	188,074
Other net assets	58,523	-	(22,970)	31,504	67,057
	132,104	**-**	**91,523**	**31,504**	**255,131**
Represented by:					
Embedded value (\`EV') of regulated entities	132,104	-	93,717	-	225,821
Less: amount financed by borrowings	-	-	-	-	-
EV of regulated entities attributable to shareholders	132,104	-	93,717	-	225,821
Net equity of other Group companies	-	-	(2,194)	31,504	29,310
Shareholders' equity	**132,104**	**-**	**91,523**	**31,504**	**255,131**

	31 December 2010				
	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Value of in-force business	79,360	41,307	144,748	-	265,415
Other net assets	70,348	22,673	(24,111)	20,311	89,221
	149,708	**63,980**	**120,637**	**20,311**	**354,636**
Represented by:					
Embedded value (`EV') of regulated entities	149,708	103,267	121,069	-	374,044
Less: amount financed by borrowings	-	(39,287)	-	-	(39,287)
EV of regulated entities attributable to shareholders	149,708	63,980	121,069	-	334,757
Net equity of other Group companies	-	-	(432)	20,311	19,879
Shareholders' equity	**149,708**	**63,980**	**120,637**	**20,311**	**354,636**

The tables below set out the components of the value of in-force business by major product line at each period end:

	Unaudited 30 June 2011			
Number of policies	**CA 000**	**S&P 000**	**Movestic 000**	**Total 000**
Endowment	47	7	15	69
Protection	51	6	-	57
Annuities	6	1	-	7
Pensions	46	139	76	261
Other	7	14	-	21
Total	**157**	**167**	**91**	**415**

	Unaudited 30 June 2010			
Number of policies	**CA 000**	**S&P 000**	**Movestic 000**	**Total 000**
Endowment	52	-	15	67
Protection	55	-	-	55
Annuities	5	-	-	5
Pensions	50	-	74	124
Other	7	-	-	7
Total	**169**	**-**	**89**	**258**

	31 December 2010			
Number of policies	**CA 000**	**S&P 000**	**Movestic 000**	**Total 000**
Endowment	50	8	15	73
Protection	52	6	-	58
Annuities	5	1	-	6
Pensions	48	143	75	266
Other	7	14	-	21
Total	**162**	**172**	**90**	**424**

Value in-force	Unaudited 30 June 2011 CA £m	S&P £m	Movestic £m	Total £m
Endowment	31.8	7.9	12.8	52.5
Protection	46.9	2.0	-	48.9
Annuities	(0.2)	1.4	-	1.2
Pensions	30.4	69.1	134.9	234.4
Other	2.1	0.4	-	2.5
Total at product level	**111.0**	**80.8**	**147.7**	**339.5**
Valuation adjustments				
Holding company expenses	(8.3)	-	-	(8.3)
Other	(24.1)	(19.4)	-	(43.5)
Cost of capital/frictional costs	(1.0)	(3.5)	(0.2)	(4.7)
Value in-force pre-tax	**77.6**	**57.9**	**147.5**	**283.0**
Taxation	(3.5)	(14.0)	-	(17.5)
Value in-force post-tax	**74.1**	**43.9**	**147.5**	**265.5**

Value in-force	Unaudited 30 June 2010 CA £m	S&P £m	Movestic £m	Total £m
Endowment	36.6	-	12.7	49.3
Protection	46.3	-	-	46.3
Annuities	(0.2)	-	-	(0.2)
Pensions	33.3	-	102.0	135.3
Other	-	-	-	-
Total at product level	**116.0**	**-**	**114.7**	**230.7**
Valuation adjustments				
Holding company expenses	(10.1)	-	-	(10.1)
Other	(27.7)	-	-	(27.7)
Cost of capital/frictional costs	(0.9)	-	(0.2)	(1.1)
Value in-force pre-tax	**77.3**	**-**	**114.5**	**191.8**
Taxation	(3.7)	-	-	(3.7)
Value in-force post-tax	**73.6**	**-**	**114.5**	**188.1**

Value in-force	31 December 2010 CA £m	S&P £m	Movestic £m	Total £m
Endowment	34.1	8.3	14.0	56.4
Protection	49.1	2.6	-	51.7
Annuities	0.5	1.5	-	2.0
Pensions	31.1	68.1	131.0	230.2
Other	1.7	0.7	-	2.4
Total at product level	**116.5**	**81.2**	**145.0**	**342.7**
Valuation adjustments				
Holding company expenses	(8.6)	-	-	(8.6)
Other	(23.4)	(22.0)	-	(45.4)
Cost of capital/frictional costs	(1.0)	(3.7)	(0.3)	(5.0)
Value in-force pre-tax	**83.5**	**55.5**	**144.7**	**283.7**
Taxation	(4.1)	(14.2)	-	(18.3)
Value in-force post-tax	**79.4**	**41.3**	**144.7**	**265.4**

The value-in-force represents the discounted value of the future surpluses arising from the insurance and investment contracts in force at each respective period end. The future surpluses are calculated by using realistic assumptions for each component of the cash flow.

'Other' valuation adjustments in CA principally comprise expenses of managing policies which are not attributed at product level. In S&P they represent the estimated cost of guarantees to with profits policyholders.

Principal Risks and Uncertainties

Risk and uncertainties are assessed by reference to the extent to which they threaten, or potentially threaten, the ability of the Group to meet its core strategic objectives. These currently centre on the intention of the Group to maintain a reliable and progressive dividend policy.

The specific principal risks and uncertainties subsisting within the Group are determined by the fact that:

(i) the Group's core operations centre on the run-off of closed life and pensions businesses in the UK;

(ii) notwithstanding this, the Group has a material segment, which comprises an open life and pensions business operating in a foreign jurisdiction; and

(iii) these businesses are subject to local regulation, which significantly influences the amount of capital which they are required to retain and which may otherwise constrain the conduct of business.

The following identifies the principal risks and uncertainties, together with a description of their actual or potential impact and of the way in which the Group seeks to control them. Insurance and financial risks relating to (i) insurance and investment contracts provided by the Group to policyholders and to investors and to (ii) Group-level investment activities are set out in Notes 5 and 6 respectively of the Company's published consolidated IFRS financial statements for the year ended 31 December 2010, where the information is provided on a segmented basis. The analysis below includes a re-presentation of the more significant risks identified therein on a generic basis.

Risk	Impact	Control
Adverse mortality/morbidity/longevity experience	The Group provides benefits to policyholders in the event of death or illness and to annuitants for their lifetime. Premiums are partly fixed by reference to mortality/morbidity tables. To the extent that actual mortality or morbidity rates vary from the assumptions underlying product pricing, so more or less profit will accrue to the Group.	The Group uses underwriting techniques, reinsurance programmes and limits on levels of accepted risk on individuals, in order to control the overall level of risk. The Group has also retained the right on certain contracts to vary premium rates in the light of actual experience. Notwithstanding this, the Group is exposed to the possible effects of pandemics, such as AIDS and SARS. The impact of overall mortality risk is mitigated to the extent that the Group has a portfolio of annuity contracts where the benefits cease on death.
Adverse persistency experience	Persistency risk is the risk that insurance policyholders or investors in investment contracts either discontinue paying new premiums or investing new sums, or otherwise exercise their rights to discontinue the contracts. Persistency rates significantly lower than those assumed will lead to reduced Group profitability in the medium to long term.	The Group's exposure to persistency risk is naturally limited to the extent that, in closed life and pensions books, which currently continue to comprise the larger part of the Group's business, persistency rates tend to improve over time due to policyholder/investor inertia. In Movestic a business unit has been established to specifically focus on policy discontinuance and to develop measures to improve retention rates.
Significant and prolonged equity and property market falls	A significant part of the Group's income and, therefore, overall profitability derives from fees received in respect of the management of policyholder and investor funds. Fee levels are generally related to the value of funds under management and, as the managed investment funds overall comprise a significant equity and property content, the Group is particularly exposed to the impact of significant and prolonged equity market falls. Additionally, falls in equity and property values will increase the potential cost of investment guarantees in the S&P with profits funds.	Notwithstanding that individual fund mandates may give rise to diversification of risk and that, within those funds, hedging techniques are used where appropriate, there is clearly a significant residual risk to adverse global equity market conditions. The Group has taken the explicit decision not to mitigate the residual risk, by way of hedging, because of the significant cost relative to the risk: it does, however, periodically review the costs of hedging.

Adverse movements in yields on fixed interest securities	The Group maintains portfolios of fixed interest securities (i) in order to match its insurance contract liabilities, in terms of yield and cash flow characteristics, and (ii) as an integral part of the investment funds it manages on behalf of policyholders and investors. It is exposed to mismatch losses arising from a failure to match its insurance contract liabilities or from the fact that sharp and discrete fixed interest yield movements may not be associated fully and immediately with corresponding changes in actuarial valuation interest rates. Additionally, a fall in fixed interest yields will increase the potential cost of guarantees within the S&P with profits funds.	The Group maintains rigorous matching programmes to ensure that exposure to mismatch loss is minimised: there may be some reversal of the extent of loss through the natural effluxion of time as dated securities approach their redemption date. The Group does not seek to hedge against adverse movements in fixed interest securities, as the cost is prohibitive when compared with the residual risk. The proportion of fixed interest securities in policyholder and investor managed funds is significantly less than the proportion of equities.
Expense overruns	For the closed UK life and pensions businesses, the Group is exposed to the impact of fixed and semi-fixed expenses, in conjunction with a diminishing policy base, on profitability. For the Swedish open life and pensions business, the Group is exposed to the impact of expense levels varying adversely from those assumed in product pricing.	For the UK businesses, the Group pursues a strategy of outsourcing functions, to the fullest extent possible, to specialist outsourced services providers. It seeks to do this on pricing terms which recognise the diminishing policy base and which, in respect of contract renewal, seeks to maintain competitive tension between service providers. For the Swedish business, periodic reviews are conducted to ensure that overall expense levels are appropriate, based on activity analysis and on medium-term projections. In addition, for both the UK and Swedish businesses, the Group maintains a strict regime of budgetary control.
Adverse sterling: Swedish Krona exchange rate movements	The Swedish business, whose functional and reporting currency is the Swedish Krona, is a material part of the Group. Exposure to adverse sterling/Swedish Krona exchange rate movements arises from actual planned cash flows between the Swedish subsidiary and its UK parent company and from the impact on reported IFRS and EEV results which are expressed in sterling.	The Group actively monitors exchange rate movements and the cost of hedging the currency risk on cash flows when appropriate. The Group does not currently seek to hedge the risk of adverse currency movements on its reported results.
Counterparty failure	The Group carries significant inherent risk of counterparty failure in respect of; - its fixed interest security portfolio; - cash deposits; and - amounts due from reinsurers.	Risk to counterparty failure is mitigated generally by the operation of guidelines which limit the level of exposure to any one counterparty and which impose limits on exposure to credit ratings. In respect of exposure to one major reinsurer, Guardian Assurance plc (‘Guardian’), the Group has a floating charge over the reinsurer’s related investment assets, which ranks the Group equally with Guardian’s policyholders. In addition, the Group reviews the regulatory returns filed by Guardian, in order to identify issues which may arise in connection with the financial viability of Guardian.

Failure of outsourced service providers to fulfil contractual obligations	The Group's UK life and pensions businesses are heavily dependent on outsourced service providers to fulfil a significant number of their core functions. In the event of failure by either or both service providers to fulfil their contractual obligations, in whole or in part, to the requisite standards specified in the contracts, the Group may suffer loss as its functions degrade.	The Group specifies rigorous service level measures and management information flows under its contractual arrangements. Following from this, the Group maintains continuing and close oversight of the performance of both service providers. 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.
Key Man dependency	The nature of the Group is such that, for both its Group-level functions and for its UK life and pensions operations, it relies on a small, professional team. There is, therefore, inevitably a concentration of experience and knowhow within particular key individuals and the Group is, accordingly, exposed to the sudden loss of the services of these individuals.	The Group promotes the sharing of knowhow and expertise to the fullest extent possible. It periodically reviews and assesses staffing levels, and, where the circumstances of the Group justify and permit, will enhance resource to ensure that knowhow and expertise is more widely embedded. To minimise the risk of knowledge loss, the Group maintains succession plans and remuneration structures which comprise a retention element. Should a skills gap appear the Group seeks to utilise external resource until such time as a permanent solution can be identified. These processes are supplemented by the maintenance of procedures to assess the competence of, and training requirements for, all key individuals.
Adverse regulatory and legal changes	The Group operates in jurisdictions which are currently subject to significant change arising from regulatory and legal requirements. These may either be of a local nature, or of a wider nature, following from EU-based regulation and law. Significant issues which have arisen and where there is currently uncertainty as to their full impact on the Group include: (i) review of the UK tax regime in respect of life assurance business; (ii) the implementation of Solvency II requirements; (iii) the implications of a ruling made by the ECJ, applicable to insurance companies, in connection with gender; and (iv) the impact of IFRS Insurance Accounting Phase 2 developments. The outcomes of these issues may variously impact the level of reported profitability in the Group and the capacity and capability of its life and pensions subsidiaries to distribute regulatory-determined surpluses; and (v) Review of With profits Governance arrangements, following the issue of Consultation Paper 11/5 by the FSA.	The Group controls these risks and addresses the related uncertainties by assessing potential outcomes and by taking appropriate action to minimise the impact of adverse circumstances. It monitors industry comment and takes specialist professional advice, where necessary. It is in the nature of these issues, however, particularly in those areas where specific regulatory rules and/or law have not yet been framed and implemented, that there remains significant uncertainty as to their impact on the Group's longer-term profitability and on the capacity and capability of its life and pensions subsidiaries to distribute regulatory determined surpluses.

During the period, (i) the Swedish tax authorities withdrew their challenge to the tax treatment of fees rebated by investment fund managers and this area of uncertainty, which would have impacted Movestic, has now been satisfactorily resolved; and (ii) the UK Government has made statements regarding the ECJ ruling regarding the use of gender in pricing insurance which indicate that the effect on our UK businesses will be limited.

In addition, insofar as the Group makes estimates and assumptions that affect the reported amounts of the following assets and liabilities, there is uncertainty as to the amounts at which they may eventually be settled or realised and as to the timing of settlement or realisation:

(i) estimates of future benefits payments arising from long-term insurance contracts;

(ii) fair value of investment contracts;

(iii) liability for redress in respect of mortgage endowment misselling complaints;

(iv) deferred acquisition costs and deferred income;

(v) amortisation of acquired value of in-force business;

(vi) insurance claim reserves; and

(vii) insurance claim reserves – reinsurance recoverable.

Detailed information on these items is provided in Note 3 of the Company's published consolidated financial statements for the year ended 31 December 2010.

There have been no changes in the nature and incidence of the principal risks and uncertainties, referred to above, during the six months ended 30 June 2011, except as otherwise discussed above.

Related Party Transactions

There have been no related party transactions that have occurred during the first six months of the financial year that have materially affected the financial position or performance of the Group during that period and there have been no changes in the related party transactions described in the last annual report that could do so.

Solvency and Regulatory Capital

Regulatory Capital Resources and Requirements

The regulatory capital of both the UK and Swedish businesses is calculated by reference to regulations established and amended from time to time by the FSA in the UK and by Finansinspektionen in Sweden. The rules are designed to ensure that companies have sufficient assets to meet their liabilities in specified adverse circumstances. As such, there is, in the UK, a restriction on the full transfer of surplus from the long-term business funds to shareholder funds of CA and S&P, and on the full distribution of reserves from CA and S&P to Chesnara and, in Sweden, on distributions from shareholder funds.

Within the UK, the regulations include minimum standards for assessing the value of liabilities, including making an appropriate allowance for default risk on corporate bonds held to match liabilities when assessing the valuation discount rates used for valuing these liabilities. Market turmoil in 2008 led to significant widening of spreads on corporate bonds above gilts, through changed assessment of default risk and liquidity issues, and therefore, with the widening spreads, this issue was of concern to the industry. The Group continues to maintain a prudent approach to setting the valuation interest rates whereby it allows for default risk on matching corporate bonds, and thereby limits the liquidity premium taken credit for when assessing bond yields. A conservative allowance is made for the risk of default by means of a deduction from the redemption yield far higher than historical experience and then a cap on the resultant yield over the equivalent gilt is imposed. To ensure consistency of approach across the Group we have adopted an identical approach for CA and S&P which results in a less restrictive cap for CA than at prior reporting dates, but this has had no material impact because of the high credit quality of the bonds backing the CA business. Additionally, the CA Board continues to maintain their stance that permissive changes to regulations introduced in 2006, in FSA policy statement PS06/14, that would allow a reduction in liabilities are not appropriate for CA at this time.

The following summarises the capital resources and requirements of CA for UK regulatory purposes, after making provision for dividend payments from CA to Chesnara, which were approved after the respective period ends:

	Unaudited 30 June		31 December
	2011 £m	**2010 £m**	**2010 £m**
Available capital resources (`CR')	52.1	58.2	44.1
Long-term insurance capital requirement (`LTICR')	18.2	19.2	19.1
Resilience capital requirement (`RCR')	2.3	2.9	1.6
Total capital resources requirement (`CRR')	20.5	22.1	20.7
Target capital requirement cover	29.7	31.7	30.2
Ratio of available CR to CRR	254%	263%	213%
Excess of CR over target requirements	£22.4m	£26.5m	£13.9m

The CA Board, as a matter of policy, continues to target CR cover for total CRR at a minimum level of 150% of the LTICR and 100% of the RCR. To the extent that the target capital requirement cover of £29.7m as at 30 June 2011 falls short of the £40m share capital component of CR, so it follows that £10.3m of the reported excess of CR over target requirement is not available for distribution to shareholders except by way of a capital reduction.

It can be seen from this information that Chesnara, which relies on dividend distributions from CA, is currently in a favourable position to continue to pursue a progressive dividend policy.

The following summarises the capital resources and requirements of S&P for UK regulatory purposes. The Boards of the S&P companies have availed themselves of certain of the provisions of PS06/14 which has led to a reduction in certain liabilities:

	Unaudited 30 June		31 December
	2011 £m	**2010 £m**	**2010 £m**
Available capital resources (`CR')	68.9	62.0	69.7
Long-term insurance capital requirement (`LTICR')	23.9	23.6	24.3
Resilience capital requirement (`RCR')	1.7	1.9	1.7
Total capital resources requirement (`CRR')	25.6	25.5	26.0
Ratio of available CR to CRR	269%	243%	268%
Excess of CR over CRR	£43.3m	£36.5m	£43.7m

The information as at 30 June 2010 relates to the period prior to the acquisition of S&P and is provided for illustrative purposes: it is presented after making adjustment for dividends totalling £91m, which were paid to S&P's previous shareholder prior to the acquisition date.

The Boards of the S&P companies have not established formal targets for CR cover for total CRR. It is not intended to make dividend distributions from S&P to Chesnara prior to transfer of the long-term insurance funds of S&P to CA: this process is planned to be completed towards the end of 2011.

Movestic, in contrast to the UK businesses, and being open to new business, is, in the short to medium term, a net consumer of capital. The ratio of capital resources to capital resource requirements is a key indicator of the capital health of the business as it expands and provides the context in which further capital contributions are made by the parent company to finance that expansion in a predictable and orderly manner.

The following summarises the capital resources and requirements of Movestic for Swedish regulatory purposes:

	Unaudited 30 June		31 December
	2011 £m	2010 £m	2010 £m
Available capital resources (CR) represented by:			
Share capital	1.3	1.1	1.2
Additional equity contributions	42.1	33.6	40.6
Accumulated deficit	(19.6)	(14.5)	(18.5)
	23.8	20.2	23.3
Regulatory capital resource requirement (CRR)	12.6	9.2	12.4
Target requirement	18.9	13.8	18.6
Ratio of CR to CRR	189%	220%	188%
Excess of CR over target requirements	£4.9m	£6.4m	£4.7m

The Movestic Board, as a matter of policy, sets a minimum target of 150% of the regulatory capital requirement. Swedish solvency regulation requires that, to be fully admissible, a certain proportion of assets are to be held in the form of cash. The operation of this requirement may, from time to time, act as the operative constraint in determining the level of additional funding requirements, thereby causing the solvency ratio to rise above what it would otherwise have been, had the form of assets matching capital resources not been a constraint Movestic's solvency ratio declines as the increasing scale of its business requires a higher level of regulatory capital; as the ratio approaches 150%, further planned capital contributions will be made by the Group.

Insurance Groups Directive

In accordance with the EU Insurance Groups Directive, the Group calculates the excess of the aggregate of regulatory capital employed over the aggregate minimum solvency requirement imposed by local regulators for all of the constituent members of the Group, all of which are based in Europe. The following sets out these calculations after the recognition of final dividends for the respective financial year, but approved by the Board and paid to Group shareholders after the respective dates:

	Unaudited 30 June		31 December
	2011 £m	2010 £m	2010 £m
Available group capital resources	119.2	106.9	121.2
Group regulatory capital requirement	(60.3)	(32.4)	(60.6)
Excess	**58.9**	**74.5**	**60.6**
Cover	**198%**	**330%**	**200%**

The regulatory requirement is that available Group capital resources should be at least 100% of the capital requirement.

Individual Capital Assessments

The FSA Prudential Sourcebooks require UK insurance companies to make their own assessment of their capital needs to a required standard (a 99.5% probability of being able to meet liabilities to policyholders after one year). In the light of scrutiny of this assessment, the FSA may impose its own additional individual capital guidance. The Individual Capital Assessment is based on a realistic liability assessment, rather than on the statutory mathematical reserves, and involves stress testing the resultant realistic balance sheet for the impact of adverse events, including such market effects as significant falls in equity values, interest rate increases and decreases, bond defaults and further widening of bond spreads.

CA completed a further full annual assessment during 2010, based on the position as at 30 June 2010, as a result of which it was concluded that the effective current and medium-term capital requirement constraints on distributions to Chesnara will continue to be on the basis set out under `Regulatory capital resources and requirements' above. This assessment is subject to quarterly high-level updates until the next full annual assessment.

S&P completed during June 2011 a full annual assessment, based on the position as at 31 December 2010, as a result of which it was concluded that the effective current capital requirement constraint on distributions to Chesnara is on the basis set out under 'Regulatory capital resources and requirements' above. This is likely to remain the position going forward for at least the short term.

For the Group's Swedish business we have developed Movestic's ability to produce similar assessments, so that its capital assessment is aligned with UK practice. On this basis we conclude that the Group's capital requirements will continue to be driven by its regulatory capital resources. In the meantime, Movestic, in accordance with local regulatory requirements, continues to make quarterly assessments of the risk-based capital requirements of its business: these indicate that capital resources currently provide a comfortable margin over capital resource requirements.

EU Solvency II Framework

We have continued to monitor developments in the EU Solvency II framework which will impact the UK and Swedish businesses. A Steering Group continues to oversee our implementation of the regulations, which are due to become effective on 1 January 2013: however, the exact date is currently being reconsidered by the EU and may be deferred to 2014. Besides ensuring that there are robust processes for the calculation of technical reserves and solvency capital, the implementation will embrace wide-ranging changes in risk management processes on a Group-wide basis. In the meantime, we have continued internal quantitative analysis and have formulated a detailed implementation plan.

Going Concern Statement

After making appropriate enquiries, the Directors confirm that they are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future. In making these enquiries, the Directors have taken account of the current economic environment, including global investment market volatility, reflected by falling equity markets and fluctuating yields on fixed-interest investments. The impact of these movements has been assessed by sensitivity analysis on Group cash flow and on regulatory solvency measures at the subsidiary and Group level. As a result, we continue to adopt the going concern basis in the preparation of the financial statements.

Outlook

These results highlight some of the effects that equity markets and interest rate movements can have on our performance. Whilst these effects have given rise to some volatility in the reported results, the underlying picture is one of a robust cash-generating business in CA, a strong and longer-term surplus generator in S&P and Movestic's core business entering into profit territory. We will remain focused on the efficient management of these businesses to ensure that we can deliver on our dividend aims. We will also continue to seek to acquire further businesses which will prolong our ability to deliver a dividend stream and/or offer significant value uplift to shareholders.

Dividend

We have signalled that we aim to provide a reliable and progressive dividend payment. With the underlying cash flow generated by the emergence of surplus from the UK business remaining healthy and our solvency position remaining strong, the Board is pleased to be able to declare an interim dividend of 5.95p per share which represents an increase of 2.6% over the 2010 interim payment.

Graham Kettleborough

Chief Executive Officer

30 August 2011

Directors' Responsibility Statement in respect of the Half Yearly Financial Report

Responsibility statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Peter Mason
Chairman
30 August 2011

Graham Kettleborough
Chief Executive Officer
30 August 2011

Independent Auditor's Review Report to the Members of Chesnara plc in respect of the Half Yearly Financial Report

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of cash flows, the condensed consolidated statement of changes in equity and related Notes 1 to 6. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester
United Kingdom

30 August 2011

Condensed Consolidated Statement of Comprehensive Income for the six months ended 30 June 2011

	Note	Unaudited Six months ended 30 June 2011 £000	Unaudited Six months ended 30 June 2010 £000	Year ended 31 December 2010 £000
Insurance premium revenue		62,880	59,044	114,950
Insurance premium ceded to reinsurers		(17,562)	(18,999)	(35,695)
Net insurance premium revenue		**45,318**	**40,045**	**79,255**
Fee and commission income		34,840	33,858	63,410
Net investment return		9,876	(150)	303,850
Total revenue (net of reinsurance payable)		**90,034**	**73,753**	**446,515**
Other operating income		11,763	7,028	9,216
Total income		**101,797**	**80,781**	**455,731**
Insurance contract claims and benefits incurred				
Claims and benefits paid to insurance contract holders		(140,796)	(64,345)	(139,424)
Net decrease/(increase) in insurance contract provisions		56,452	14,006	(106,618)
Reinsurers' share of claims and benefits		13,277	15,049	45,635
Net insurance contract claims and benefits		(71,067)	(35,290)	(200,407)
Change in investment contract liabilities		13,584	(465)	(180,021)
Reinsurers' share of investment contract liabilities		326	(303)	3,904
Net change in investment contract liabilities		13,910	(768)	(176,117)
Fees, commission and other acquisition costs		(8,855)	(7,630)	(14,688)
Administrative expenses		(17,722)	(13,272)	(29,375)
Other operating expenses				
Charge for amortisation of acquired value of in-force business		(4,554)	(5,636)	(8,107)
Charge for amortisation of acquired value of customer relationships		(383)	(442)	(952)
Other		(6,983)	(6,003)	(7,098)
Total expenses		**(95,654)**	**(69,041)**	**(436,744)**
Total income less expenses		**6,143**	**11,740**	**18,987**
Share of profit/(loss) of associates		293	(101)	597
Profit recognised on business combinations		-	989	15,864
Operating profit		**6,436**	**12,628**	**35,448**
Financing costs		(2,626)	(650)	(1,280)
Profit before income taxes	4	**3,810**	**11,978**	**34,168**
Income tax expense		(603)	(4,194)	(4,467)
Profit for the period		**3,207**	**7,784**	**29,701**
Attributable to:				
Shareholders	2,4	3,207	7,824	29,819
Non-controlling interest		-	(40)	(118)
		3,207	**7,784**	**29,701**
Foreign exchange translation differences arising on the revaluation of foreign operations		1,972	(329)	4,285
Total comprehensive income for the period		**5,179**	**7,455**	**33,986**
Attributable to:				
Shareholders		5,179	7,495	34,104
Non-controlling interest		-	(40)	(118)
		5,179	**7,455**	**33,986**
Basic earnings per share (based on profit for the period attributable to shareholders)	2	2.79p	7.71p	29.05p
Diluted earnings per share (based on profit for the period attributable to shareholders)	2	2.79p	7.71p	29.05p

Condensed Consolidated Balance Sheet at 30 June 2011

	Note	Unaudited 30 June 2011 £000	Unaudited 30 June 2010 £000	31 December 2010 £000
Assets				
Intangible assets				
Deferred acquisition costs		17,651	10,914	14,659
Acquired value of in-force business		90,892	80,348	93,046
Acquired value of customer relationships		2,761	3,498	3,032
Software assets		7,405	5,456	6,829
Property and equipment		513	681	671
Investment in associates		2,150	943	1,783
Investment properties		125,684	3,355	120,820
Reinsurers' share of insurance contract provisions		277,482	239,078	280,743
Amounts deposited with reinsurers		30,058	26,571	30,264
Financial assets				
Equity securities at fair value through income		460,834	397,509	492,321
Holdings in collective investment schemes at fair value through income		3,153,838	1,537,247	3,177,265
Debt securities at fair value through income		319,406	380,057	319,516
Policyholders' funds held by the group		57,899	44,336	52,337
Insurance and other receivables		119,506	27,477	33,225
Prepayments		4,197	3,396	3,908
Derivative financial instruments		7,022	7,405	9,707
Total financial assets		4,122,702	2,397,427	4,088,279
Reinsurers' share of accrued policyholder claims		4,685	3,996	3,678
Income taxes		5,096	941	5,486
Cash and cash equivalents		168,820	174,183	194,134
Assets held for sale		-	-	380
Total assets	4	**4,855,899**	**2,947,391**	**4,843,804**
Liabilities				
Liabilities held for sale		-	-	380
Bank overdrafts		1,729	1,590	2,154
Insurance contract provisions		2,346,571	1,065,147	2,404,079
Unallocated divisible surplus		-	-	83
Financial liabilities				
Investment contracts at fair value through income		2,055,139	1,564,816	2,002,712
Liabilities relating to policyholders' funds held by the group		57,899	44,336	52,337
Borrowings	5	61,293	22,452	62,694
Derivative financial instruments		1,103	1,542	137
Total financial liabilities		2,175,434	1,633,146	2,117,880
Provisions		1,480	1,696	1,822
Deferred tax liabilities		17,994	9,558	20,526
Reinsurance payables		16,455	22,105	22,310
Payables related to direct insurance and investment contracts		39,887	29,139	35,808
Deferred income		11,013	12,254	11,647
Income taxes		7,202	7,543	6,923
Other payables		41,860	8,417	16,923
Total liabilities	4	**4,659,625**	**2,790,595**	**4,640,535**
Net assets		**196,274**	**156,796**	**203,269**
Shareholders' equity				
Share capital		42,024	41,501	42,024
Share premium		42,523	20,458	42,523
Treasury shares		(217)	(3,379)	(217)
Other reserves		9,688	3,102	7,716
Retained earnings	3	102,256	95,114	111,223
Total shareholders' equity		**196,274**	**156,796**	**203,269**
Non-controlling interest		-	-	-
Total equity		**196,274**	**156,796**	**203,269**

Condensed Consolidated Statement of Cash Flows for the six months ended 30 June 2011

	Unaudited Six months ended 30 June		Year ended 31 December
	2011 £000	2010 £000	2010 £000
Profit for the period	**3,207**	**7,824**	**29,819**
Adjustments for:			
Depreciation of property and equipment	110	148	294
Amortisation of deferred acquisition costs	3,618	3,040	5,737
Amortisation of acquired value of in-force business	4,554	5,637	8,148
Amortisation of acquired value of customer relationships	383	442	1,182
Amortisation of software assets	910	527	1,176
Tax expense	603	4,194	4,467
Interest receivable	(14,378)	(6,752)	(16,913)
Dividends receivable	(21,915)	(13,749)	(31,090)
Interest expense	2,626	650	1,280
Change in fair value of investment properties	(2,088)	–	(113)
Fair value losses/(gains) on financial assets	24,688	31,095	(252,456)
Loss/(profit) on sale of property and equipment	50	(2)	2
Profit arising on business combination	-	(989)	(15,864)
Share of (profit)/loss of associate net of impairment	(293)	101	(597)
Interest received	13,837	6,363	16,370
Dividends received	12,832	13,064	30,792
Increase in intangible assets related to insurance and investment contracts	(6,253)	(4,479)	(10,343)
Changes in operating assets and liabilities			
Decrease/(increase) in financial assets	74,752	(44,764)	(78,785)
Decrease/(increase) in reinsurers share of insurance contract provisions	3,950	(1,859)	(31,471)
Decrease/(increase) in amounts deposited with reinsurers	206	485	(3,208)
(Increase)/decrease in insurance and other receivables	(75,453)	(6,983)	1,305
(Increase)/decrease in prepayments	(198)	376	80
Decrease/(increase) in assets held for sale	388	-	(380)
(Decrease)/increase in liabilities held for sale	(388)	-	380
(Decrease)/increase in insurance contract provisions	(60,042)	(14,575)	121,382
Increase in investment contract liabilities	7,415	50,682	270,801
(Decrease)/increase in provisions	(342)	244	370
(Decrease)/increase in reinsurance payables	(6,536)	7,422	5,677
Increase/(decrease) in payables related to direct insurance and investment contracts	3,844	(1,119)	(6,050)
Increase/(decrease) in other payables	24,392	4,564	(422)
Cash (utilised by)/generated from operating activities	**(5,521)**	**41,587**	**51,570**
Income tax paid	(2,125)	(4,694)	(4,537)
Net cash (utilised by)/generated from operating activities	**(7,646)**	**36,893**	**47,033**
Cash flows from investing activities			
Business combinations net of cash acquired	-	1,830	(46,483)
Investment in associates	-	–	(38)
Development of software	(1,217)	(1,079)	(2,541)
Purchases of property and equipment	18	(193)	(296)
Net cash (utilised by)/generated from investing activities	**(1,199)**	**558**	**(49,358)**
Cash flows from financing activities			
Proceeds from the issue of share capital, net of expenses	-	-	22,588
Sale of Treasury shares	-	-	3,162
Proceeds from borrowings	-	-	40,000
Repayment of borrowings	(2,149)	(6,177)	(7,236)
Dividends paid	(12,174)	(10,454)	(16,340)
Interest paid	(2,648)	(853)	(2,365)
Net cash (utilised by)/generated from financing activities	**(16,971)**	**(17,484)**	**39,809**
Net (decrease)/increase in cash and cash equivalents	**(25,816)**	**19,967**	**37,484**
Cash and cash equivalents at beginning of the year	191,980	152,929	152,929
Effect of exchange rate changes on cash and cash equivalents	927	(303)	1,567
Cash and cash equivalents at end of the period	**167,091**	**172,593**	**191,980**

Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2011

Unaudited six months ended 30 June 2011

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2011	**42,024**	**42,523**	**7,716**	**(217)**	**111,223**	**203,269**
Profit for the period attributable to shareholders	-	-	-	-	3,207	3,207
Dividends paid	-	-	-	-	(12,174)	(12,174)
Foreign exchange translation reserve	-	-	1,972	-	-	1,972
Equity shareholders' funds at 30 June 2011	**42,024**	**42,523**	**9,688**	**(217)**	**102,256**	**196,274**

Unaudited six months ended 30 June 2010

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2010	**41,501**	**20,458**	**3,431**	**(3,379)**	**97,744**	**159,755**
Profit for the period attributable to shareholders	–	–	–	–	7,824	7,824
Dividends paid	–	–	–	–	(10,454)	(10,454)
Foreign exchange translation reserve	–	–	(329)	–	–	(329)
Equity shareholders' funds at 30 June 2010	**41,501**	**20,458**	**3,102**	**(3,379)**	**95,114**	**156,796**

Year ended 31 December 2010

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2010	**41,501**	**20,458**	**3,431**	**(3,379)**	**97,744**	**159,755**
Profit for the year attributable to shareholders	–	–	–	–	29,819	29,819
Dividends paid	–	–	–	–	(16,340)	(16,340)
Issue of new shares	523	22,065	-	-	-	22,588
Sale of Treasury shares	-	-	-	3,162	-	3,162
Foreign exchange translation reserve	–	–	4,285	–	–	4,285
Equity shareholders' funds at 31 December 2010	**42,024**	**42,523**	**7,716**	**(217)**	**111,223**	**203,269**

Notes to the Condensed Consolidated Financial Statements (Unaudited)

1 Basis of preparation

This condensed set of consolidated financial statements has been prepared in accordance with IAS 34 *'Interim Financial Reporting'* as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Services Authority, the condensed set of consolidated financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published consolidated financial statements for the year ended 31 December 2010, which were prepared in accordance with IFRS as adopted by the EU. Any judgements and estimates applied in the condensed set of financial statements are consistent with those applied in the preparation of the Group's published consolidated financial statements for the year ended 31 December 2010.

The financial information shown in this half-year review is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

The comparative figures for the financial year ended 31 December 2010 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statements under section 498(2) or (3) of the Companies Act 2006.

2 Earnings per share

Earnings per share are based on the following:

	Unaudited Six months ended 30 June		**Year ended 31 December**
	2011	**2010**	**2010**
Profit for the year attributable to shareholders (£000)	3,207	7,824	29,819
Weighted average number of ordinary shares	114,848,651	101,492,591	102,642,750
Basic earnings per share	2.79p	7.71p	29.05p
Diluted earnings per share	2.79p	7.71p	29.05p

The weighted average number of ordinary shares in respect of the six months ended 30 June 2011 is based on 115,047,662 shares in issue at the beginning and end of the period less 199,011 own shares held in treasury at the beginning and end of the period.

The weighted average number of ordinary shares in respect of the six months ended 30 June 2010 is based on 104,588,785 shares in issue at the beginning and end of the period less 3,096,194 own shares held in treasury at the beginning and end of the period.

The weighted average number of ordinary shares in respect of the year ended 31 December 2010 is based on 104,588,785 shares in issue at the beginning of the year less 3,096,194 own shares held in treasury and on 115,047,662 shares in issue at the end of the period, less 199,011 own shares held in treasury, taking account of the timing of the issue of new shares and of the sale of treasury shares.

Earnings per share for the year ended 31 December 2010 includes the impact of £15,864,000 of profit recognised on the acquisition of S&P and of the Aspis business. Excluding this item, both the basic and diluted earnings per share for the year ended 31 December 2010 would have been 13.60p.

There were no share options outstanding during the periods under review. Accordingly, there is no dilution of the average number of ordinary shares in issue in respect of these periods.

3 Retained earnings

	Unaudited Six months ended 30 June 2011 £000	Unaudited Six months ended 30 June 2010 £000	Year ended 31 December 2010 £000
Retained earnings attributable to equity holders of the parent company comprise			
Balance at 1 January	**111,223**	**97,744**	**97,744**
Profit for the period	3,207	7,824	29,819
Dividends			
Final approved and paid for 2009	-	(10,454)	(10,454)
Interim approved and paid for 2010	-	-	(5,886)
Final approved and paid for 2010	(12,174)	-	-
Balance at 30 June / 31 December	**102,256**	**95,114**	**111,223**

The interim dividend in respect of 2010, approved and paid in 2010, was paid at the rate of 5.80p per share.

The final dividend in respect of 2010, approved and paid in 2011, was paid at the rate of 10.60p per share so that the total dividend paid to the equity shareholders of the parent company in respect of the year ended 31 December 2010 was made at the rate of 16.40p per share.

An interim dividend of 5.95p per share in respect of the year ending 31 December 2011, payable on 14 October 2011 to equity shareholders of the parent company registered at the close of business on 9 September 2011, the dividend record date, was approved by the Directors after 30 June 2011. The resulting interim dividend of £6.8m has not been provided in these financial statements.

The following summarises dividends per share in respect of the year ended 31 December 2010 and 31 December 2011:

	2011 p	2010 p
Interim dividend	5.95	5.80
Final dividend		10.60
Total		**16.40**

4 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 30 June 2011 comprise:

CA

This segment comprises part of the Group's UK insurance and investment operation, being Countrywide Assured Life Holdings Limited ('CA'), which holds part of the Group's UK insurance and investment assets and liabilities, and is responsible for managing unit-linked and non-linked business. Up until 20 December 2010 it was designated as the 'UK Business' segment.

S&P

This segment, which was acquired on 20 December 2010, comprises the balance of the Group's UK insurance and investment operation, Save & Prosper Insurance Limited ('S&P'), which holds the balance of the Group's UK insurance and investment assets, and is responsible for managing both unit-linked and non-linked business, including a significant with profits portfolio, which carries significant additional market risk.

Notes to the Condensed Consolidated Financial Statements (Unaudited) (continued)

4 Operating segments (continued)

Movestic

This segment comprises the Swedish insurance and investment operation, Movestic Livförsäkring AB (`Movestic'), formerly known as Moderna Försäkringar Liv AB ('Moderna'), which holds the Group's Swedish insurance and investment assets and liabilities, and is responsible for managing both unit-linked and non-linked business. Up until 20 December 2010 it was designated as the 'Swedish Business' segment.

Other Group Activities

The functions performed by the holding company, Chesnara plc, are defined under the operating segment analysis as Other Group Activities. Also included therein are consolidation and elimination adjustments.

There were no changes to the basis of segmentation during the six months ended 30 June 2011.

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 and on the total assets and liabilities of the reporting segments and the Group. There were no changes to the measurement basis for segment profit during the six months ended 30 June 2011 and the year ended 31 December 2010.

(i) Segmental income statement for the year ended 30 June 2011

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Insurance premium revenue	37,545	5,727	19,608	-	62,880
Insurance premium ceded to reinsurers	(6,588)	(130)	(10,844)	-	(17,562)
Net insurance premium revenue	**30,957**	**5,597**	**8,764**	**-**	**45,318**
Fee and commission income	19,918	752	14,170	-	34,840
Net investment return	25,815	14,183	(30,233)	111	9,876
Total revenue (net of reinsurance payable)	**76,690**	**20,532**	**(7,299)**	**111**	**90,034**
Other operating income	1,994	3,275	6,494	-	11,763
Segmental income	**78,684**	**23,807**	**(805)**	**111**	**101,797**
Insurance contract claims and benefits incurred					
Claims and benefits paid to insurance contract holders	(78,007)	(54,632)	(8,157)	-	(140,796)
Net decrease in insurance contract provisions	19,526	35,594	1,332	-	56,452
Reinsurers' share of claims and benefits	10,070	47	3,160	-	13,277
Net insurance contract claims and benefits incurred	(48,411)	(18,991)	(3,665)	-	(71,067)
Change in investment contract liabilities	(15,093)	(1,758)	30,435	-	13,584
Reinsurers' share of investment contract liabilities	326	-	-	-	326
Net change in investment contract liabilities	(14,767)	(1,758)	30,435	-	13,910
Fees, commission and other acquisition costs	(577)	(33)	(8,245)	-	(8,855)
Administrative expenses	(4,574)	(3,765)	(8,211)	(1,172)	(17,722)
Other operating expenses					
Charge for amortisation of acquired value of in-force business	(1,835)	(482)	(2,237)	-	(4,554)
Charge for amortisation of acquired value of customer relationships	-	-	(383)	-	(383)
Other	(508)	-	(6,530)	55	(6,983)
Segmental expenses	**(70,672)**	**(25,029)**	**1,164**	**(1,117)**	**(95,654)**
Segmental income less expenses	**8,012**	**(1,222)**	**359**	**(1,006)**	**6,143**
Share of profit from associates	-	-	293	-	293
Profit recognised on acquisition of subsidiary	-	-	-	-	-
Segmental operating profit/(loss)	**8,012**	**(1,222)**	**652**	**(1,006)**	**6,436**
Financing costs	-	(25)	(1,871)	(730)	(2,626)
Profit/(loss) before tax	**8,012**	**(1,247)**	**(1,219)**	**(1,736)**	**3,810**
Income tax (expense)/credit	(1,131)	809	(281)	-	(603)
Non-controlling interest	-	-	-	-	-
Profit/(loss) after tax attributable to shareholders	**6,881**	**(438)**	**(1,500)**	**(1,736)**	**3,207**

4 Operating segments (continued)

(ii) Segmental income statement for the year ended 30 June 2010

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Insurance premium revenue	41,851	-	17,193	-	59,044
Insurance premium ceded to reinsurers	(7,391)	-	(11,608)	-	(18,999)
Net insurance premium revenue	**34,460**	-	**5,585**	**-**	**40,045**
Fee and commission income	21,379	-	12,479	-	33,858
Net investment return	(7,947)	-	7,689	108	(150)
Total revenue (net of reinsurance payable)	**47,892**	-	**25,753**	**108**	**73,753**
Other operating income	1,560	-	5,468	-	7,028
Segmental income	**49,452**	-	**31,221**	**108**	**80,781**
Insurance contract claims and benefits incurred					
Claims and benefits paid to insurance contract holders	(58,361)	-	(5,984)	-	(64,345)
Net (increase)/decrease in insurance contract provisions	18,318	-	(4,312)	-	14,006
Reinsurers' share of claims and benefits	7,888	-	7,161	-	15,049
Net insurance contract claims and benefits incurred	(32,155)	-	(3,135)	-	(35,290)
Change in investment contract liabilities	7,673	-	(8,138)	-	(465)
Reinsurers' share of investment contract liabilities	(303)	-	-	-	(303)
Net change in investment contract liabilities	7,370	-	(8,138)	-	(768)
Fees, commission and other acquisition costs	(711)	-	(6,919)	-	(7,630)
Administrative expenses	(4,723)	-	(7,659)	(890)	(13,272)
Other operating expenses					
Charge for amortisation of acquired value of in-force business	(1,847)	-	(3,789)	-	(5,636)
Charge for amortisation of acquired value of customer relationships	-	-	(442)	-	(442)
Other	(591)	-	(5,466)	54	(6,003)
Segmental expenses	**(32,657)**	-	**(35,548)**	**(836)**	**(69,041)**
Segmental income less expenses	**16,795**	-	**(4,327)**	**(728)**	**11,740**
Share of profit from associates	-	-	(101)	-	(101)
Profit recognised on acquisition of subsidiary	-	-	989	-	989
Segmental operating profit/(loss)	**16,795**	-	**(3,439)**	**(728)**	**12,628**
Financing costs	-	-	(621)	(29)	(650)
Profit/(loss) before tax	**16,795**	-	**(4,060)**	**(757)**	**11,978**
Income tax (expense)/credit	(4,238)	-	44	-	(4,194)
Non-controlling interest	-	-	40	-	40
Profit/(loss) after tax attributable to shareholders	**12,557**	-	**(3,976)**	**(757)**	**7,824**

4 Operating segments (continued)

(iii) Segmental income statement for the year ended 31 December 2010

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Insurance premium revenue	80,157	372	34,421	-	114,950
Insurance premium ceded to reinsurers	(14,563)	-	(21,132)	-	(35,695)
Net insurance premium revenue	**65,594**	**372**	**13,289**	**-**	**79,255**
Fee and commission income	38,532	77	24,801	-	63,410
Net investment return	178,664	16,949	108,023	214	303,850
Total revenue (net of reinsurance payable)	**282,790**	**17,398**	**146,113**	**214**	**446,515**
Other operating income	3,481	201	5,534	-	9,216
Segmental income	**286,271**	**17,599**	**151,647**	**214**	**455,731**
Insurance contract claims and benefits incurred					
Claims and benefits paid to insurance contract holders	(124,449)	(3,347)	(11,628)	-	(139,424)
Net (increase)/decrease in insurance contract provisions	(89,773)	(13,820)	(3,025)	-	(106,618)
Reinsurers' share of claims and benefits	37,084	-	8,551	-	45,635
Net insurance contract claims and benefits incurred	(177,138)	(17,167)	(6,102)	-	(200,407)
Change in investment contract liabilities	(71,672)	-	(108,349)	-	(180,021)
Reinsurers' share of investment contract liabilities	3,904	-	-	-	3,904
Net change in investment contract liabilities	(67,768)	-	(108,349)	-	(176,117)
Fees, commission and other acquisition costs	(1,252)	-	(13,436)	-	(14,688)
Administrative expenses	(9,524)	(208)	(15,407)	(4,236)	(29,375)
Other operating expenses					
Charge for amortisation of acquired value of in-force business	(3,661)	-	(4,446)	-	(8,107)
Charge for amortisation of acquired value of customer relationships	-	-	(952)	-	(952)
Other	(1,236)	-	(6,072)	210	(7,098)
Segmental expenses	**(260,579)**	**(17,375)**	**(154,764)**	**(4,026)**	**(436,744)**
Segmental income less expenses	**25,692**	**224**	**(3,117)**	**(3,812)**	**18,987**
Share of profit from associates	-	-	597	-	597
Profit recognised on acquisition of subsidiary	-	-	376	15,488	15,864
Segmental operating profit/(loss)	**25,692**	**224**	**(2,144)**	**11,676**	**35,448**
Financing costs	-	-	(1,210)	(70)	(1,280)
Profit/(loss) before tax	**25,692**	**224**	**(3,354)**	**11,606**	**34,168**
Income tax (expense)/credit	(4,740)	(63)	176	160	(4,467)
Non-controlling interest	-	-	118	-	118
Profit/(loss) after tax attributable to shareholders	**20,952**	**161**	**(3,060)**	**11,766**	**29,819**

4 Operating segments (continued)

(iv) Segmental balance sheet as at 30 June 2011

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Intangible assets	25,645	8,573	84,491	-	118,709
Property and equipment	64	-	449	-	513
Investment in associates	-	-	2,150	-	2,150
Reinsurers' share of insurance contract provisions	226,047	7,410	44,025	-	277,482
Amounts deposited with reinsurers	30,058	-	-	-	30,058
Investment properties	648	125,036	-	-	125,684
Financial assets	1,501,862	1,240,745	1,379,731	364	4,122,702
Reinsurers' share of accrued policyholder claims	4,599	86	-	-	4,685
Income tax	-	5,072	24	-	5,096
Cash and cash equivalents	106,468	4,690	24,493	33,169	168,820
Assets held for sale	-	-	-	-	-
Total assets	**1,895,391**	**1,391,612**	**1,535,363**	**33,533**	**4,855,899**
Liabilities held for sale	-	-	-	-	-
Bank overdrafts	1,474	255	-	-	1,729
Insurance contract provisions	1,106,865	1,174,704	65,002	-	2,346,571
Unallocated divisible surplus	-	-	-	-	-
Investment contracts at fair value through income	644,751	108,361	1,302,027	-	2,055,139
Liabilities relating to policyholders' funds held by the group	-	-	57,899	-	57,899
Borrowings	-	-	21,906	39,387	61,293
Derivative financial instruments	8	1,095	-	-	1,103
Provisions	1,480	-	-	-	1,480
Deferred tax liabilities	6,591	10,505	898	-	17,994
Reinsurance payables	1,802	20	14,633	-	16,455
Payables related to direct insurance and investment contracts	22,240	10,678	6,969	-	39,887
Deferred income	11,013	-	-	-	11,013
Income taxes	1,828	1,151	4,223	-	7,202
Other payables	25,828	6,136	8,535	1,361	41,860
Total liabilities	**1,823,880**	**1,312,905**	**1,482,092**	**40,748**	**4,659,625**
Net assets	**71,511**	**78,707**	**53,271**	**(7,215)**	**196,274**
Non-controlling interest	-	-	-	-	-
Net assets attributable to shareholders	**71,511**	**78,707**	**53,271**	**(7,215)**	**196,274**

Notes to the Condensed Consolidated Financial Statements (Unaudited) (continued)

4 Operating segments (continued)

(v) Segmental balance sheet as at 30 June 2010

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Intangible assets	30,093	-	70,123	-	100,216
Property and equipment	-	-	681	-	681
Investment in associates	-	-	943	-	943
Reinsurers' share of insurance contract provisions	208,715	-	30,363	-	239,078
Amounts deposited with reinsurers	26,571	-	-	-	26,571
Investment properties	3,355	-	-	-	3,355
Financial assets	1,350,351	-	1,046,773	303	2,397,427
Reinsurers' share of accrued policyholder claims	3,996	-	-	-	3,996
Income tax	546	-	-	395	941
Cash and cash equivalents	123,603	-	19,125	31,455	174,183
Assets held for sale	-	-	-	-	-
Total assets	**1,747,230**	-	**1,168,008**	**32,153**	**2,947,391**
Liabilities held for sale	-	-	-	-	-
Bank overdrafts	1,590	-	-	-	1,590
Insurance contract provisions	1,023,893	-	41,254	-	1,065,147
Unallocated divisible surplus	-	-	-	-	-
Investment contracts at fair value through income	584,921	-	979,895	-	1,564,816
Liabilities relating to policyholders' funds held by the group	-	-	44,336	-	44,336
Borrowings	-	-	22,452	-	22,452
Derivative financial instruments	1,542	-	-	-	1,542
Provisions	1,696	-	-	-	1,696
Deferred tax liabilities	8,870	-	686	2	9,558
Reinsurance payables	2,476	-	19,629	-	22,105
Payables related to direct insurance and investment contracts	19,975	-	9,164	-	29,139
Deferred income	12,254	-	-	-	12,254
Income taxes	4,600	-	2,943	-	7,543
Other payables	3,178	-	4,261	978	8,417
Total liabilities	**1,664,995**	-	**1,124,620**	**980**	**2,790,595**
Net assets	**82,235**	-	**43,388**	**31,173**	**156,796**
Non-controlling interest	-	-	-	-	-
Net assets attributable to shareholders	**82,235**	-	**43,388**	**31,173**	**156,796**

4 Operating segments (continued)

(vi) Segmental balance sheet as at 31 December 2010

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Intangible assets	27,870	9,055	80,641	-	117,566
Property and equipment	67	-	604	-	671
Investment in associates	-	-	1,783	-	1,783
Reinsurers' share of insurance contract provisions	228,276	7,692	44,775	-	280,743
Amounts deposited with reinsurers	30,264	-	-	-	30,264
Investment properties	2,895	117,925	-	-	120,820
Financial assets	1,491,088	1,276,303	1,320,645	243	4,088,279
Reinsurers' share of accrued policyholder claims	3,422	256	-	-	3,678
Income tax	-	4,943	-	543	5,486
Cash and cash equivalents	133,716	14,972	24,248	21,198	194,134
Assets held for sale	-	-	380	-	380
Total assets	**1,917,598**	**1,431,146**	**1,473,076**	**21,984**	**4,843,804**
Liabilities held for sale	-	-	380	-	380
Bank overdrafts	2,125	29	-	-	2,154
Insurance contract provisions	1,129,558	1,210,810	63,711	-	2,404,079
Unallocated divisible surplus	-	83	-	-	83
Investment contracts at fair value through income	646,609	108,862	1,247,241	-	2,002,712
Liabilities relating to policyholders' funds held by the group	-	-	52,337	-	52,337
Borrowings	-	-	23,407	39,287	62,694
Derivative financial instruments	137	-	-	-	137
Provisions	1,822	-	-	-	1,822
Deferred tax liabilities	7,525	12,222	779	-	20,526
Reinsurance payables	1,921	23	20,366	-	22,310
Payables related to direct insurance and investment contracts	19,338	10,919	5,551	-	35,808
Deferred income	11,647	-	-	-	11,647
Income taxes	3,188	3,280	455	-	6,923
Other payables	3,098	5,773	6,050	2,002	16,923
Total liabilities	**1,826,968**	**1,352,001**	**1,420,277**	**41,289**	**4,640,535**
Net assets	**90,630**	**79,145**	**52,799**	**(19,305)**	**203,269**
Non-controlling interest	-	-	-	-	-
Net assets attributable to shareholders	**90,630**	**79,145**	**52,799**	**(19,305)**	**203,269**

Notes to the Condensed Consolidated Financial Statements (Unaudited) (continued)

5 Borrowings

	Unaudited 30 June		31 December
	2011 £000	**2010 £000**	**2010 £000**
Bank loan	39,387	–	39,287
Amount due in relation to financial reinsurance	21,906	22,340	23,406
Other	-	112	1
Total	**61,293**	**22,452**	**62,694**

The bank loan, which was drawn down on 20 December 2010 under a facility made available on 17 November 2010, is unsecured and is repayable in five increasing annual instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.25 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.

The fair value of the bank loan at 30 June 2011 was £40,000,000 (31 December 2010: £40,000,000).

The fair value of amounts due in relation to financial reinsurance as at 30 June 2011 was £22,314,675 (30 June 2010: £22,885,000 and 31 December 2010: £24,590,409).

The fair value of other borrowings was not materially different from its carrying value at any of the period ends under review.

6 Approval of consolidated report for the six months ended 30 June 2011

This condensed consolidated report was approved by the Board of Directors on 30 August 2011. A copy of the report will be available to the public at the Company's registered office, Harbour House, Portway, Preston, PR2 2PR, UK and at www.chesnara.co.uk.

Statement of Directors' Responsibilities in respect of the European Embedded Value (EEV) Basis Supplementary Information

The Directors have chosen to prepare Supplementary Information in accordance with the EEV Principles issued in May 2004 by the CFO Forum of European Insurance Companies and expanded by the Additional Guidance on European Embedded Value Disclosures issued in October 2005.

When compliance with the EEV Principles is stated, those principles require the Directors to prepare supplementary information in accordance with the Embedded Value Methodology (`EVM') contained in the EEV Principles and to disclose and explain any non-compliance with the EEV guidance included in the EEV Principles.

In preparing the EEV supplementary information, the Directors have:

- Prepared the supplementary information in accordance with the EEV Principles;
- Identified and described the business covered by the EVM;
- Applied the EVM consistently to the covered business;
- Determined assumptions on a realistic basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently;
- Made estimates that are reasonable and consistent; and
- Described the basis on which business that is not covered business has been included in the supplementary information, including any material departures from the accounting framework applicable to the Group's financial statements.

Independent Auditor's Review Report to the Directors of Chesnara plc on the EEV Basis Supplementary Information

We have been engaged by the Company to review the Supplementary Information - European Embedded Value Basis in the half-yearly financial report for the six months ended 30 June 2011 which comprises the summarised consolidated income statement, the summarised consolidated balance sheet and the related notes 1 to 9. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Supplementary Information – European Embedded Value Basis.

We have reported separately on the condensed financial statements of Chesnara plc for the six months ended 30 June 2011. The information contained in the Supplementary Information - European Embedded Value Basis should be read in conjunction with the condensed set of financial statements prepared on an IFRS basis. This information is described within the Chesnara plc condensed set of financial statements in the half-yearly financial report as having been reviewed.

This report is made solely to the Company's directors in accordance with our engagement letter and solely for the purpose of expressing an opinion as to whether anything has come to our attention that causes us to believe that the Supplementary information - European Embedded Value Basis for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with the European Embedded Value ('EEV') principles issued in May 2004 by the European CFO Forum and supplemented by Additional Guidance on EEV Disclosures issued by the same body in October 2005. Our work has been undertaken so that we might state to the Company's directors those matters we are required to state to them in an independent review 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's directors, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The Supplementary Information - European Embedded Value Basis is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Supplementary Information - European Embedded Value Basis in accordance with the European Embedded Value ('EEV') principles issued in May 2004 by the European CFO Forum and supplemented by Additional Guidance on EEV Disclosures issued by the same body in October 2005.

Our responsibility

Our responsibility in relation to the Supplementary Information - European Embedded Value Basis is to express to the Company a conclusion on the Supplementary Information - European Embedded Value Basis based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Supplementary information - European Embedded Value Basis for the six months ended 30 June 2011 is not prepared, in all material respects, in accordance with the European Embedded Value ('EEV') principles issued in May 2004 by the European CFO Forum and supplemented by Additional Guidance on EEV Disclosures issued by the same body in October 2005.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
30 August 2011

Summarised Consolidated Interim Income Statement for the six months ended 30 June 2011

		Unaudited Six months ended 30 June		Year ended 31 December
	Note	2011 £000	2010 £000	2010 £000
Operating profit/(loss) of covered business	6	**832**	**(4,679)**	**6,364**
Other operational result		(605)	(2,662)	(6,114)
Operating profit/(loss)		**227**	**(7,341)**	**250**
Variation from longer-term investment return	6	(4,698)	8,169	26,941
Effect of economic assumption changes	6	4,823	(5,834)	(4,453)
Profit/(loss) before tax and before exceptional item		**352**	**(5,006)**	**22,738**
Exceptional items				
Profit recognised on business combinations	6	-	989	41,043
Effect of modelling adjustments	6	(5,267)	10,363	13,239
(Loss)/profit before tax		**(4,915)**	**6,346**	**77,020**
Tax	6	(1,890)	(2,399)	(4,014)
(Loss)/profit after tax		**(6,805)**	**3,947**	**73,006**
Attributable to:				
Shareholders		(6,805)	3,947	73,124
Non-controlling interest		-	-	(118)
		(6,805)	**3,947**	**73,006**
(Loss)/earnings per share				
Based on (loss)/profit for the period attributable to shareholders		(5.93)p	3.89p	71.24p
Diluted (loss)/earnings per share				
Based on (loss)/profit for the period attributable to shareholders		(5.93)p	3.89p	71.24p

Supplementary Information – European Embedded Value Basis

Summarised Consolidated Balance Sheet as at 30 June 2011

	Note	Unaudited 30 June 2011 £000	Unaudited 30 June 2010 £000	31 December 2010 £000
Assets				
Value of in force business	5,8	265,495	188,074	265,415
Deferred acquisition costs arising on unmodelled business		734	640	616
Acquired value of customer relationships		876	1,416	983
Software assets		-	5,456	6,829
Property and equipment		513	681	671
Investment in associate		2,150	943	1,783
Reinsurers' share of insurance contract provisions		242,704	209,555	247,432
Amounts deposited with reinsurers		28,828	25,299	29,002
Investment properties		125,684	3,355	120,820
Deferred tax assets		-	1,638	-
Financial assets				
Equity securities at fair value through income		460,834	397,509	492,321
Holdings in collective schemes at fair value through income		3,153,838	1,537,247	3,177,265
Debt securities at fair value through income		319,406	380,057	319,516
Insurance and other receivables		119,506	27,477	33,234
Prepayments		4,197	3,396	3,908
Policyholders' funds held by the group		57,899	44,336	52,337
Derivative financial instruments		7,022	7,405	9,707
Total financial assets		4,122,702	2,397,427	4,088,288
Reinsurers' share of accrued policy claims		4,685	3,996	3,678
Income taxes		5,096	941	5,486
Cash and cash equivalents		168,820	174,183	194,134
Assets held for sale		-	-	380
Total assets		**4,968,287**	**3,013,604**	**4,965,517**
Liabilities				
Liabilities held for sale		-	-	380
Bank overdraft		1,729	1,590	2,154
Insurance contract provisions		2,309,733	1,035,702	2,370,948
Unallocated divisible surplus		13,349	-	14,930
Financial liabilities				
Investment contracts at fair value through income		2,065,127	1,578,342	2,010,954
Borrowings		67,693	28,558	70,148
Derivative financial instruments		1,103	1,542	137
Liabilities relating to policyholders' funds held by the group		57,899	44,336	52,337
Total financial liabilities		2,191,822	1,652,778	2,133,576
Provisions		1,480	1,696	1,822
Deferred tax liabilities		5,087	-	5,578
Reinsurance payables		15,994	21,608	21,830
Payables related to direct insurance and investment contracts		39,887	29,139	35,808
Income taxes		7,202	7,543	6,923
Other payables		41,860	8,417	16,932
Total liabilities		**4,628,143**	**2,758,473**	**4,610,881**
Net assets		**340,144**	**255,131**	**354,636**
Equity				
Share capital		42,024	41,501	42,024
Share premium		42,523	20,458	42,523
Treasury shares		(217)	(3,379)	(217)
Foreign exchange reserve		19,543	4,592	15,056
Other reserves		50	50	50
Retained earnings		236,221	191,909	255,200
Total shareholders' equity		**340,144**	**255,131**	**354,636**
Non-controlling interest		-	-	-
Total equity		**340,144**	**255,131**	**354,636**

Notes to the Supplementary Information (unaudited)

1 Basis of preparation

This section sets out the detailed methodology followed for producing these Group financial statements which are supplementary to the Group's primary financial statements which have been prepared in accordance with International Financial Reporting Standards ('IFRS'). These financial statements have been prepared in accordance with the European Embedded Value ('EEV') principles issued in May 2004 by the European CFO Forum and supplemented by Additional Guidance on EEV Disclosures issued by the same body in October 2005. The principles provide a framework intended to improve comparability and transparency in embedded value reporting across Europe.

In order to improve understanding of the Group's financial position and performance, certain of the information presented in these financial statements is presented on a segmental basis: the business segments are the same as those described in Note 4 to the condensed consolidated interim financial statements prepared on the IFRS basis. S&P was acquired on 20 December 2010: accordingly, the results relating thereto for the year ended 31 December 2010, as reflected in segmental analysis are for a period of 11 days. Prior year information in respect of the financial position as at 30 June 2010 and in respect of the results for the six months then ended is designated as £nil in respect of S&P, while other prior year data relating to S&P are designated as not applicable ('n/a').

2 Covered business

The Group uses EEV methodology to value the bulk of its long-term business (the 'covered business'), which is written primarily in the UK and Sweden, as follows:

(i) for the UK businesses (comprising the CA and S&P segments), the covered business comprises the business's long-term business being those individual life insurance, pensions and annuity contracts falling under the definition of long-term insurance business for UK regulatory purposes. The operating expenses of the holding company, Chesnara plc, are treated as an integral part of the UK covered business.

(ii) for the Swedish business (comprising the Movestic segment), the covered business comprises the business's long-term pensions and savings unit-linked business. Group life and sickness business, including waiver of premium and non-linked individual life assurance policies are not included in the covered business: the result relating to this business is established in accordance with IFRS principles and is included within 'other operational result' within the consolidated summarised income statement.

Under EEV principles no distinction is made between insurance and investment contracts, as there is under IFRS, which accords these classes of contracts different accounting treatments.

3 Methodology

(a) Embedded Value

Overview

Shareholders' equity comprises the embedded value of the covered business, together with the net equity of other Group companies, including that of the holding company which is stated after writing down fully the carrying value of the covered business.

The embedded value of the covered business is the aggregate of the shareholder net worth ('SNW') and the present value of future shareholder cash flows from in-force covered business (value of in-force business) less any deduction for (i) the cost of guarantees within S&P, and (ii) the cost of required capital. It is stated after allowance has been made for aggregate risks in the business. SNW comprises those amounts in the long-term business, which are either regarded as required capital or which represent surplus assets within that business.

New business

CA and S&P

Much of the covered business is in run-off and is, accordingly, substantially closed to new business. The UK businesses do still sell a small amount of new business but, overall, the contribution from new business to the results established using EEV methodology is not material. Accordingly, not all of those items related to new business values, which are recommended by the EEV guidelines, are reported in this supplementary financial information.

3 Methodology (continued)

Movestic

New business, in relation to the pensions and savings covered business is taken as all business where contracts are signed and new premiums paid during the reporting period, for both new policies and premium increases on existing business, but excluding standard renewals. New business premium volumes as disclosed in the KPIs section on page 12 are not consistent with this definition, as they include non-covered business. New business premium volume for the period which is consistent with the analysis of profit/(loss) in Note 6 is as follows:

Pensions and savings covered business	**Unaudited Six months ended 30 June 2011 £m**	**Unaudited Six months ended 30 June 2010 £m**	**Year ended 31 December 2010 £m**
New business premium income	16.8	14.1	26.9

* Basis: annualised premium plus 1/10 single premium translated into sterling at the 2011 average rate of SEK 10.3 = £1.

The new business contribution has been assessed as at the end of the period, using opening assumptions.

Value of in-force business

The cash flows attributable to shareholders arising from in-force business are projected using best estimate assumptions for each component of cash flow.

The present value of the projected cash flows is established by using a discount rate which reflects the time value of money and the risks associated with the cash flows which are not otherwise allowed for. There is a deduction for the cost of holding the required capital, as set out below.

Participating business

For participating business within the S&P business the Group maintains the assets and liabilities in a separate with-profits fund. In accordance with the Principles and Practices of Financial Management, in the first instance all benefits, which in some cases include guaranteed minimum investment returns, are paid from policyholder assets within the fund. The participating business effectively operates as a smoothed unit linked contract subject to minimum benefit guarantees. The with profits fund contains assets which are attributable to shareholders as well as those attributable to policyholders. Assets attributable to shareholders can only be released from the fund subject to meeting prudent liabilities in respect of minimum benefits and the frictional cost of this restriction has been allowed for in determining the value of the in-force business.

Fundamentally, the value of the with profits in-force business is driven by the fund management charges levied on the policyholder assets, subject to the effect of minimum benefit guarantees.

Taxation

The present value of the projected cash flows arising from in-force business takes into account all tax which is expected to be paid under current legislation, including tax which would arise if surplus assets within the covered business were eventually to be distributed. For the UK businesses, the value reported as at 30 June 2011 makes allowance for planned reductions in corporation tax, as announced by the Chancellor in his budget speech on 23 March 2011. Values as at 30 June 2010 and 31 December 2010 have not been restated to allow for this announcement.

The value of the in-force business has been calculated on an after-tax basis and is grossed up to the pre-tax level for presentation in the income statement. The amount used for the grossing up is the amount of shareholder tax, excluding those payments made on behalf of policyholders, being policyholder tax in the UK businesses and yield tax in Movestic.

Cost of capital

The valuation approach used, requires consideration of ‘frictional’ costs of holding shareholder capital: in particular, the cost of tax on investment returns and the impact of investment management fees can reduce the face value of shareholder funds. For CA, the expenses relating to corporate governance functions eliminate any taxable investment return in shareholder funds, while investment management fees are not material. The cost of holding the required capital to support the covered business (see 3(b) below) is reflected as a deduction from the value of in-force business.

3 Methodology (continued)

Financial options and guarantees

CA

The principal financial options and guarantees in CA are (i) guaranteed annuity rates offered on some unit-linked pension contracts and (ii) a guarantee offered under Timed Investment Funds that the unit price available at the selected maturity date (or at death, if earlier) will be the highest price attained over the policy's life. The cost of these options and guarantees has been assessed, in principle, on a market-consistent basis, but, in practice, this has been carried out on approximate bases, which are appropriate to the level of materiality of the results.

S&P

The principal financial options and guarantees in S&P are (i) minimum benefits payable on maturity or retirement for participating business; (ii) the option to extend the term under the Personal Retirement Account contract on terms potentially beneficial to the policyholder; (iii) the option to increase premiums under the Personal Retirement Account contract on terms potentially beneficial to the policyholder; and (iv) certain insurability options offered.

The cost of guaranteeing a minimum investment return on participating contracts, being the only material guarantee, has been assessed on a market consistent basis. For the remaining options and guarantees the cost has been assessed on an approximate basis, appropriate to the level of materiality of the results.

Movestic

In respect of Movestic, some contracts provide policyholders with an investment guarantee, whereby a minimum rate of return is guaranteed for the first 5 years of the policy, at a rate of 3% per annum. The value of the guarantee is ignored as it is not material to the results.

Allowance for risk

Allowance for risk within the covered business is made by:

(i) setting required capital levels by reference to the assessment of capital needs made by the directors of the regulated entities within the respective businesses (the 'Directors');
(ii) setting the risk discount rate, which is applied to the projected cash flows arising on the in-force business, at a level which includes an appropriate risk margin (see 3(c) below); and
(iii) explicit allowance for the cost of financial options and guarantees and, where appropriate, for reinsurer default.

Internal group company

EEV Guidance requires that actual and expected profit or loss incurred by an internal group company on services provided to the covered business should be included in allowances for expenses. The covered business in Movestic is partially managed by an internal group fund management company. Not all relevant future income and expenses of that company have been included in the calculation of embedded value. However, the effect is not considered to be material.

Consolidation adjustments

Consolidation adjustments have been made to:

(i) eliminate the investment in subsidiaries;

(ii) allocate Group debt finance against the segment to which it refers; and

(iii) allocate corporate expenses as explained in note 4(d) below.

3 Methodology (continued)

(b) Level of Required Capital

The level of required capital of the covered business reflects the amount of capital that the Directors consider necessary and appropriate to manage the respective businesses. In forming their policy the Directors have regard to the minimum statutory requirements and an internal assessment of the market, insurance and operational risks inherent in the underlying products and business operations. The capital requirement resulting from this assessment represents:

(i) for CA, 150% of the long-term insurance capital requirement ('LTICR') together with 100% of the resilience capital requirement ('RCR'), as determined by the regulations of the Financial Services Authority in the UK;

(ii) for Movestic, 150% of the regulatory solvency requirement as determined by Finansinspektionen in Sweden.

The boards of the S&P companies have not established a formal internal assessment of the capital requirement for S&P. However, pending this assessment, a provisional requirement has been set at 175% of the long-term insurance capital requirement ('LTICR') together with 100% of the resilience capital requirement ('RCR') as determined by the regulations of the Financial Services Authority in the UK.

The required level of regulatory capital is provided as follows:

(i) for the UK businesses, by the retained surplus within the long-term business fund and by share capital and retained earnings within the shareholder funds of the regulated entities; and
(ii) for Movestic, by share capital and additional equity contributions from the parent company, net of the accumulated deficit in the regulated entity, these components together comprising shareholder's equity.

Movestic is reliant, in the short to medium term, on further equity contributions from the parent company, Chesnara plc.

(c) Discount Rates

The discount rates are a combination of the reference rate and a risk margin. The reference rate reflects the time value of money and the risk margin reflects any residual risks inherent in the covered business and makes allowance for the risk that future experience will differ from that assumed. In order to reduce the subjectivity when setting the discount rates, the Group has decided to adopt a 'bottom up' market-consistent approach to allow explicitly for market risk.

Using the market-consistent approach, each cash flow is valued at a discount rate consistent with that used in the capital markets: in accordance with this, equity-based cash flows are discounted at an equity discount rate and bond-based cash flows at a bond discount rate. In practice a short-cut method known as the 'certainty equivalent' approach has been adopted. This method assumes that all cash flows earn the reference rate of return and are discounted at the reference rate.

In general, and consistent with the market's approach to valuing financial instruments for hedging purposes, the reference rate is based on swap yields. These have been taken as mid swap yields available in the market at the end of the reporting period.

Allowance also needs to be made for non-market risks. For some of these risks, such as mortality and expense risk, it is assumed that the shareholder can diversify away any uncertainty where the impact of variations in experience on future cash flows is symmetrical. For those risks that are assumed to be diversifiable, no adjustment has been made. For any remaining risks that are considered to be non-diversifiable risks, there is no risk premium observable in the market and, therefore, a constant margin has been added to the risk margin. The margin added reflects the assumed risks within the businesses and is 50 basis points for CA and S&P (as at 30 June 2010 and as at 31 December 2010: 50 basis points) and 70 basis points for Movestic (as at 30 June 2010 and as at 31 December 2010: 70 basis points). This margin is applied to the basic value of in-force business prior to the deductions for financial options and guarantees and the cost of required capital.

(d) Analysis of Profit

The contribution to operating profit, which is identified at a level which reflects an assumed longer-term level of investment return, arises from three sources:

(i) new business;
(ii) return from in-force business; and
(iii) return from shareholder net worth.

3 Methodology (continued)

Additional contributions to profit arise from:

(i) variances between the actual investment return in the period and the assumed long-term investment return; and
(ii) the effect of economic assumption changes.

The contribution from new business represents the value recognised at the end of each period in respect of new business written in that period, after allowing for the cost of acquiring the business, the cost of establishing the required technical provisions and after making allowance for the cost of capital, calculated on opening assumptions.

The return from in-force business is calculated using closing assumptions and comprises:

(i) the expected return, being the unwind of the discount rates over the period applied to establish the value of in-force business at the beginning of the period;
(ii) variances between the actual experience over the period and the assumptions made to establish the value of business in force at the beginning of the period; and
(iii) the net effect of changes in future assumptions, made prospectively at the end of the period, from those used in establishing the value of business in force at the beginning of the period, other than changes in economic assumptions.

The contribution from shareholder net worth comprises the actual investment return on residual assets in excess of the required capital.

(e) Assumption Setting

There is a requirement under EEV methodology to use best estimate demographic assumptions and to review these at least annually with the economic assumptions being reviewed at each reporting date. The current practice is detailed below.

Each year the demographic assumptions are reviewed as part of year-end processes and hence were reviewed in December 2010.

The detailed projection assumptions, including mortality, morbidity, persistency and expenses reflect recent operating experience. Allowance is made for future improvement in annuitant mortality based on experience and externally published data. Favourable changes in operating experience, particularly in relation to expenses and persistency, are not anticipated until the improvement in experience has been observed. Holding company expenses (for the Chesnara Group such expenses relate largely to listed company functions) are allocated to the CA covered business, except for a relatively small amount of expense, which is assumed to relate to business development functions, to reflect effort expended within the holding company relating to the transaction of life assurance business through the subsidiary companies. Hence the expense assumptions used for the cash flow projections include the full cost of servicing this business.

The economic assumptions are reviewed and updated at each reporting date based on underlying investment conditions at the reporting date. The assumed discount rates and inflation rates are consistent with the investment return assumptions.

In addition, the demographic assumptions used at 31 December 2010 are considered to be best estimate and, consequently, no further adjustments are required. In respect of CA, the assumptions required in the calculation of the value of the annuity rate guarantee on pension business have been set equal to best-estimate assumptions.

(f) Pension Schemes

In Movestic, where the Group participates in a combined defined benefit and defined contribution scheme, future contributions to the scheme are reflected in the value of in-force business.

(g) Financial Reassurance

In respect of Movestic the Group uses financial reinsurance to manage the impact of its new business strain. Whilst this liability is valued at fair value within the IFRS statements, allowing for an option which provides the Group with the right to settle the liability early on beneficial terms, when valuing the shareholder net worth within the EEV it is considered more appropriate to assess this liability at a higher cost, reflecting the likelihood of the option not being utilised.

Notes to the Supplementary Information (unaudited) (continued)

4 Assumptions

(a) Investment Returns

Investment returns are assumed to be equal to the reference rate, as covered in note 3(c) above. For linked business, the aggregate return has been determined by the reference rate less an appropriate allowance for tax.

		CA			S&P			Movestic		
		Unaudited 30 Jun		31 Dec	Unaudited 30 Jun		31 Dec	Unaudited 30 Jun		31 Dec
		2011	**2010**	**2010**	**2011**	**2010**	**2010**	**2011**	**2010**	**2010**
Investment Return	%	3.10	2.90	3.10						
5 year					2.55	n/a	2.69	3.26	2.39	3.18
10 year					3.71	n/a	3.70	3.52	2.97	3.61
15 year					4.19	n/a	4.09	3.64	3.23	3.80
20 year					4.29	n/a	4.15	3.67	3.41	3.94
25 year					4.30	n/a	4.12	3.67	3.41	3.94
30 year					4.25	n/a	4.04	3.67	3.41	3.94
Inflation– RPI	%	3.00	2.70	2.95	3.50	n/a	3.50	2.00	2.00	2.30

For S&P and Movestic, a full swap curve is used: the rates quoted are presented as indicative spot rates.
For CA business, a single rate is applied for all durations.

(b) Actuarial Assumptions

The demographic assumptions used to determine the value of the in-force business have been set at levels commensurate with the underlying operating experience identified in the periodic actuarial investigations.

(c) Taxation

Projected tax has been determined assuming current tax legislation and rates continue unaltered, except where future tax rates or practices have been announced. The tax rates for CA and S&P allow for changes in Corporation Tax as announced by the Chancellor in his budget speech of 23 March 2011, so reflect a reduction from the current rate of 26% to 23% in steps of 1%. Values at 30 June 2010 and 31 December 2010 have not been restated to allow for this announcement.

(d) Expenses

The expense levels are based on internal expense analysis investigations and are appropriately allocated to the new business and policy maintenance functions.

For CA and S&P, these have been determined by reference to:

(i) the outsourcing agreements in place with our third-party business process administrators;
(ii) anticipated revisions to the terms of such agreements as they fall due for renewal; and
(iii) corporate governance costs relating to the covered business.

For Movestic, these have been determined by reference to:

(i) an expense analysis in which all expenses were allocated to covered and uncovered business, with expenses for the covered business being allocated to acquisition and maintenance activities; and

(ii) expense drivers, being, in relation to acquisition costs, the number of policies sold during the period and, in relation to maintenance expenses, the average number of policies in force during the period.

The expense assumptions for CA also include the expected future holding company expenses which will be recharged to the worldwide covered business.

No allowance has been made for future productivity improvements in the expense assumptions.

4 Assumptions (continued)

(e) Discount Rate

An explicit constant margin is added to the reference rate shown in (a) above to cover any remaining risks that are considered to be non-market, non-diversifiable risks, as there is no risk premium observable in the market. This margin, which is 50 basis points for CA and S&P (CA as at 30 June 2010 and 31 December 2010: 50 basis points and S&P as at 31 December 2010: 50 basis points) and 70 basis points for Movestic (as at 30 June 2010 and 31 December 2010: 70 basis points), gives due recognition to the relative sensitivity of the value of in-force business to the discount rate for the different businesses, and to the fact that:

a) For CA:

- (i) the covered business is substantially closed to new business;
- (ii) there is no significant exposure in the with profits business, which is wholly reinsured;
- (iii) expense risk is limited as a result of the outsourcing of substantially all policy administration and related functions to third-party business process administrators; and
- (iv) for much of the life business the Group has the ability to vary risk charges made to policyholders.

b) For S&P:

- (i) the covered business is substantially closed to new business; and
- (ii) expense risk is limited as a result of the outsourcing of substantially all policy administration and related functions to third-party business process administrators.

c) For Movestic:

- (i) the covered business remains open;
- (ii) the in-force business is relatively small;
- (iii) reinsurance is used to significantly reduce insurance risks; and
- (iv) a number of the risks provide diversification benefits within the Chesnara Group, in relation to reinsurance counterparties, market exposures and policyholder populations.

5 Analysis of shareholders' equity

30 June 2011 (unaudited)	**CA £000**	**S&P £000**	**Movestic £000**	**Other Group Activities £000**	**Total £000**
Regulated entities					
Capital required	29,651	25,561	12,630	-	67,842
Free surplus	22,623	43,344	11,200	-	77,167
Shareholders' net worth of regulated entities	**52,274**	**68,905**	**23,830**	**-**	**145,009**
Adjustments to shareholder net worth					
Deferred acquisition costs	-	-	(54,490)	-	(54,490)
Financial reinsurance liability	-	-	(5,229)	-	(5,229)
Adjustment to provisions on insurance contracts	-	2,876	-	-	2,876
Unallocated divisible surplus	-	(13,349)	-	-	(13,349)
Deferred tax	-	(619)	-	-	(619)
Ineligible surplus	-	5,000	-	-	5,000
Other asset / liability adjustments	-	-	941	-	941
Adjusted shareholder net worth	**52,274**	**62,813**	**(34,948)**	**-**	**80,139**
In-force value of covered business	74,109	43,981	147,405	-	265,495
Embedded value of regulated	**126,383**	**106,794**	**112,457**	**-**	**345,634**
Less: amount financed by borrowings	-	(39,387)	-	-	(39,387)
Embedded value of regulated entities attributable to shareholders	**126,383**	**67,407**	**112,457**	**-**	**306,247**
Net equity of other group companies	-	-	1,391	32,506	33,897
Total shareholders' equity	**126,383**	**67,407**	**113,848**	**32,506**	**340,144**

During the six months ended 30 June 2011, adjustments to shareholder net worth have been amended in respect of the treatment of software assets. Whereas, for all reporting periods up to 31 December 2010, software assets were reflected within shareholder net worth at their net written down value on an IFRS basis, subsequent to that date such assets are reflected on a fully amortised basis within shareholder net worth and there is a corresponding reduction in the assumption regarding future maintenance expenses in the calculation of the value in force. There has been an associated net reduction of £0.9m in net embedded value during the six months ended 30 June 2011 as the two adjustments do not fully offset. Prior periods have not been re-stated to reflect this change.

5 Analysis of shareholders' equity (continued)

30 June 2010 (unaudited)	**CA £000**	**S&P £000**	**Movestic £000**	**Other Group Activities £000**	**Total £000**
Regulated entities					
Capital required	31,712	-	10,608	-	42,320
Free surplus	26,811	-	11,552	-	38,363
Shareholders' net worth of regulated entities	**58,523**	-	**22,160**	**-**	**80,683**
Adjustments to shareholder net worth					
Deferred acquisition costs	-	-	(44,576)	-	(44,576)
Financial reinsurance liability	-	-	(5,232)	-	(5,232)
Adjustment to provisions on insurance contracts	-	-	-	-	-
Unallocated divisible surplus	-	-	-	-	-
Deferred tax	-	-	-	-	-
Ineligible surplus	-	-	-	-	-
Other asset / liability adjustments	-	-	6,872	-	6,872
Adjusted shareholder net worth	**58,523**	-	**(20,776)**	**-**	**37,747**
In-force value of covered business	73,581	-	114,493	-	188,074
Embedded value of regulated entities	**132,104**	-	**93,717**	**-**	**225,821**
Less: amount financed by borrowings	-	-	-	-	-
Embedded value of regulated entities attributable to shareholders	**132,104**	-	**93,717**	**-**	**225,821**
Net equity of other group companies	-	-	(2,194)	31,504	29,310
Total shareholders' equity	**132,104**	-	**91,523**	**31,504**	**255,131**

31 December 2010	**CA £000**	**S&P £000**	**Movestic £000**	**Other Group Activities £000**	**Total £000**
Regulated entities					
Capital required	30,172	26,056	12,390	-	68,618
Free surplus	40,176	43,691	10,931	-	94,798
Shareholders' net worth of regulated entities	**70,348**	**69,747**	**23,321**	**-**	**163,416**
Adjustments to shareholder net worth					
Deferred acquisition costs	-	-	(51,243)	-	(51,243)
Financial reinsurance liability	-	-	(6,145)	-	(6,145)
Adjustment to provisions on insurance contracts	-	2,773	-	-	2,773
Unallocated divisible surplus	-	(14,930)	-	-	(14,930)
Deferred tax	-	(630)	-	-	(630)
Ineligible surplus	-	5,000	-	-	5,000
Other asset / liability adjustments	-	-	8,649	-	8,649
Adjusted shareholder net worth	**70,348**	**61,960**	**(25,418)**	**-**	**106,890**
In-force value of covered business	79,360	41,307	144,748	-	265,415
Embedded value of regulated entities	**149,708**	**103,267**	**119,330**	**-**	**372,305**
Less: amount financed by borrowings	-	(39,287)	-	-	(39,287)
Embedded value of regulated entities attributable to shareholders	**149,708**	**63,980**	**119,330**	**-**	**333,018**
Net equity of other group companies	-	-	1,307	20,311	21,618
Total shareholders' equity	**149,708**	**63,980**	**120,637**	**20,311**	**354,636**

Notes to the Supplementary Information (unaudited) (continued)

5 Analysis of shareholders' equity (continued)

The movement in the in-force value of covered business comprises:

Six months ended 30 June 2011 (unaudited)	CA £000	S&P £000	Movestic £000	Total £000
Value at beginning of period	**79,360**	**41,307**	**144,748**	**265,415**
Amount credited to foreign exchange reserve	-	-	5,569	5,569
Amount credited/charged to operating profit	(5,251)	2,674	(2,912)	(5,489)
Value at end of period	**74,109**	**43,981**	**147,405**	**265,495**

Six months ended 30 June 2010 (unaudited)	CA £000	S&P £000	Movestic £000	Total £000
Value at beginning of period	**85,559**	**-**	**112,753**	**198,312**
Amount charged to foreign exchange reserve	-	-	(1,193)	(1,193)
Amount credited/charged to operating profit	(11,978)	-	2,933	(9,045)
Value at end of period	**73,581**	**-**	**114,493**	**188,074**

Year ended 31 December 2010	CA £000	S&P £000	Movestic £000	Total £000
Value at beginning of period	**85,559**	**-**	**112,753**	**198,312**
Amount arising on acquisition	-	42,391	-	42,391
Amount credited to foreign exchange reserve	-	-	11,913	11,913
Amount credited/charged to operating profit	(6,199)	(1,084)	20,082	12,799
Value at end of period	**79,360**	**41,307**	**144,748**	**265,415**

S&P

On 20 December 2010, the Group drew down £40m on a bank loan facility, in order to part fund the acquisition of Save & Prosper Insurance Limited and its subsidiary, Save & Prosper Pensions Limited (together 'S&P'). This effectively represented a purchase of part of the underlying value in force of S&P by way of debt finance and it follows that the embedded value of the UK regulated entity is not attributable to equity shareholders of the Group to the extent of the outstanding balance on the loan account at each balance sheet date. The loan is repayable in five annual installments on the anniversary of the draw down date, the funds for the repayment effectively being provided, in part, by way of the realisation of the underlying value of in-force business of the covered business. There was principal outstanding at the balance sheet date of £40m.

Movestic

The adjusted shareholder net worth of Movestic is that of the regulated entity, which includes also the net worth attributable to the non-covered business within the regulated entity. Accordingly, for Movestic, the embedded value of regulated entities comprises the embedded value of covered business and the value of the non-covered business of the regulated entity, the latter component being valued on an IFRS basis.

6 Summarised statement of changes in equity and analysis of profit/(loss)

(a) Changes in equity may be summarised as:

Statement of changes in equity	Six months ended 30 June		Year ended 31 December
	2011 £000	2010 £000	2010 £000
Shareholders' equity at beginning of period	**354,636**	**262,585**	**262,585**
Effect of modeling adjustments	(5,267)	10,363	13,239
Shareholders' equity at beginning of period restated	**349,369**	**272,948**	**275,824**
(Loss)/profit for the period attributable to shareholders	(1,538)	(6,416)	59,885
Issue of new shares			
Share capital	-	-	523
Share premium	-	-	22,065
Sale of treasury shares	-	-	3,162
Foreign exchange reserve movement	4,487	(947)	9,517
Dividends paid	(12,174)	(10,454)	(16,340)
Shareholders' equity at end of period	**340,144**	**255,131**	**354,636**

During 2010, Movestic introduced a new system for modelling value-in-force, which provided the capability for (i) more accurately modelling the impact on commission paid of policies becoming paid-up and (ii) for determining future fee income on a case-by-case investment mix basis, whereas previously it had been necessary to adopt high-level estimates.

During the six months ended 30 June 2011:

(i) a further improvement was introduced into the Movestic modelling system in respect of projected fee income from investment contracts where the fee is premium based, such contracts hitherto not being differentiated; and

(ii) errors were detected relating to certain parameters and discounting periods specified at inception of the new model and the correction of these has given rise to a reduction in embedded value of £7.7m. The amount of £(5.3)m reflected above is stated net of this amount and prior periods have not been re-stated. The European Embedded value principles issued by the European CFO Forum in May 2004, together with supplemental guidance, do not provide specific guidance on how such errors should be treated and presented.

The effect of the modelling adjustments is classified as an exceptional item in the consolidated income statement and is presented after operating profit.

Notes to the Supplementary Information (unaudited) (continued)

6 Summarised statement of changes in equity and analysis of profit/(loss) (continued)

(b) The profit for the period is analysed as:

Six months ended 30 June 2011 (unaudited)	**CA £000**	**S&P £000**	**Movestic £000**	**Other Group Activities £000**	**Total £000**
Covered business					
New business contribution	353	11	2,004	-	2,368
Return from in-force business					
Expected return	2,089	133	2,905	-	5,127
Experience variances	2,088	(854)	(6,703)	-	(5,469)
Operating assumption changes	(2,145)	-	(797)	-	(2,942)
Return on shareholder net worth	434	1,314	-	-	1,748
Operating profit/(loss) of covered business	**2,819**	**604**	**(2,591)**	**-**	**832**
Variation from longer-term investment return	947	515	(6,160)	-	(4,698)
Effect of economic assumption changes	(746)	2,887	2,682	-	4,823
Profit/(loss) on covered business before tax	**3,020**	**4,006**	**(6,069)**	**-**	**957**
Tax thereon	(1,442)	(170)	-	-	(1,612)
Profit/(loss) on covered business after tax	**1,578**	**3,836**	**(6,069)**	**-**	**(655)**
Results of non-covered business and of other group companies					
Profit/(loss) before tax, and exceptional items	-	-	24	(629)	(605)
Tax	-	-	(278)	-	(278)
Profit/(loss) after tax	**1,578**	**3,836**	**(6,323)**	**(629)**	**(1,538)**
Non-controlling interest	-	-	-	-	-
Profit/(loss) for the period attributable to shareholders	**1,578**	**3,836**	**(6,323)**	**(629)**	**(1,538)**

Six months ended 30 June 2010 (unaudited)	**CA £000**	**S&P £000**	**Movestic £000**	**Other Group Activities £000**	**Total £000**
Covered business					
New business contribution	383	-	288	-	671
Return from in-force business					
Expected return	2,688	-	1,529	-	4,217
Experience variances	7,204	-	(5,374)	-	1,830
Operating assumption changes	(853)	-	(11,074)	-	(11,927)
Return on shareholder net worth	530	-	-	-	530
Operating profit/(loss) of covered business	**9,952**	-	**(14,631)**	**-**	**(4,679)**
Variation from longer-term investment return	4,069	-	4,100	-	8,169
Effect of economic assumption changes	(8,918)	-	3,084	-	(5,834)
Profit/(loss) on covered business before tax	**5,103**	-	**(7,447)**	**-**	**(2,344)**
Tax thereon	(2,428)	-	-	-	(2,428)
Profit/(loss) on covered business after tax	**2,675**	-	**(7,447)**	**-**	**(4,772)**
Results of non-covered business and of other group companies					
Loss before tax, and exceptional item	-	-	(1,900)	(762)	(2,662)
Exceptional profit recognised on					
– business combination of Aspis	-	-	989	-	989
Tax	-	-	29	-	29
Profit/(loss) after tax	**2,675**	-	**(8,329)**	**(762)**	**(6,416)**
Non-controlling interest	-	-	-	-	-
Profit/(loss) for the period attributable to shareholders	**2,675**	-	**(8,329)**	**(762)**	**(6,416)**

6 Summarised statement of changes in equity and analysis of profit/(loss) (continued)

Year ended 31 December 2010	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Covered business					
New business contribution	685	-	2,057	-	2,742
Return from in-force business					
Expected return	5,203	6	6,207	-	11,416
Experience variances	11,315	101	(7,942)	-	3,474
Operating assumption changes	(1,985)	-	(10,142)	-	(12,127)
Return on shareholder net worth	736	123	-	-	859
Operating profit/(loss) of covered business	**15,954**	**230**	**(9,820)**	**-**	**6,364**
Variation from longer-term investment return	14,880	-	12,061	-	26,941
Effect of economic assumption changes	(7,248)	(1,513)	4,308	-	(4,453)
Profit/(loss) on covered business before tax	**23,586**	**(1,283)**	**6,549**	**-**	**28,852**
Tax thereon	(4,695)	359	-	-	(4,336)
Profit/(loss) on covered business after tax	**18,891**	**(924)**	**6,549**	**-**	**24,516**
Results of non-covered business and of other group companies					
Loss before tax, and exceptional items	-	-	(3,674)	(2,440)	(6,114)
Exceptional profit recognised on					
– business combination of Aspis	-	-	376	-	376
– business combination of S&P	-	-	-	40,667	40,667
Tax	-	-	177	145	322
Profit/(loss) after tax	**18,891**	**(924)**	**3,428**	**38,372**	**59,767**
Non-controlling interest	-	-	118	-	118
Profit/(loss) for the period attributable to shareholders	**18,891**	**(924)**	**3,546**	**38,372**	**59,885**

The exceptional profit recognised on business combinations relates to the acquisition by Movestic of the business of Aspis Forsakringar Liv AB ('Aspis') and the acquisition by Chesnara plc of Save & Prosper Insurance Limited and its subsidiary company Save & Prosper Pensions Limited (together 'S&P').

The results of the non-covered business and of other group companies before tax and before exceptional item are presented as 'other operational result' in the consolidated income statement. For CA, the result of the covered business includes the expenses of the holding company, with an equal and opposite adjustment to the result of the non-covered business and of other group companies.

Notes to the Supplementary Information (unaudited) (continued)

7 Sensitivities to alternative assumptions

The following tables show the sensitivity of the embedded value as reported at 30 June 2011, and of the new business contribution of Movestic for the six months then ended, to variations in the assumptions adopted in the calculation of the embedded value. Sensitivity analysis is not provided in respect of the new business contribution of CA and S&P for the six months ended 30 June 2011 as the reported level of new business contribution is not considered to be material (see Note 3(a) above).

	Embedded Value			New Business Contribution
	CA £m	S&P £m	Movestic £m	Movestic £m
Published value as at 30 June 2011	**126.4**	**67.4**	**113.8**	**2.0**
Changes in embedded value/new business contribution arising from:				
Economic sensitivities				
100 basis point increase in yield curve	(4.5)	10.8	(0.6)	(0.1)
100 basis point reduction in yield curve	2.4	(16.6)	0.6	0.1
10% decrease in equity and property values	(3.3)	(8.5)	(9.7)	-
Operating sensitivities				
10% decrease in maintenance expenses	2.5	4.7	5.9	0.3
10% decrease in lapse rates	2.3	(1.5)	9.7	0.7
5% decrease in mortality/morbidity rates				
Assurances	1.5	0.6	0.4	-
Annuities	(1.7)	(0.3)	-	-
Reduction in the required capital to statutory minimum	0.6	1.5	0.1	-

The key assumption changes represented by each of these sensitivities are as follows:

Economic sensitivities

(i) 100 basis point increase in the yield curve: The reference rate is increased by 1% and the rate of future inflation has also been increased by 1% so that real yields remain constant;

(ii) 100 basis point reduction in the yield curve: The reference rate is reduced by 1% and the rate of future inflation has also been reduced by 1% so that real yields remain constant; and

(iii) 10% decrease in the equity and property values. This gives rise to a situation where, for example, a Managed Fund unit liability with a 60% equity holding would reduce by 6% in value.

Operating sensitivities

(i) 10% decrease in maintenance expenses, giving rise to, for example, a base assumption of £20 per policy pa reducing to £18 per policy pa;

(ii) 10% decrease in persistency rates giving rise to, for example, a base assumption of 10% of policy base lapsing pa reducing to 9% pa;

(iii) 5% decrease in mortality/morbidity rates giving rise to, for example, a base assumption of 95% of the parameters in a selected mortality/morbidity table reducing to 90.25% of the parameters in the same table, assuming no changes are made to policyholder charges or any other management actions;

(iv) the sensitivity to the reduction in the required capital to the statutory minimum shows the effect of reducing the required capital from that defined in Note 3(b) above to the minimum requirement prescribed by regulation; and

(v) in each sensitivity calculation all other assumptions remain unchanged except where they are directly affected by the revised economic conditions: for example, as stated, changes in interest rates will directly affect the reference rate.

Notes to the Supplementary Information (unaudited) (continued)

8 Reconciliation of shareholders' equity on the IFRS basis to shareholders' equity on the EEV basis

Unaudited 30 June 2011	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Shareholders' equity on the IFRS basis	**71,177**	**39,320**	**53,271**	**32,506**	**196,274**
Adjustments					
Deferred acquisition costs					
Investment contracts	(5,894)	-	(10,562)	-	(16,456)
Deferred income	10,282	-	-	-	10,282
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(10,521)	-	-	-	(10,521)
Adjustments to provisions on insurance contracts, net of reinsurers' share	(93)	2,118	-	-	2,025
Adjustments to provisions on unallocated divisible surplus	-	(13,349)	-	-	(13,349)
Acquired in-force value	(14,559)	(6,344)	(63,029)	-	(83,932)
Acquired value of customer relationships	-	-	(1,885)	-	(1,885)
Amortisation of software asset	-	-	(7,405)	-	(7,405)
Adjustment to borrowings	-	-	(6,400)	-	(6,400)
Deferred tax	1,882	1,681	2,453	-	6,016
Shareholder net worth	**52,274**	**23,426**	**(33,557)**	**32,506**	**74,649**
Value of in-force business	74,109	43,981	147,405	-	265,495
Shareholders' equity on the EEV basis	**126,383**	**67,407**	**113,848**	**32,506**	**340,144**
Shareholder net worth comprises:					
Shareholder net worth in regulated entities	52,274	62,813	(34,948)	-	80,139
Shareholders' net equity in other group companies	-	-	1,391	32,506	33,897
Debt finance	-	(39,387)	-	-	(39,387)
Total	**52,274**	**23,426**	**(33,557)**	**32,506**	**74,649**

Unaudited 30 June 2010	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Shareholders' equity on the IFRS basis	**81,904**	-	**43,388**	**31,504**	**156,796**
Adjustments					
Deferred acquisition costs					
Investment contracts	(6,656)	-	(3,121)	-	(9,777)
Deferred income	11,465	-	-	-	11,465
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(14,009)	-	-	-	(14,009)
Adjustments to provisions on insurance contracts, net of reinsurers' share	(78)	-	-	-	(78)
Adjustments to provisions on unallocated divisible surplus	-	-	-	-	-
Acquired in-force value	(16,909)	-	(57,408)	-	(74,317)
Acquired value of customer relationships	-	-	(2,082)	-	(2,082)
Amortisation of software asset	-	-	-	-	-
Adjustment to borrowings	-	-	(6,106)	-	(6,106)
Deferred tax	2,806	-	2,359	-	5,165
Shareholder net worth	**58,523**	-	**(22,970)**	**31,504**	**67,057**
Value of in-force business	73,581	-	114,493	-	188,074
Shareholders' equity on the EEV basis	**132,104**	-	**91,523**	**31,504**	**255,131**
Shareholder net worth comprises:					
Shareholder net worth in regulated entities	58,523	-	(20,776)	-	37,747
Shareholders' net equity in other group companies	-	-	(2,194)	31,504	29,310
Debt finance	-	-	-	-	-
Total	**58,523**	-	**(22,970)**	**31,504**	**67,057**

Notes to the Supplementary Information (unaudited) (continued)

8 Reconciliation of shareholders' equity on the IFRS basis to shareholders' equity on the EEV basis (continued)

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
31 December 2010					
Shareholders' equity on the IFRS basis	**90,301**	**39,858**	**52,799**	**20,311**	**203,269**
Adjustments					
Deferred acquisition costs					
Investment contracts	(6,265)	-	(7,298)	-	(13,563)
Deferred income	10,885	-	-	-	10,885
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(10,739)	1,997	-	-	(8,742)
Adjustments to provisions on insurance contracts, net of reinsurers' share	(180)	-	-	-	(180)
Adjustments to provisions on unallocated divisible surplus	-	(14,847)	-	-	(14,847)
Acquired in-force value	(15,563)	(6,610)	(62,866)	-	(85,039)
Acquired value of customer relationships	-	-	(2,049)	-	(2,049)
Amortisation of software asset	-	-	-	-	-
Adjustment to borrowings	-	-	(7,454)	-	(7,454)
Deferred tax	1,909	2,275	2,757	-	6,941
Shareholder net worth	**70,348**	**22,673**	**(24,111)**	**20,311**	**89,221**
Value of in-force business	79,360	41,307	144,748	-	265,415
Shareholders' equity on the EEV basis	**149,708**	**63,980**	**120,637**	**20,311**	**354,636**
Shareholder net worth comprises:					
Shareholder net worth in regulated entities	70,348	61,960	(25,418)	-	106,890
Shareholders' net equity in other group companies	-	-	1,307	20,311	21,618
Debt finance	-	(39,287)	-	-	(39,287)
Total	**70,348**	**22,673**	**(24,111)**	**20,311**	**89,221**

9 Foreign exchange translation reserve

A foreign exchange translation reserve arises on the translation of the financial statements of Movestic, the functional currency of which is the Swedish Krona, into pounds sterling, which is the presentational currency of the Group financial statements. Items in the consolidated income statement are translated at the average exchange rate of SEK10.3046 **=** £1 ruling in the six months ended 30 June 2011(six months ended 30 June 2010 SEK11.2608 = £1 and year ended 31 December 2010: SEK11.1249 = £1), while all items in the balance sheet are stated at the closing rates ruling at the reported balance sheet date, being SEK10.1320 = £1 at 30 June 2011 (SEK11.6438 = £1 at 30 June 2010 and SEK10.5250 = £1 at 31 December 2010). The differences arising on translation using this methodology are recognised directly in shareholders' equity within the foreign exchange translation reserve.

The reported embedded value is sensitive to movements in the SEK:£ exchange rate. Had the exchange rate as at 30 June 2011 been 10% higher at SEK11.1452 = £1, then the reported embedded value of £340.1m as at 30 June 2011 would have been reported as £329.8m.