Chesnara plc

Interim Financial Statements for the Six Months Ended 30 June 2012

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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, currency exchange rates, inflation, deflation, the impact of competition, changes in customer preferences, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the jurisdictions in which Chesnara plc and its subsidiaries operate. As a result, Chesnara plc's actual future condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements.

Note on terminology

As explained in Note 4 to the IFRS interim financial statements, the principal reporting segments of the Group are:

(1) CA, which comprises the business written by Countrywide Assured plc, the Group's original UK operating subsidiary, and by City of Westminster Assurance Company Limited, which was acquired by the Group in 2005 and the long-term business of which was transferred to Countrywide Assured plc during 2006;
(2) S&P, which was acquired on 20 December 2010 and is the balance of the Group's UK business. This business was transferred from Save & Prosper Insurance Limited and Save & Prosper Pensions Limited to Countrywide Assured plc on 31 December 2011 under the provisions of Part VII of the Financial Services and Markets Act 2000 (referred to in this document as 'the Part VII Transfer'); and
(3) Movestic, which comprises the Group's Swedish business, Movestic Livförsäkring AB and its subsidiary and associated companies.

In these interim statements:

(i) The CA and S&P segments may also be collectively referred to as the 'UK Business';
(ii) The Movestic segment may also be referred to as the 'Swedish Business';
(iii) 'CA' may also refer to Countrywide Assured plc, as the context implies;
(iv) 'CWA' refers to City of Westminster Assurance Company Limited or to its long-term business funds transferred to Countrywide Assured plc.
(v) 'S&P' may also refer collectively to Save & Prosper Insurance Limited and Save & Prosper Pensions Limited, as the context implies;
(vi) Where it is necessary to distinguish reference to Save & Prosper Insurance Limited and Save & Prosper Pensions Limited, or to the businesses subsisting in those companies prior to the transfer referred to above, they are designated 'SPI' and 'SPP' respectively; and
(vii) 'Movestic' may also refer to Movestic Livförsäkring AB, as the context implies.

OVERVIEW AND STRATEGY

IN THIS SECTION

Highlights - six months ended 30 June 2012 (unaudited) Note 1

Financial

- **Increase in IFRS pre-tax profits, excluding exceptional item, Note 2 of 145% to £9.3m (six months ended 30 June 2011: £3.8m).** ***[see Financial Review Page 18]***
- **Net cash generated during the first half of 2012 of £12.4m Note 3 compares favourably to the prior year (six months ended 30 June 2011: £6.7m).** ***[see Cash Generation Page 20]***
- **Total EEV has increased from £294.5m at 31 December 2011 to £296.3m at 30 June 2012, after allowing for the payment of the 2011 final dividend of £12.5m during the period.** ***[see Financial Review Page 23]***
- **EEV pre-tax profit increased to £20.3m from £0.4m for the six months ended 30 June 2011, comprising [*see Financial Review Page 21*]:**
  - **an increase in pre-tax operating profit to £14.1m from £0.3m for the six months ended 30 June 2011, and**
  - **an increase in economic profit to £6.2m from £0.1m for the six months ended 30 June 2011.**
- **Strong Insurance Group Directive solvency cover of 198% at 30 June 2012 (31 December 2011: 198%).** ***[see Financial Management Page 26]***
- **Proposed interim dividend increased by 2.5% to 6.1p per share.**

Operational

- **Following the successful Part VII Transfer of S&P funds into CA, the S&P companies have been de-authorised, releasing £7m of capital post 30 June 2012.**
- **Continued progress on Solvency II implementation.**
- **Ongoing discussions relating to HCL outsourcing arrangements.**

Notes

1) Throughout the Chairman's Statement, Chief Executive Review and Financial Review sections following, all results quoted at business segment level exclude the impact of consolidation adjustments relating to the amortisation of the acquired value of in-force business (AVIF). These consolidation adjustments are analysed by business segment on page 18.
2) An exceptional item of £4.8m, relating to the reclassification of policy-holder tax liabilities in the balance sheet has been charged to IFRS pre-tax profits. There is a corresponding deferred tax release to income tax of £4.8m, so that the net-of-tax impact is £nil. *[see Note 5 on Page 47)*
3) Net cash generation in the year is defined as the net amount of the following items:
   (i) The change in the excess of actual regulatory capital resource over target capital resource in respect of the CA and S&P operating segments to the extent that distribution of the excess to shareholder funds is not restricted;
   (ii) Capital contributions made by the Group to the Movestic operating segment; and
   (iii) Cash utilised by Parent Company operations.

Chairman's Statement

Despite challenging market conditions, I am pleased to report improved profits, good cash generation and strong solvency, which support an increased dividend.

In my statement in the 2011 full year Report and Accounts I referred to the general resilience of the Group results to economic market conditions. In particular, I noted that the results in terms of IFRS earnings, cash generation, solvency, and hence dividend paying capacity, remained resilient during difficult equity and bond market conditions.

During the first half of 2012 economic conditions have remained uncertain. UK equities, following an increase during the first quarter, subsequently fell back to levels in line with those at the beginning of the year. Swedish equity markets followed a similar course although the closing position of the key equity index (OMX 30) was marginally higher than the opening position. UK bond yields continued their recent downward trajectory with yields on medium and long-dated gilts and swaps decreasing further over the period.

In addition to the movement in equity and bond markets, general concerns over the Eurozone crisis continue to affect economic confidence. Whilst Chesnara will be influenced by the general economic impact of the Eurozone crisis I am pleased to note that the level of direct exposure is negligible. Chesnara has minimal direct investment in the sovereign debt of countries deemed to be in severe financial difficulty.

I am again reassured that during the first half of 2012 the Group result demonstrated a significant level of resilience to the economic conditions as we continue to benefit from our robust governance culture and low-risk investment model.

Although Chesnara, at a consolidated Group level, has continued to weather the economic conditions well, I recognise that the S&P results, in isolation, are sensitive to investment market strain. In particular, the cost of guarantees on its with-profit contracts rises as bond yields decline, and this has continued during the first half of 2012. Despite the increased short-term volatility associated with the S&P guarantees, I remain confident in the long-term value expected to be realised from the S&P acquisition.

Trading conditions have continued to be difficult for Movestic. The short-term focus remains on enhancing the core Pensions and Savings proposition. Residual administration issues, resulting from a systems enhancement programme, have continued to have an adverse impact on both new business volumes and policy attrition rates during the period. The immediate priority is to address all the systems migration issues so that we can begin to derive the expected benefits from the enhanced operating platform. In addition, a recently instigated policy retention programme, which is showing initial signs of success, will continue to be embedded. A new Chief Executive who will ensure swift and effective resolution of these challenges has been appointed. He is a respected figure in the Swedish Life and Pensions insurance market and as such I am confident he is well positioned to mitigate any long-term adverse impact on the relationships with IFAs arising from temporary service level issues.

The core CA book continues to generate the positive surpluses required to underpin the Chesnara dividend strategy, CA product-based surpluses being at the heart of our business model. Their continued emergence and the corresponding cash generation are encouraging.

IFRS Results

On an IFRS basis, excluding the impact of an exceptional reclassification item (see Note 5 to the IFRS financial statements), we have achieved a pre-tax profit of £9.3m. This compares well to a pre-tax IFRS profit of £3.8m for the first half of 2011. The improvement relates in the main to the more variable S&P result which has increased by £5.9m year on year. A small with-profit surplus of £0.6m, resulting from the increase in the cost of policy guarantees being less than the level of investment income, leads to a favourable comparison with the corresponding with-profit strain of £4.2m for the 6 months ended 30 June 2011.

IFRS profits arising from the core Non-profit CA book continue to emerge in line with expectation. At the heart of this source of profit are the product-based deductions, which, at £13.6m, compare well against the 2011 half-year equivalent of £12.6m. A significant part of this improvement is due to favourable mortality experience.

In addition, despite the difficult operating conditions, Movestic has posted a small pre-tax profit of £0.1m compared with a pre-tax loss of £(0.6)m during the first half of 2011.

EEV Results

On the EEV basis of reporting, we realised a profit after tax of £15.9m for the half year ended 30 June 2012, compared to a loss after tax of £(1.5)m, excluding the effect of modelling adjustments, for the half year ended 30 June 2011. This improvement in EEV profitability is due to significant improvements in both pre-tax operating and economic profits of £13.8m and £6.1m respectively.

The operating result has benefited from several factors including:

- The Movestic result includes the impact of an upward reassessment of rebates expected from fund managers of some £5m, together with the positive effect of a £5m downward assessment of rebates payable to brokers. The combined positive impact exceeds the £5m adverse impact of a strengthening of persistency assumptions.

- Interest and gains on S&P retained surplus have increased by £2m.
- The CA result for the 6 months ended 30 June 2011 included a one-off £2m charge relating to the setting up of a provision to cover the potential impact of changes to the HCL outsource contract changes.

The economic result has benefited from a modest upturn in Swedish equity values, whilst in the UK the positive impact of bond capital value growth has exceeded the adverse impact of the continued decline in bond yields.

Solvency and Cash Generation

The capacity of the Group to pursue its dividend policy relies on the continuing generation of cash in the UK businesses. During the six months ended 30 June 2012 cash generation was £12.4m. This healthy outcome supports the current dividend strategy and is reinforced by a strong Group solvency ratio which has remained the same as at the end of 2011 at 198%.

We have continued to make good progress on the implementation of Solvency II requirements and further information on this is provided on page 33.

Dividend

Continuing surplus generated from CA, together with a positive result from S&P, enables the Group to continue its progressive dividend policy. The 2012 interim dividend of 6.10p per share (2011: 5.95p per share) represents a 2.5% increase and equates to a total dividend payable to shareholders of £7m.

People and Business Partners

We continue to strive to service our policyholders and shareholders well and this is based on the skill and dedication of our people and those within our outsourcing partners. Delivery of the strategic objectives of the Group, as detailed in the "Our Vision and Strategy" section on page 6, is highly dependent on the skills, professionalism and integrity of our people and, as such, I welcome the continued high levels of staff retention. Although the re-negotiation of the outsourcing contracts with HCL is taking longer than initially expected, we remain on course to agree terms that will ensure policyholders and shareholders will continue to benefit from the servicing and commercial benefits of our UK operating model for the long-term.

Business Development

Whilst the Group remains relatively strong, notwithstanding the volatility of investment markets, we remain aware of the future challenges the markets may bring and the potential economic impact that may arise from the ongoing Eurozone crisis. Therefore we continue to work to protect shareholder value whilst not unnecessarily restricting any upside the eventual recovery in markets may bring. As part of this we will continue to investigate acquisition opportunities and we will only progress these where we see value and a clear strategic fit and we will continue to apply strict financial and risk criteria when we assess them.

Outlook

Following a positive first quarter, investment markets generally reversed those gains in the second quarter with gilt yields falling further still. In recognition of the uncertainty in markets our financial and capital management procedures continue to recognise the risk of continued poor or indeed worsening economic conditions. The embedded value of the Group has remained resilient during a period of decreasing bond yields, flat equity markets and low economic confidence in the Eurozone. There remains a long-term expectation that economic conditions will improve which would have a positive impact on the Embedded Value. Recent financial results combined with the results of financial projection modelling indicate continued healthy cash generation and a solvency surplus in both the base case and in a range of adverse stress scenarios.

Peter Mason
Chairman
30 August 2012

Mission and Vision

Mission

Our mission is to deliver value for shareholders, while maximising returns to policyholders. Underpinning everything we do is a desire to maintain regulatory and legal compliance. Meeting these aims is achieved through attracting and retaining highly talented people who not only bring expertise and quality thinking into our business and industry, but also have a passion for improving outcomes for our customers and shareholders. All members of the Chesnara team share a common value in recognising their responsibility to shareholders and policyholders.

Vision

To be recognised as a responsible and profitable company engaged in the management of life and pensions books in the UK and Western Europe through:

- Commitment to the core business of closed UK life and pensions book management.
- Further acquisitions where they meet stringent assessment criteria.
- Realisation of increasing economies of scale.
- Continued delivery of competitive returns to shareholders and policyholders.

While we focus on delivering value to shareholders primarily through dividend streams arising from strong cash generation as the life and pensions books run off, we also consider the acquisition of open businesses where there is clear value enhancement and where the scale is such that our core proposition of being principally a closed book consolidator and manager does not become unbalanced.

Strategic Objectives

At Chesnara the strategic objectives, which support the fulfilment of our mission and the realisation of our vision are embedded in day-to-day business operations and underpin management decisions. At the core of the business is the recognition by the Board and Management Team of their responsibility to policyholders, shareholders and regulators so that the values and principles of management wholly align with strategic objectives. This value of responsibility is at the heart of the Chesnara business model. Our core strategic objectives are explained and evidenced on the following pages.

MAXIMISE VALUE FROM THE IN-FORCE BOOK

Why is this of strategic importance?

- Chesnara is primarily a "closed book" operation and as such generating surplus and cash from the existing in-force books is at the heart of its investment case.

How do we deliver this strategic objective?

- We proactively manage continuing financial exposures.
- We operate in a manner that ensures policy attrition is as low as possible.
- We will continue to invest in a service proposition that ensures a high level of customer satisfaction.
- We continue to manage investment performance so as to provide a competitive level of return to our policy holders.
- We adopt a business operating model which ensures unit expenses remain appropriate for the scale of the in-force book.

Risks associated with this strategic objective

- Sustained adverse investment market conditions undermine our ability to manage financial risks inherent in the in-force portfolio.
- Despite the effective cost management model, in the absence of further acquisitions or more radical management action, there remains a risk that unit costs will increase in the long term.
- A number of factors including economic recession, adverse investment performance and a deterioration in customer servicing standards could lead to an increase in policy attrition.

ACQUIRE LIFE AND PENSIONS BUSINESSES

Why is this of strategic importance?

- As with any business, it is important that we use our capital efficiently to provide optimum return to shareholders.
- As a primarily “closed book” operation, further acquisitions provide a solution to the business challenge of maintaining the Group’s cash flow and operational economies of scale.

How do we deliver this strategic objective?

- We rely on acquisition opportunities being available in the market. To maximise our opportunities we have extended our target market beyond the UK, to include Western Europe.
- We actively engage various investment bank advisers to ensure we are aware of acquisition opportunities.
- We will leverage on our proven track record in the consolidation market. Past experience suggests we maintain a high degree of credibility with regulators, policyholders, lenders and shareholders.
- We will not pursue opportunities which do not meet very stringent assessment criteria.

Risks associated with this strategic objective

- If Chesnara make no further acquisitions there will be a potential strain on the per policy unit costs of the existing business.
- Any departure from the current, stringent acquisition assessment criteria and due diligence procedures could result in an acquisition that, under certain stress scenarios, adversely impacts the financial strength of the Group.

ENHANCE VALUE THROUGH NEW BUSINESS IN SELECTED MARKETS

Why is this of strategic importance?

- Although the Chesnara business model primarily focuses on “closed book” consolidation, where acquisitions offer the potential to write new business at an adequate return on capital we will continue to invest in the new business operations so as to maximise value from the business.
- Maintaining a flexible position regarding the willingness to remain open to new business will potentially increase the potential number of acquisition targets and indeed our attractiveness to such targets.

How do we deliver this strategic objective?

- Currently the only part of the Chesnara Group writing material levels of new business is Movestic, our operation in Sweden. Movestic has a new business operation that delivers a positive new business contribution. Management receives regular information which enables a continuous assessment of the performance to ensure being open to new business continues to enhance value.

Risks associated with this strategic objective

- New business volumes fall below levels required to ensure sufficient return on the acquisition cost base.
- Product margins fall to unsustainable levels due to factors including; market price pressures, reduced investment growth, increased policy lapse rates and increasing maintenance unit costs.

MAINTAIN A STRONG SOLVENCY POSITION

Why is this of strategic importance?

Adequate solvency capital:

- Protects against volatility particularly due to external economic conditions outside management control.
- Supports potential acquisition opportunities.
- Supports ongoing dividend capability.

How do we deliver this strategic objective?

- We ensure the Board are furnished with high quality information regarding the solvency position. This includes information regarding the actual solvency position together with the projection of solvency under stress scenarios.
- The management team tracks the performance of the key factors known to impact the solvency position.
- Potential acquisitions are assessed by taking a prudent view on not only the short term impact on the Group's Solvency position but also giving full consideration of the potential risk to long term solvency.

Risks associated with this strategic objective

- Sustained adverse economic conditions outside of "risk appetite" tolerances will erode the solvency surplus.

ADOPT GOOD REGULATORY PRACTICE AT ALL TIMES

Why is this of strategic importance?

- Chesnara management fully recognise the benefits to both shareholders and policyholders of adherence to good regulatory practice. We comply not because the regulations insist but because the rules clearly reflect good, responsible business management and governance.

How do we deliver this strategic objective?

- We maintain a strong internal risk management culture and regime throughout the Group and we maintain systems and controls which satisfy regulatory requirements at all levels.
- The UK and Swedish life assurance and pensions industries are both highly regulated, in terms of both the conduct of business operations and of financial reporting. We place particular emphasis on managing our regulatory compliance through a proactive and prudent approach and on maintaining a positive relationship with regulatory bodies.
- Significant effort is directed towards ensuring that the operations are effectively managed in terms of conduct of business regulations and of prudential solvency requirements.

How do we deliver this strategic objective?

- We have developed a strong Governance core at the heart of the Chesnara operating model, which is operated within a robust and effective Corporate Governance framework.

Risks associated with this strategic objective

- The key risk relating to regulatory compliance is that rules and regulations are poorly understood or implemented.

DELIVER VALUE TO STAKEHOLDERS ON A RESPONSIBLE AND BALANCED BASIS

Underlying the fulfilment of strategic objectives is the core value shared by the Board and Management Team of recognising responsibilities to all stakeholders on a balanced basis.

Often decisions are required that may have conflicting impacts on the different stakeholders. Maintaining a balanced view across the stakeholder groups is critical to ensuring management continue to make decisions that will benefit all stakeholders in the longer term.

The general governance framework ensures controls and procedures are in place to protect all stakeholders. The effectiveness of the framework is enhanced by the fact that the value of responsibility to all stakeholders is shared by the Board and Management Team.

The Chesnara Business

The history of the development of the Chesnara business, together with a description of the characteristics of our operating businesses, illustrates how we have endeavoured to achieve our strategic objectives and how we have created the platform for their ongoing realisation.

History	
2004	Chesnara listed on the London Stock Exchange, following its acquisition of CA on the latter's demerger from Countrywide plc, a large estate agency group. CA is a substantially closed UK Life and Pensions business whose portfolio predominantly comprises unit-linked endowment and protection policies.
2005	Chesnara acquired CWA from Irish Life and Permanent plc for a consideration of £47.8m, funded principally by a mixture of debt and new equity capital. CWA is also a substantially closed UK Life and Pensions business. Its portfolio, which is also predominantly unit-linked, comprises endowments, protection and pensions policies.
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 ('FSMA'), thereby realising significant financial and operational synergies.
2009	Chesnara acquired Movestic Liv, an open predominantly unit-linked Swedish Life and Pensions business, for £20m at a significant discount to its embedded value. Subsequently a new subsidiary, Movestic Kapitalförvaltning was established to separate out fund selection and management activities from Movestic Liv and to develop these services in the wider marketplace.
2010	Movestic acquired the in-force business, personnel, expertise and systems of Aspis Försäkrings Liv AB, a small Swedish life and health insurer, thereby complementing Movestic's existing focus on pensions and savings contracts. Chesnara acquired SPI and its subsidiary, SPP, from JPMorgan Asset Management Limited for a consideration of £63.5m, funded by a mixture of debt and new equity capital. SPI and SPP are also closed UK Life and Pensions businesses whose portfolios predominantly comprise unit-linked pension policies, endowments (some with profits) and protection policies.
2011	The long-term business funds and part of the shareholder funds of SPI and SPP were transferred to CA under the provisions of Part VII of FSMA, thereby realising significant financial and operational synergies.

The higher proportion of pension policies in the successive acquisitions made by Chesnara has progressively increased the overall longevity of its run-off portfolio, while diversifying the policy base. At 30 June 2012, the Group had 127,000 life policies and 265,000 pension policies in force.

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 not detract significantly from, and 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.

Business Model

The following sets out the key operating characteristics of the Chesnara business:

- Chesnara plc 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 123

UK

- The primary focus of the UK businesses 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.
- In the UK we maintain a small professional corporate governance team who are responsible for both the regulatory and operational requirements of the listed entity – Chesnara – and those of the UK businesses. Our team in the UK is intentionally small and focused in the interests of keeping the overall expense base tight. It has the capability to manage the UK businesses and to assess acquisition opportunities, but it is supplemented from time to time by temporary resource if justified by operational or strategic demands.
- The operating model of our UK business is directed towards maintaining shareholder value by outsourcing all support activities to professional specialists. This typically embraces policy administration, systems, accounting and investment management and reduces the impact of potential fixed and semi-fixed cost issues which would otherwise occur as the income streams arising from a declining in-force portfolio diminish. By securing long-term contracts to support these activities we aim to enhance the variability of the expense base with the size of the in-force policy portfolio. This also leads to the avoidance of the full weight of systems development costs, as these will, where possible, be shared with other users of the outsourcers' platforms.
- Oversight of the outsourced functions is a significant part of the responsibility of the central governance team. The maintenance of service and performance standards, and thereby the core interests of shareholders and policyholders, is maintained through a strict regime of service level agreements and through continuous monitoring of performance. This is reinforced by adherence to the principles and practice of treating customers fairly.

Sweden

- The primary focus of the Swedish business is to grow 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 external 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. Movestic is targeted to reach this pivotal point over the next two years.
- In Sweden, as the Movestic book is open and in a growth phase, we retain a broader-based management and operational team. Rather than outsource core functions, we believe that it is important that the drive and team ethic of Movestic is preserved as they seek to grow profitable market share in our target markets, whilst maximising the strategic and organisational opportunities presented by the acquisition of Aspis. We do, however, outsource the provision of IT infrastructure as this mitigates operational risk and, whilst Movestic manages the selection of appropriate investment funds, investment decisions are made solely by the fund managers.

PERFORMANCE

IN THIS SECTION

Chief Executive's Review

Against the backdrop of continued reductions in bond yields in the UK and difficult operational conditions in Sweden, the general improvement in profitability, on both an IFRS and EV basis, and strong cash generation are very satisfying.

Highlights:

Despite difficult investment market conditions the Group has delivered an IFRS pre-tax profit of £9.3m, excluding an exceptional item of £4.8m (six months ended 30 June 2011: pre-tax profit of £3.8m).

EEV net-of-tax result has improved, with a profit of £15.9m comparing favourably to a loss of £(1.5)m for the first half of 2011, including, at a pre-tax level, a £13.8m improvement in operating profit and a £6.1m improvement in economic profit.

Cash generation of £12.4m and group solvency at 198% remain strong.

UK investment performance compares favourably against both 3 month and 12 month sector averages.

Although operational challenges continue, Movestic produced a small IFRS profit, together with a £5.7m uplift in EEV.

Group IFRS Pre-tax Profit, excluding exceptional item

£9.3m* (six months ended 30 June 2011: £3.8m)

Group EEV Net-of-tax Result

£15.9m* (six months ended 30 June 2011: £(1.5)m loss**)

Insurance Group Directive Solvency

30 June 2012* 198%

(31 December 2011: 198%)

** unaudited*

***excluding the impact of EEV modelling adjustments (£5.3m reduction in EEV).*

Review of the period

Both IFRS and EEV results during the 6 months ended 30 June 2012 are strong and continue to demonstrate the robustness of the Chesnara business model. It is particularly encouraging to see the S&P operation generate a significant IFRS surplus, thereby contributing further to cash generation, over and above the significant levels of cash released during 2011, as a direct benefit of the Part VII Transfer of S&P policies into CA. Whilst gilt yields have continued to decline, in general the level of economic volatility during the 6 months ended 30 June 2012 was less significant than during 2011. Cash generation from the UK books has proved to be resilient during a period of adverse market conditions.

UK product-based surpluses remain at the heart of our business model. The continued emergence of such surpluses is dependent upon the level of operational customer service and investment management performance. In light of this, I am particularly pleased to report that our operational and investment management outsource partners have performed well during the 6 months ended 30 June 2012. In addition to delivering excellent customer service, our operational outsource partners are now well engaged in the Solvency II programme and are making progress in accordance with our project plans. All of our UK Investment Managers have delivered investment returns better than sector averages.

Maintaining strong and sustainable business relationships with our outsource partners is key to the success of the business. Discussions continue with HCL to extend the current outsource arrangements and I believe that we are making good progress towards reaching a mutually beneficial conclusion.

Whilst the Movestic results show a period-on-period improvement, management is keenly aware that the key performance indicators, as reported in the Swedish Business Review section, highlight that the underlying operational performance is not as positive. It is a key priority of the Swedish management team to arrest the current level of policy lapse and to rebuild new business volumes. I am confident that the newly appointed Movestic Chief Executive has the experience and drive to ensure the business recovers from the short-term dip in performance.

The Group and subsidiary solvency positions remain strong, which enables us to continue with our progressive dividend policy.

We continue to have minimal exposure to Euro-denominated sovereign debt.

As ever, we continue to search for and investigate potential acquisition opportunities. In this period we have seen a handful of European opportunities, but these have lacked the scale to make them of any interest to us. However, it is notable that some of these potential divestments are being driven by Solvency II-related restructuring and this indicates that further, potentially more attractive, opportunities may arise.

UK Business Review

Core product based surpluses continue to emerge as expected and these are complemented by a small positive S&P IFRS with-profit result. Product surplus is underpinned by strong operational and investment performance.

Highlights:

Core CA product based surpluses of £9.1m emerge at a higher level than the prior year equivalent of £8.6m.

S&P with-profit positive result of £0.6m compared to a strain of £4.2m during the first half of 2011.

Bond capital growth drives significant and increased levels of S&P investment return which exceeds the adverse impact of declining bond yields on the cost of with-profit guarantees.

Investment performance is ahead of sector average.

Negotiations to extend the terms of the HCL outsource arrangements are ongoing.

Outsourcer operational performance levels remain strong.

EEV net-of-tax profit of £10.7m compares favourably with prior period level of £5.4m.

Review of the Period

This period has been focused on four areas – delivering a continued high level of customer and investment management service, management of shareholder assets, completing the integration of S&P and seeking longevity as regards our outsourcing arrangements.

Management of Assets

The acquisition of S&P has resulted, as signalled at the time of acquisition, in an increased level of earnings volatility for the UK business. S&P has a proportion of its product base that provides guaranteed returns. As asset values fall the cost of guaranteeing those returns increases, with a consequential impact on profitability. The converse of this is that as asset values rise, as might be expected in the medium term, the cost of the guarantees will fall. Linked to the cost of guarantees is the return we use in calculating our liabilities to policyholders – which in turn is linked to the yield curve. As the yield curve falls the rate we can use to discount the liabilities to meet those guarantees also falls. During 2011 these factors resulted in a large with-profit strain as the rise in the capital value of the matching assets was outweighed by the effect of the yield drop in calculating the future returns. During the 6 months ended 30 June 2012 these factors continued to apply but their impact was reversed: that is, the rise in asset values exceeded the effect of the yield drop in calculating the future returns. Whilst our capital management policy and decisions are mindful of the impact of any asset mix changes to the valuation interest rate, and hence the cost of S&P guarantees, investment decisions are taken primarily with a view to maximising long-term investment performance and are not influenced by the potential short-term volatility of accounting profits. The continued earnings stability from the CA book,

KEY PERFORMANCE INDICATORS

six months ended 30 June 2012 (unaudited)

IFRS Pre-tax Profit*

£12.6m (six months ended 30 June 2011: £9.0m)

*Excluding AVIF amortisation and exceptional items

Cash Generated

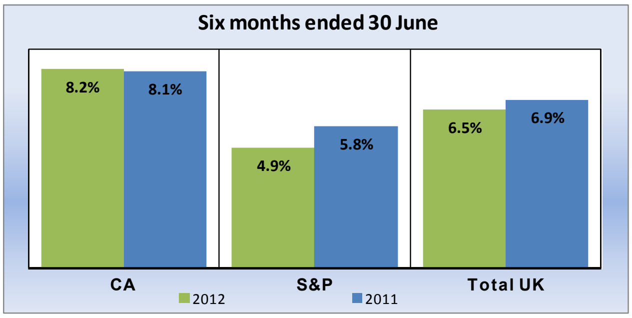
£13.8m (six months ended 30 June 2011: £8.0m)

EEV Result Net of Tax

£10.7m profit

(six months ended 30 June 2011: £5.4m)

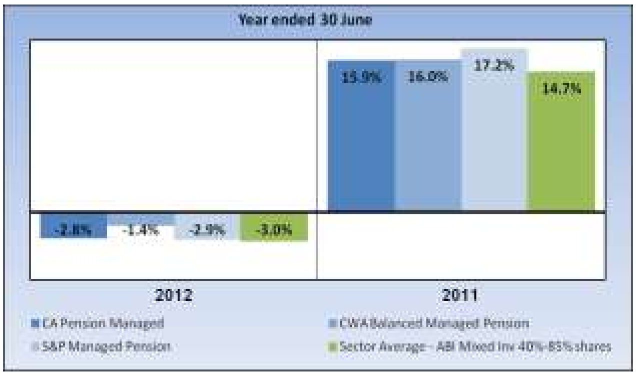
Annualised Policy Attrition Rate



Policy attrition rates remain within assumptions.

Fund Performance
year ended 30 June 2012 (unaudited)

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 received will be of a higher magnitude. Returns on all funds for the year ended 30 June 2012 have exceeded the sector average. In addition the most recent performance, based on the 3 months ended 30 June 2012, also demonstrates a continued outperformance of the sector average.



mitigates the impact of short term S&P earnings volatility, such that, on a UK consolidated basis, the Board remains confident that the long-term value from the S&P acquisition will significantly outweigh short-term volatility experience.

Integration of S&P

As a final stage of the integration of S&P, the two S&P companies were deregulated subsequent to 30 June 2012. This leads to an additional cash generation of £7m, which has not been reflected in cash generation for the six months ended 30 June 2012, but which will be reflected in the full-year result.

Outsourcing Arrangements

We continue to seek an extension to our existing outsourcing arrangements for the CA contract, which is due to expire in 2015, and to combine it with the S&P arrangements, which have no fixed termination date. It has not been possible to finalise the agreement during this period but we continue to believe that adjustments to expense assumptions made during last year are realistic.

Unit-linked Funds Under Management

The continuing level of unit-linked funds under management is an indicator of the ongoing level of profitability of the UK businesses as fund-related charges are an important component of profit. The movement in the value of unit-linked funds under management is driven by:

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.

The combined impact of these three drivers has resulted in unit-linked assets under management remaining unchanged at £2,194m.

Other

With regard to Solvency II implementation, a significant and increasing amount of work means that our progress remains in line with plans.

Cash generation, despite uncertain investment market influences, remains strong. S&P surplus has contributed positively to the strong underlying cash generation from CA.

Swedish Business Review

IFRS and EEV profits remain positive despite difficult underlying operational conditions.

Highlights:

IFRS pre-tax profit of £0.1m (H1 2011: £(0.6)m loss) before consolidation adjustments.

Positive EEV development.

Successful launch of new single premium product.

Measures introduced to reduce policy attrition.

Review of the period

After a more stable start in early 2012, the turmoil in European financial markets affected the investment market performance during the second quarter. Investor confidence has been dented and, in turn, affected Movestic's business opportunities. In addition, administration issues, following the systems migration carried out in 2011, led to a reduction in IFA support and have continued to challenge. Intense efforts are being made to strengthen IFA confidence. It is, therefore, particularly pleasing that we are able to report a profit on an IFRS pre-tax basis of £0.1m (H1 2011: £(0.6)m loss). The EEV measure, where the net of tax profit of £5.7m has improved from a loss of £(6.3)m for the 6 months ended 30 June 2011, is also strong.

Despite the general improvement in EEV earnings, the profits from new business have suffered as a direct result of operational and market conditions. New business volumes and margins have suffered to the extent that during the period ended 30 June 2012 there was a new business loss of £(0.3)m as compared to a £2m profit for the 6 months ended 30 June 2011.

A detailed breakdown of the constituents of this is provided in the Financial Review on page 21.

Our market intelligence indicates that a number of Swedish insurers have seen a fall in new business and, therefore, although our new business premiums have reduced, our market share has increased when compared to the first quarter. This demonstrates the strength of our business model and is particularly pleasing bearing in mind the systems and associated administration issues, which caused the loss of market share in the first quarter. In September 2011 we introduced measures aimed at reducing the attrition in the business and initial indications showed that they were proving to be successful, but, with turbulent market conditions and the administration issues, the anticipated effect of these measures is yet to be fully reflected in the reported figures.

Looking forward we continue to seek to build on the good relationships that we have with IFAs. In particular we have received a higher rating for our fund range with one of the larger IFA organisations and we maintain close relationships with all the key broker organisations. As for new initiatives, we will continue to research new fund and investment opportunities, and we have successfully launched a new single premium product in the second quarter of 2012 and are also planning revisions and new offerings within our risk and health portfolio.

KEY PERFORMANCE INDICATORS six months ended / as at 30 June 2012 (unaudited)

IFRS Pre-tax Profit*

£0.1m (six months ended 30 June 2011: £(0.6)m loss)

**Excluding AVIF amortisation*

EEV Result Net of Tax

£5.7m (six months ended 30 June 2011: £(6.3)m* loss)

**Excluding modelling adjustments*

Funds Under Management £1,235.2m (31 December 2011: £1,272.6m)

The value of funds under management is a key reference point for establishing the ongoing profit-earning capacity of the business, as fees are received based on those values. Whilst the fall in assets under management is disappointing, when taken in the context of the relatively flat equity markets and the short-term increase in policy attrition due to temporary administration issues, it is reassuring that the asset base has remained broadly consistent.

Total Premium Income

Six months ended 30 June	**2012**	2011
	£m	£m
Pensions and Savings	**93.9**	117.1
Risk and Health	**19.2**	19.0
Total	**113.1**	136.1

Premium income, in the form of new business and continuing premiums into existing contracts, is important to the success of Movestic. Policy attrition combined with a reduction in new business volumes during the period has resulted in the reduction in total premiums earned.

New Business Premiums

Six months ended 30 June	2012	2011
	£m	£m
Pensions and Savings	**20.0**	25.5
Risk and Health	**0.7**	1.1
Total	**20.7**	26.6

New business markets have been difficult during the year and the gradual reduction in new Pensions and Savings volumes in part reflects a general decline in total market size. The 2012 figures do, however, show a marginal improvement compared with the second half of 2011.

New Business Market Share

Share of unit-linked pensions business	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12
	%	%	%	%	%	%
Total business	**4.7**	**5.6**	**6.5**	**7.2**	**4.6**	**5.5**
Company-paid contribution business	**12.5**	**11.3**	**9.1**	**10.7**	**7.6**	**7.9**

Movestic's primary target market is that of unit-linked pension business and, within that, company-paid contribution business. A small recovery in market share in the second quarter is welcome, following the reversals in the first quarter, which followed a period of administration issues consequent upon a systems migration. This is a strong testament to our product offering and the effectiveness of the sales and marketing teams.

Fund Performance

Six months ended 30 June	2012	2011
Outperformed against the relevant index	**19**	14
Underperformed against the relevant index	**31**	18
No relevant index	**9**	7

One of Movestic's key differentiators is its approach to selecting the funds available to investors. Rather than adopt mainstream funds, which, in Sweden, are those predominantly managed by subsidiaries of banks which also have life assurance subsidiaries, they select a limited number of funds from a wide range of independent fund managers.

The funds selected are, in general, actively managed funds with a value approach. The performance of all funds is closely monitored and regular contact is undertaken with managers to ensure that the underlying reason for the performance, whether positive or negative, is fully understood. Funds that do not perform favourably compared to the relevant index are wholly replaced if there are no acceptable strategies for improvement in the returns. During the first half of the year further funds were added to fill perceived gaps in the range, primarily low cost index products and various absolute return funds. This enables Movestic to offer a more complete fund offering with a clear distinction between active and passive fund management, but still with a limited number of funds.

However, the general weighting towards Swedish equities, value and emerging markets together with the historically low bond yields affected general performance. The natural corollary of this is that funds would be expected to perform strongly as markets recover.

Annual Policy Attrition Rate

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.

Six months ended 30 June	2012	2011
Surrenders (Endowments)	**17.8%**	14.5%
Transfers (Pensions)	**5.2%**	5.4%
Lapses (Pensions and Endowments)	**21.9%**	16.8%

Relatively high rates of attrition, to which volatile investment markets and negative sentiment in 2011 contributed, have continued and they have been compromised by administration issues following the systems migration.

In order to counter the rate of attrition a team was established to research and review the reasons behind policy attrition. Acting on their findings we introduced transfer penalties on pensions, which are in line with the market norm and we also instigated procedures that require a policyholder to confirm their desire to transfer and advising them of the consequences of transfer before processing the request. This was introduced in September 2011 and the early results are encouraging.

In addition, the team review individual IFA accounts for levels of attrition in this area which is then followed up.

Financial Review

Key Financial Performance Indicators – six months ended / as at 30 June 2012 (unaudited)

The Group's key financial performance indicators as at 30 June 2012 and for the six months ended on that date demonstrate the financial performance and strength of the Group as a whole. A summary of these is shown below and further analysis is provided in the following sections:

IFRS Pre-tax Profit, excluding exceptional item

£9.3m (six months ended 30 June 2011: £3.8m)

The presentation of the results in accordance with International Finance Reporting Standards (IFRS) aims to smooth the recognition of profit arising from written business over the life of insurance and investment contracts. For businesses in run-off the reported profit is closely aligned with, and a strong indicator of, the emergence of surpluses arising within the long-term insurance funds of those businesses.

Highlights

- IFRS pre-tax profit of £9.3m shows a significant improvement over the comparative period for the prior year.
- Profits from the core CA closed book at £7.5m (six months ended 30 June 2011: £9.8m) have remained relatively resilient to book run-off and investment market conditions.
- Despite continued volatility in bond markets, the S&P business has generated a surplus, excluding an exceptional item, of £5.1m compared with a loss of £(0.8)m for the period ended 30 June 2011.
- There was a £0.7m improvement in the Movestic result which has moved from loss to a small profit.

EEV Earnings, Net of Tax

£15.9m profit (six months ended 30 June 2011: £(1.5)m loss, excluding £5.3m reduction in EEV following modelling adjustments)

In recognition of the longer-term nature of the Group's insurance and investment contracts, supplementary information is presented in accordance with European Embedded Value 'EEV' principles. By recognising the net present value of expected future cash flows arising from the contracts (in-force value), a different perspective is provided in the performance of the Group and on the valuation of the business.

The principal underlying components of the EEV result are:

i) The expected return from existing business (being the effect of the unwind of the rates used to discount the value in force).
ii) value added by the writing of new business.
iii) variations in actual experience from that assumed in the opening valuation.
iv) the impact of restating assumptions underlying the determination of expected cash flows.

Highlights

- Operating profit has improved by £13.8m, year on year.
- Economic profit of £6.2m compared to small prior year profit of £0.1m.
- An economic profit of £3.2m for Movestic, driven by a 3% increase in key equity markets.
- An economic profit of £2.3m for S&P, in the main driven by asset value growth.

Cash Generation

£12.4m (six months ended 30 June 2011: £6.7m)

Cash generation is a key measure, because it is the net cash flows to the Chesnara Parent Company from its Life and Pensions businesses which support Chesnara's dividend capacity. The dominating aspect of cash generation is the change in amounts freely transferable from the operating businesses, taking into account target statutory solvency requirements which are determined by the boards of the respective businesses. It follows that cash generation is not only influenced by the level of surplus arising but also by the level of target solvency capital.

Highlights

- At £6.4m cash generation in CA continues to be robust and this is complemented by £7.4m cash generation in S&P.
- Net cash generation of £12.4m at the Group level is considerably in excess of £6.7m for the corresponding period in 2011.

European Embedded Value (EEV)

£296.3m (as at 31 December 2011: £294.5m)

As it takes into account expected future earnings streams on a discounted basis, EEV is an important reference point by which to assess Chesnara's market capitalisation. A life and pensions group may typically be characterised as trading at a discount or premium to its embedded value. Analysis of EEV, distinguishing value in force by segment and by product type, provides additional insight into the development of the business over time.

Highlights

- EEV increase achieved after allowing for £12.5m dividend payment and £1.6m foreign exchange loss.
- Good balance of EEV across the operating segments.
- Good product diversification within value in-force.

IFRS Pre-tax Profit, excluding exceptional item, (unaudited)
£9.3m (six months ended 30 June 2011: £3.8m)

Executive summary

The IFRS results by business segment reflect the natural dynamics of each line of business. In summary the current financial model has 3 major components which can be characterised as: the “stable core”, the “variable element”, and the “growth operation”. The results and financial dynamics of each segment are analysed further as follows:

Stable Core

At the heart of surplus, and hence cash generation, is the CA Non-profit business which is in run off. The requirement of this book is to provide a predictable and stable platform for the financial model and dividend strategy. As a closed book, the key is to sustain this income source as effectively as possible. The IFRS results during the first half of 2012 very much support this objective, with product-based surpluses of £9.1m, continuing to emerge in a predictable fashion and at a level that compares well against the prior year equivalent of £8.6m.

Variable Element

The S&P with-profit book has introduced an element of IFRS earnings volatility, as the costs of policy guarantees are sensitive to movements in the valuation interest rate. Continued reductions in bond yields have resulted in a further £2.3m increase in the cost of guarantees during the period ended 30 June 2012. During the first half of 2011 the with-profit strain, arising from the cost of guarantees, was £5.1m. However, during the first half of 2012, investment income of £2.9m on shareholder assets in the with-profit fund was sufficient to compensate for the increased cost of guarantees, thereby generating a small positive with-profit result of £0.6m. Investment income was significantly lower during the 6 months ended 30 June 2011 and at £1m only partially offsets the cost of guarantees, resulting in a net with-profit strain of £4.2m. This resulted from a less favourable investment mix at that time, with a higher proportion of cash-based investments.

Growth Operation

Although, at its current scale, Movestic has posted a small IFRS profit, the long-term financial model is based on growth. Levels of new business are targeted to more than offset the impact of policy attrition, leading to a general increase in assets under management and, hence management fee income. The results for the 6 months ended 30 June 2012 show a small reduction in assets under management as a result of difficult new business markets, a short-term increase in policy attrition offset by the effect of a relatively benign equity market.

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

		Unaudited Six months ended 30 June		Year ended 31 Dec
		2012 £m	**2011 £m**	**2011 £m**
CA		7.5	9.8	25.7
S&P		5.1	(0.8)	7.5
Movestic		0.1	(0.6)	0.4
Chesnara		(1.0)	(1.7)	(5.5)
Adjustments arising on consolidation		(2.4)	(2.9)	(5.7)
Profit before tax & exceptional item		**9.3**	**3.8**	**22.4**
Exceptional item	Note 1	(4.8)	-	-
Profit before tax		**4.5**	**3.8**	**22.4**
Tax	Note 1	2.6	(0.6)	3.3
Profit after tax		**7.1**	**3.2**	**25.7**

The adjustments arising on consolidation are analysed below.

	Unaudited Six months ended 30 June		Year ended 31 Dec
	2012 £m	**2011 £m**	**2011 £m**
CA – Amortisation of AVIF	(1.6)	(1.8)	(3.6)
S&P – Amortisation of AVIF	(0.4)	(0.5)	(1.0)
Movestic – Amortisation of AVIF	(2.0)	(2.2)	(4.4)
Movestic – write back of DAC	1.6	1.6	3.3
Total Movestic	(0.4)	(0.6)	(1.1)
Total	**(2.4)**	**(2.9)**	**(5.7)**

Note 1 – As explained in Note 5 to the IFRS financial statements, an exceptional item of £4.8m relating to the reclassification of policyholder tax liabilities within S&P segment has been charged to IFRS profits. There is a corresponding deferred tax release to income tax of £4.8m included in the item above. The net of tax impact of these adjustments, which were made to align the treatment within the S&P segment with that within the CA segment is accordingly £nil.

CA

Despite continued run off of the CA in-force book and the ongoing volatility of investment market conditions during 2012, the CA pre-tax IFRS result has held up well. There are a number of complex aspects to the IFRS result but the primary drivers of the reduction in profit for the six monthly periods 2011 to 2012 are illustrated as follows:

IFRS Pre-tax profit	**£m**	*Note*
Six months ended 30 June 2011	**9.8**	
Product deductions	1.0	1
Exceptional expense reserve	2.0	2
Reserve changes	(2.1)	
Mis-match effect	(1.3)	
Investment returns	(0.7)	3
Renewal expenses	(0.5)	4
Other	(0.7)	
Six months ended 30 June 2012	**7.5**	

Note 1 - The improvement in product-based deductions is primarily due to an increase in mortality surplus, reflecting favourable mortality experience.

Note 2 - The 2011 result included the impact of setting up a £2m reserve to cover the estimated future impact of the revised HCL outsource contract.

Note 3 - Lower investment returns reflect lower yields on fixed interest investments.

Note 4 - The increase in renewal expenses reflects the proposed revised terms of the HCL outsource contract currently under renegotiation.

The key components of the 2012 IFRS result for the six months ended 30 June 2012 are summarised as follows:

IFRS Pre-tax profit	**£m**	*Note*
Product based deductions	13.5	*1*
Gains and interest on retained surplus	2.6	
Renewal expenses	(4.5)	
Mis-match effects	(1.8)	2
Reserve changes	(1.1)	3
Other	(1.2)	
	7.5	

Note 1 - Product-based deductions and returns on retained surplus remain significantly in excess of recurring renewal expenses.

Note 2 - Investment market movements during the period resulted in the movement in policyholder liabilities exceeding the movement in the underlying matching assets.

Note 3 - Statutory economic basis changes including inflation and unit growth assumptions have resulted in an increase in actuarial reserves.

S&P

S&P posted a pre-tax IFRS profit, excluding an exceptional item, of £5.1m for the six months period ended 30 June 2012. This represents a £5.9m improvement compared with the six months ended 30 June 2011, analysed as follows:

IFRS Pre-tax profit	**£m**	*Note*
Six months ended 30 June 2011	**(0.8)**	
Movement in with-profits result	4.8	1
Product-based deductions	0.7	
Other	0.4	
Six months ended 30 June 2012	**5.1**	

Note 1 – A with-profits fund strain for the six months ended 30 June 2012 of £2.3m has arisen due to the increased cost of guarantees, albeit this is at a significantly lower level than the strain of £5.1m arising in the corresponding period for 2011.

During both periods the cost of guarantees increased as reductions in bond yields led to a corresponding reduction in valuation interest rates. Further, during the 6 months ended 30 June 2011, the impact of valuation interest rate reductions was compounded by a shift in investment mix towards lower yielding cash-based holdings. During 2012 the level of investment return, driven predominantly by the increase in bond capital values, exceeded the increased cost of guarantees, leading to a small with-profits surplus.

The profit before tax (excluding the impact of an exceptional item) for the six months ended 30 June 2012 comprises:

IFRS Pre-tax profit	**£m**
Product based deductions	3.8
Net with-profits result	0.6
Other	0.7
	5.1

Movestic

The improvement in the **Pensions and Savings** result in comparison to the prior year equivalent is primarily due to a £0.5m increase in fund rebate income. This has been delivered despite a modest reduction in funds under management and reflects a general increase in average rebate rates.

The **Risk and Health** result has deteriorated marginally as compared to the first half of 2011. Earned premiums, net of reinsurance are down £0.3m (3%). Claims net of reinsurance remain constant period on period at £3.3m.

	Unaudited Six months ended 30 June		**Year ended 31 Dec**
	2012 £m	**2011 £m**	**2011 £m**
Pension & Savings	0.1	(0.7)	(1.5)
Risk & Health	0.3	0.7	2.4
Other	(0.3)	(0.6)	(0.5)
Total profit before tax	**0.1**	**(0.6)**	**0.4**
Tax	(0.1)	(0.3)	0.3
Total profit after tax	**-**	**(0.9)**	**0.7**

Cash Generation (unaudited)

£12.4m (six months ended 30 June 2011: £6.7m)

The Group's cash flows are generated principally from the interest earned on capital, the release of excess capital as the life funds run down, policyholder charges and management fees earned on assets under management. The Group's closed life funds provide predictable fund maturity and liability profiles, creating stable long-term cash flows for distribution to shareholders and for repayment of outstanding debt. Cash flow generation will naturally decline over time as the UK businesses run off.

Although investment returns are less predictable, a significant portion of the investment risk is borne by policyholders. However, the acquisition of S&P, while extending the longevity of cash generation within the Group, has introduced an element of volatility over shorter periods. This arises from the impact of investment market movements and the cost to shareholders of guarantees within the S&P with profits funds. Although the short-term measure of this cost follows the fortunes of investment markets, we proactively manage the risk taking a longer-term perspective.

The following identifies the source of internal net cash generation within the Group, representing the net change in funds available to service debt (interest and loan principal repayment) and equity (dividends):

Cash generated from / (utilised by):		**Unaudited Six months ended 30 June**		**Year ended 31 December**
		2012	**2011**	**2011**
		£m	**£m**	**£m**
CA	Surplus and profits arising in the period	5.6	7.9	21.8
	Change in target capital requirement	0.8	0.6	1.2
	Restriction on distribution	-	(0.6)	-
S&P	Surplus and profits arising in the period	4.8	(0.8)	9.1
	Change in target capital requirement	2.6	0.9	(11.7)
		13.8	8.0	20.4
Synergistic effects of Part VII transfer		-	-	12.4
Movestic	Additional capital contributions	-	-	(5.3)
Chesnara	Cash utilised by operations	(1.4)	(1.3)	(2.1)
		12.4	**6.7**	**25.4**

This information illustrates that net cash generation within the Group remains robust. Key aspects underpinning the outcome are:

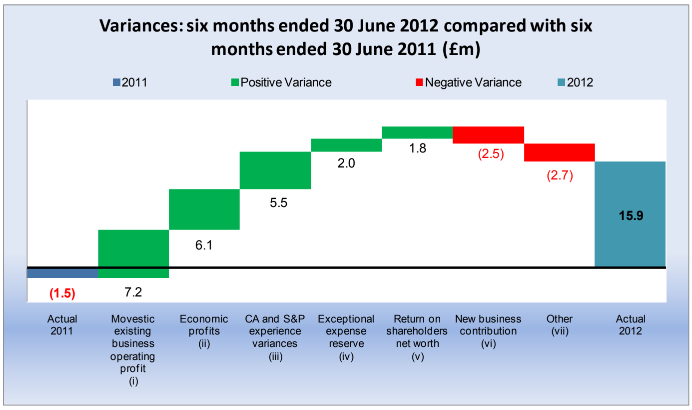
- Continuing strong emergence of surplus in CA.
- S&P surplus of £4.8m together with a reduction in the target capital requirement of £2.6m give rises to an S&P total cash generation of £7.4m. On a cumulative basis this adds to the significant beneficial effects realised in 2011 arising from the Part VII Transfer, reflected through significant solvency capital synergies.
- During the 6 months ended 30 June 2012 no Movestic capital contributions have been necessary.
- In addition to the above a further cash generation of £7m will arise during the second half of 2012, as a result of the de-authorisation of the S&P companies subsequent to the Part VII Transfer.

EEV Earnings Net of Tax excluding modelling adjustments (unaudited)
£15.9m (six months ended 30 June 2011: £(1.5)m loss)

EEV Result

Summary

The headline EEV result for six months ended 30 June 2012 has improved significantly compared to the result for the six months ended 30 June 2011. The following chart shows the major components of the year-on-year improvement in the EEV net-of-tax result.



The key year-on-year variances are analysed as follows:

i) The Movestic existing business operating result has improved by £7.2m. While persistency related losses increased by some £5m, as continued adverse experience variances resulted in a general strengthening in the long term assumptions in 2012, the 2012 result has benefited from some £10m of assumption changes, relating to broker and investment manager fee rebates.

ii) Investment market performance during the six months ended 30 June 2012 gave rise to economic profits in both S&P and Movestic, being £2.3m and £3.2m respectively, contributing to a total economic result of £6.2m. The total economic result for the six months ended 30 June 2011 was £0.1m.

iii) Experience variances improved by £2.5m in CA, principally due to favourable persistency and mortality experience and by £3.1m in S&P, principally due to favourable investment market effects.

iv) The CA result for the 6 months ended 30 June 2011 included a £2m exceptional item, reflected in operating assumption changes, relating to the setting up of a provision to cover the potential impact of changes to the HCL outsource contract charges.

v) An increase in interest and gains on S&P retained surplus accounts for the majority of the improvement in return on shareholder net worth.

vi) Operational and market pressures have led to a reduction in Movestic new business volumes and margins, resulting in a £2.5m reduction in profits from new business.

vii) 'Other' includes the effect on tax of the general increase in profits compared to 2011, which resulted in an increase in the tax charge of £2.5m.

The following tables analyse the Group EEV result by operating segment and by profit category:

Analysis of the EEV result in the period by business segment

	Unaudited Six months ended 30 June 2012 £m	Unaudited Six months ended 30 June 2011 £m	Year ended 31 Dec 2011 £m
CA	6.9	3.0	2.7
S&P	8.1	4.0	(22.0)
Movestic	5.8	(6.0)	(14.5)
Chesnara	(0.5)	(0.6)	(3.1)
Total pre-tax profit/(loss)	20.3	0.4	(36.9)
Tax	(4.4)	(1.9)	7.1
Profit/(loss) after tax	**15.9**	**(1.5)**	**(29.8)**

Analysis of the EEV result in the period by earnings type

	Unaudited Six months ended 30 June 2012 £m	Unaudited Six months ended 30 June 2011 £m	Year ended 31 Dec 2011 £m
New business contribution	(0.1)	2.4	3.5
Return from in-force business			
Expected return	3.1	5.1	10.2
Experience variances	2.7	(5.5)	0.1
Operating assumption changes	4.9	(2.9)	(2.6)
Return on shareholder net worth	3.6	1.8	4.1
Operating profit on covered business	14.2	0.9	15.3
Variation from longer term investments returns	7.0	(4.7)	(16.9)
Effect of economic assumption changes	(0.8)	4.8	(32.5)
Profit/(loss) on covered business before tax	20.4	1.0	(34.1)
Tax thereon	(4.3)	(1.6)	5.6
Profit/(loss) on covered business after tax	16.1	(0.6)	(28.5)
Uncovered business and other group activities	(0.1)	(0.6)	(2.8)
Tax on uncovered business	(0.1)	(0.3)	1.5
Profit/(loss) after tax	**15.9**	**(1.5)**	**(29.8)**

Economic result

As indicated above, the EEV result is sensitive to economic conditions. Economic experience and assumption variances contribute a profit in 2012 of £6.2m as compared to a profit in 2011 of £0.1m. During the first half of 2012 UK equity markets remained flat and gilt yields continued to decline: the Chesnara result is sensitive to both these factors (further sensitivity analysis is provided in EEV Supplementary Information, Note 7). The impact of these investment market effects on each operating segment is illustrated below:

	Unaudited Six months ended 30 June		Year ended 31 Dec
	2012	2011	2011
	£m	£m	£m
CA	0.7	0.2	(5.7)
S&P	2.3	3.4	(25.4)
Movestic	3.2	(3.5)	(18.3)
	6.2	**0.1**	**(49.4)**

The Movestic business is sensitive to the movement in equity markets due to its core income stream being dependent upon management charges deducted from equity funds under management. Swedish equity values improved by some 3% during the 6 months ended 30 June 2012.

The S&P result is sensitive to movements in valuation interest rates because the cost of guarantees on with-profit contracts increases when valuation interest rates decline, as they have during the 6 months ended 30 June 2012. The resulting increase in cost of guarantees of £2.3m is more than offset by economic experience variances, primarily associated with movements in bond capital values. During the 6 months ended 30 June 2011 a general shift in the yield curve resulted in a reduction in the cost of guarantees of £2.6m. The full year S&P economic loss for the year ended 31 December 2011 reflected a more significant reduction in the valuation interest rate, as bond yields fell sharply.

The CA result is less volatile.

New business contribution

The new business contribution relates primarily to the Movestic Pensions and Savings business. Movestic also writes Risk and Health business, but this is reported as uncovered business and hence does not contribute to the new business result. As referred to in the Swedish Business Review on page 15, the new business operation has suffered from both market and operational administration pressures, which have resulted in a marked decline in both new business volumes and margins. The reduction in acquisition margins combined with a broadly fixed cost base has resulted in a Movestic new business loss of £(0.3)m. It is anticipated that this will be temporary and that new business volumes will begin to recover as administration problems are resolved and new business markets recover.

Experience variances

The CA 2012 experience variance relates to policy persistency and mortality experience being £4.6m better than assumed.

The S&P 2012 experience variance arises principally from favourable investment market effects.

	Unaudited Six months ended 30 June		Year ended 31 Dec
	2012	2011	2011
	£m	£m	£m
CA	4.6	2.1	5.2
S&P	2.2	(0.9)	(0.2)
Movestic	(4.1)	(6.7)	(4.9)
	2.7	**(5.5)**	**0.1**

The Movestic experience variance for all the reporting periods is dominated by the impact of policy lapses being worse than assumed. This is anticipated to be a temporary issue, driven by short term administration service performance and general economic uncertainty. However, as at 30 June 2012 an element of the current adverse experience has been reflected in the Movestic long term lapse assumptions (see below).

Operating assumption changes

	Unaudited Six months ended 30 June		Year ended 31 Dec
	2012	2011	2011
	£m	£m	£m
CA	(0.2)	(2.1)	(2.4)
S&P	0.2	-	0.4
Movestic	4.9	(0.8)	(0.6)
	4.9	**(2.9)**	**(2.6)**

The CA 2011 figures include £(2.0)m relating to an increase in expense assumptions as a direct result of ongoing renegotiation of the HCL outsource arrangements during the year.

During the 6 months ended 30 June 2012 Movestic strengthened its persistency assumptions with an adverse EEV impact of some £5m. This is more than offset by positive assumption changes relating to broker and fund manager rebates totalling some £10m.

Uncovered business and other group activities

	Unaudited Six months ended 30 June		Year ended 31 Dec
	2012	2011	2011
	£m	£m	£m
Chesnara Parent	(0.5)	(0.6)	(3.1)
Movestic	0.4	-	0.3
	(0.1)	**(0.6)**	**(2.8)**

The result includes Chesnara parent company costs relating to corporate governance and business development, which, as such, are not attributable to the covered business results.

The Movestic result includes £0.3m of Risk and Health business profit which is not modelled as covered business.

European Embedded Value (EEV) as at 30 June 2012 (unaudited)
£296.3m (31 December 2011: £294.5m)

Movement in EEV

The following summarises the movement in EEV:

Statement of changes in equity	Unaudited 6 months ended June				Year ended 31 December	
		2012		2011		2011
	£m	£m	£m	£m	£m	£m
Shareholders' equity at beginning of the period		**294.5**		**354.6**		**354.6**
Profit/(loss) for the period before modelling adjustments	15.9		(1.5)		(29.8)	
Effect of modelling adjustments	-		(5.3)		(10.3)	
Profit/(loss) for the period		**15.9**		**(6.8)**		**(40.1)**
Foreign exchange reserve movement		(1.6)		4.5		(1.0)
Dividends paid		(12.5)		(12.2)		(19.0)
Shareholders' equity at end of the period		**296.3**		**340.1**		**294.5**

EEV at 30 June 2012 is stated before recognition of the interim dividend of £7.0m (30 June 2011: £6.8m; 31 December 2011: final dividend of £12.5m).

The profit/(loss) for the period before modelling adjustments is commented on in the preceding section.

The foreign exchange reserve movements arise from the impact of a 1.6% depreciation of the Swedish Krona against Sterling during the six months ended 30 June 2012, following its appreciation of 3.7% during the 6 months ended 30 June 2011 and its depreciation of 1% over the full year ended 31 December 2011.

Composition of EEV

The tables below show the composition of EEV by operating segment:

	Unaudited 30 June 2012				
	CA	S&P	Movestic	Other Group Activities	Total
	£000	£000	£000	£000	£000
Value of in-force business	48,291	24,003	130,804	-	203,098
Other net assets	49,880	24,573	(25,691)	44,426	93,188
	98,171	**48,576**	**105,113**	**44,426**	**296,286**
Represented by:					
Embedded value of regulated entities	98,171	84,144	103,834	-	286,149
Less: amount financed by borrowings	-	(35,568)	-	-	(35,568)
EEV of regulated entities attributable to shareholders	98,171	48,576	103,834	-	250,581
Net equity of other Group companies	-	-	1,279	44,426	45,705
EEV	**98,171**	**48,576**	**105,113**	**44,426**	**296,286**

	Unaudited 30 June 2011				
	CA	S&P	Movestic	Other Group Activities	Total
	£000	£000	£000	£000	£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 of regulated entities	126,383	106,794	112,457	-	345,634
Less: amount financed by borrowings	-	(39,387)	-	-	(39,387)
EEV 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
EEV	**126,383**	**67,407**	**113,848**	**32,506**	**340,144**

	31 December 2011				
	CA	S&P	Movestic	Other Group Activities	Total
	£000	£000	£000	£000	£000
Value of in-force business	50,941	20,816	127,803	-	199,560
Other net assets	66,156	41,763	(26,815)	13,825	94,929
	117,097	**62,579**	**100,988**	**13,825**	**294,489**
Represented by:					
Embedded value of regulated entities	117,097	98,065	99,656	-	314,818
Less: amount financed by borrowings	-	(35,486)	-	-	(35,486)
EEV of regulated entities attributable to shareholders	117,097	62,579	99,656	-	279,332
Net equity of other Group companies	-	-	1,332	13,825	15,157
EEV	**117,097**	**62,579**	**100,988**	**13,825**	**294,489**

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 2012	Number of policies				Value of in-force business			
	CA	S&P	Movestic	Total	CA	S&P	Movestic	Total
	000's	000's	000's	000's	£m	£m	£m	£m
Endowment	41	6	13	60	28.1	4.2	8.9	41.2
Protection	45	5	-	50	48.0	3.5	-	51.5
Annuities	6	1	-	7	(0.7)	0.9	-	0.2
Pensions	48	132	78	258	32.5	54.9	122.0	209.4
Other	4	13	-	17	3.0	3.8	-	6.8
Total at product level	**144**	**157**	**91**	**392**	**110.9**	**67.3**	**130.9**	**309.1**
Valuation adjustments:								
Holding company expenses					(14.4)	-	-	(14.4)
Other					(32.0)	(40.4)	-	(72.4)
Cost of capital/frictional costs					(1.3)	(2.9)	(0.1)	(4.3)
Value in-force pre-tax					**63.2**	**24.0**	**130.8**	**218.0**
Taxation					(14.9)	-	-	(14.9)
Value in-force post-tax					**48.3**	**24.0**	**130.8**	**203.1**

Unaudited 30 June 2011	Number of policies				Value of in-force business			
	CA	S&P	Movestic	Total	CA	S&P	Movestic	Total
	000's	000's	000's	000's	£m	£m	£m	£m
Endowment	47	7	15	69	31.8	7.9	12.8	52.5
Protection	51	6	-	57	46.9	2.0	-	48.9
Annuities	6	1	-	7	(0.2)	1.4	-	1.2
Pensions	46	139	76	261	30.4	69.1	134.9	234.4
Other	7	14	-	21	2.1	0.4	-	2.5
Total at product level	**157**	**167**	**91**	**415**	**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**

31 December 2011	Number of policies				Value of in-force business			
	CA	S&P	Movestic	Total	CA	S&P	Movestic	Total
	000's	000's	000's	000's	£m	£m	£m	£m
Endowment	44	6	14	64	29.7	4.3	9.7	43.7
Protection	48	6	-	54	46.2	3.9	-	50.1
Annuities	6	-	-	6	(0.8)	1.0	-	0.2
Pensions	49	136	77	262	30.7	52.4	118.2	201.3
Other	4	14	-	18	2.2	4.1	-	6.3
Total at product level	**151**	**162**	**91**	**404**	**108.0**	**65.7**	**127.9**	**301.6**
Valuation adjustments:								
Holding company expenses					(15.1)	-	-	(15.1)
Other					(27.8)	(41.7)	-	(69.5)
Cost of capital/frictional costs					(1.2)	(3.2)	(0.1)	(4.5)
Value in-force pre-tax					**63.9**	**20.8**	**127.8**	**212.5**
Taxation					(13.0)	-	-	(13.0)
Value in-force post-tax					**50.9**	**20.8**	**127.8**	**199.5**

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 flows.

'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.

As at 30 June 2012 and 31 December 2011, following the Part VII Transfer, taxation in the value in force is modelled on a combined CA and S&P basis and, in the analysis above, is attributed wholly to the CA segment. As at 30 June 2011 taxation in the value in-force was modelled for CA and S&P separately.

Financial Management

1. Regulatory Solvency Capital Resources and Requirements

General

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 on the full distribution of reserves from CA to Chesnara and, in Sweden, on distributions from the shareholder funds of Movestic to Chesnara.

Further, 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.

In respect of the UK Business, statutory regulations require:

i) a Pillar 1 calculation, which compares regulatory capital resource requirements, based on the characteristics of the in-force life business, with an associated measure of capital as prescribed by regulation;

ii) a Pillar 2 calculation which compares a risk-based assessment of required capital with an associated measure of capital resources, based on a realistic assessment of insurance liabilities (this is considered further under 'Individual Capital Assessments' below); and

iii) the amount of required regulatory solvency capital is then determined by the method which gives rise to the lower excess of regulatory capital over requirements.

Outcomes

For the whole of the periods presented below the Pillar 1 calculation for the UK Business, as described above, gave rise to the lower measure of excess capital. The statutory solvency position of the individual businesses may be summarised as:

	Unaudited 30 June				31 December	
	2012		2011		2011	
	Solvency ratio	Excess* Capital	Solvency ratio	Excess* Capital	Solvency ratio	Excess* Capital
	%	£m	%	£m	%	£m
CA (post proposed dividend to Chesnara)	213	36.7	254	22.4	183	23.0
S&P	115	0.9	269	43.3	115	0.9
Movestic	277	14.1	189	4.9	245	11.4
Group (Consolidated EU Insurance Groups Directive basis post proposed dividend to shareholders)	198	71.1	198	58.9	198	75.4

** see notes (ii), (iii) and (iv) below:*

(i) The positions as at 30 June 2012 and 31 December 2011 reflect the impact of the Part VII Transfer, as a result of which CA includes the transfer of all the long-term business funds and certain of the shareholder funds of S&P. The amounts reported as S&P as at 30 June 2012 and 31 December 2011 accordingly represent residual S&P shareholder funds which have been retained to cover the minimum EU regulatory capital resource requirements for regulated entities.

(ii) Excess capital for CA and Movestic is determined by minimum regulatory capital resource targets set by the respective boards: these aim to balance policyholder and shareholder interests. A higher target affords a greater degree of protection to policyholders, but constrains the level of cash generated and transferable by the UK Business which is in run-off and absorbed by Movestic which is in a development phase.

(iii) For the Group no target is set above the regulatory minimum solvency ratio of 100% of required capital resources, reliance being placed instead on the efficacy of targets set at subsidiary level. Excess capital stated above for the Group is, accordingly, the excess of regulatory capital resources over the minimum regulatory capital requirement.

(iv) The position at 30 June 2011 for CA and S&P reflects the pre-Part VII transfer status of the companies. As the Boards of the S&P companies had not established minimum target capital requirements at that time, excess capital is shown as the excess over the regulatory capital requirement rather than over a target requirement.

(v) The information provided in respect of CA and the Group illustrates:

- (a) robust protection for policyholders; and
- (b) a favourable position from which Chesnara, which relies on dividend distributions from CA, continues to service its loan commitments and to pursue a progressive dividend policy.

(vi) The information in respect of Movestic also illustrates robust policyholder protection and provides the context in which Chesnara makes further capital contributions as the business expands.

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 2011, based on the position as at 30 June 2011, as a result of which it was concluded that the effective capital requirement constraints on distributions to Chesnara were on the basis set out under ‘Outcomes’ above. This was confirmed by a subsequent investigation undertaken as at 31 December 2011, to allow for the impact of the Part VII Transfer of the business of S&P into CA.

Projections of the business indicate that the internal targets set against the ICA, and agreed with the FSA, may become the effective constraint on distributions from CA to Chesnara in the short to medium 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. 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.

2. Returns to Shareholders

The Board’s primary aim is to continue to provide a reliable and progressive dividend flow to shareholders within the context of the emergence of surplus in the UK businesses. Returns to shareholders are underpinned by the emergence of surpluses in, and transfer of surpluses from long-term insurance funds to shareholder funds and by the return on shareholder net assets representing shareholder net equity. These realisations are utilised in the first instance for the repayment and servicing of debt. The surpluses arise from the realisation of in-force value of UK businesses, which are in run-off. The return on shareholder net assets is determined by the Group’s investment policy. Shareholder funds bear central corporate governance costs which cannot be fairly attributed to the long-term insurance funds and which arise largely in connection with Chesnara’s obligations as a listed company.

During the period from March 2011 to mid-November 2011 the share price declined steadily from a high in the range of 255p to 260p per share to a low in the range of 160p to 165p per share. This fall was largely driven by the decline in global investment markets and followed the fortunes of the life insurance sector as a whole. From mid-November 2011 to mid-May 2012 the share price fluctuated within a range of 165p to 193p per share and this did not reflect the upturn in the life insurance sector as a whole. Based on total dividends for 2011 of 16.85p per share this implied a yield of between 8.7% and 10.2%, with the shares trading at a discount of between 29% and 39% to EEV of £312.7m as at 31 March 2012.

Between mid-May and mid-August 2012 the share price has fluctuated within a range of 162p to 185p per share, while the life insurance sector has improved by a further 11% over this period, in spite of continuing volatility in global investment markets. This implies a yield of between 9.1% and 10.4%, with the shares trading at a discount of between 28% and 37% to EEV of £296.3m as at 30 June 2012.

3. Returns to Policyholders

Key aspects of policyholder fund performance in respect of the UK Business are set out on page 13 and in respect of the Swedish Business on page 16.

4. Liquidity

The current profile and mix of investment asset holdings between fixed-interest securities and cash deposits is such that realisations to meet obligations to third parties and to support dividend distributions can be made in an orderly and efficient way.

5. Going Concern

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. The ongoing ability of the Group to continue trading and to meet its obligations as they fall due is determined by the underlying solvency position of the UK life businesses which are in run-off and their ongoing ability to generate surpluses which support cash transfers to shareholders' funds.

The information set out in `Regulatory solvency capital resources and requirements' above indicates a strong solvency position as at 30 June 2012 as measured at both the individual regulated life company levels in both the UK and Sweden and at the Group level. In addition, in respect of CA and S&P continuing financial condition reports, which include sensitivity analysis, and reverse stress testing assessments indicate that the CA and S&P businesses are able to withstand the impact of adverse scenarios, including the effect of significant investment market falls, while the businesses' outsourcing arrangements protect them from significant expense overruns.

Notwithstanding that the Group is well capitalised, the current financial and economic environment continues to present specific threats to its short-term cash flow position and it is appropriate to assess other relevant factors. In the first instance, the Group does not rely on the renewal or extension of bank facilities to continue trading. It does, however, rely on cash flow from the maturity or sale of fixed interest securities which match certain obligations to policyholders: in the current economic environment there remains a continuing higher risk of bond default, particularly in respect of financial institutions. In order to manage this risk we continue to ensure that our bond portfolio is actively monitored and well diversified. Other significant counterparty default risk relates to our principal reassurers. We monitor their financial position and are satisfied that any associated credit default risk is low. It is noteworthy that we continue to have negligible direct exposure to Euro-denominated sovereign debt.

Our expectation is that, notwithstanding the risks set out above, the Group will continue to generate surplus in its UK long-term businesses sufficient to meet its debt obligations as they fall due, to continue to pursue a reliable and progressive dividend policy and to meet the short-term financing requirements of Movestic, which is expected to become cash-generative within one to two years.

6. 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.

Risk Management

Risk management processes

Overlaying all the day-to-day and development activity we undertake is a focused risk management culture and regime.

In both the UK and Swedish businesses we maintain processes for identifying, evaluating and managing the significant risks faced by the Group, which are regularly reviewed by the Group Audit & Risk Committee. Our risk processes have regard to the significance of risks, the likelihood of their occurrence and take account of existing controls and the cost of mitigating them. The processes are designed to manage rather than eliminate risk and, as such, provide reasonable, but not absolute, assurance against loss.

At the subsidiary level in the UK businesses we maintain, in accordance with the regulatory requirements of the FSA, a risk and responsibility regime. Accordingly, the identification, assessment and control of risk are firmly embedded within the organisation and the procedures for the monitoring and updating of risk are robust. As part of this we established a Risk Committee in CA, which comprises solely of Non-executive Directors. This committee receives quarterly updates of the key risk registers, as maintained by the senior management, for review and challenge. The committee reports directly to the CA Board which also reviews reports from the compliance and internal audit functions. The Risk Committee reports are also reviewed by the Chesnara Audit & Risk Committee on a quarterly basis. The key risk registers have been designed to complement the production of Individual Capital Assessments, which we are required to submit to the FSA on request and maintain on an ongoing basis. We categorise all risks against the following relevant categories – insurance, market, credit, liquidity, operational and group – and identify potential exposures and the necessary capital requirements accordingly.

In the Swedish business, at the subsidiary Movestic Liv level, there is full compliance with the regulatory requirement in that its Board and Managing Director have responsibility for ensuring that the management of the organisation is characterised by sound internal control, which is responsive to internal and external risks and changes in them. The Board has responsibility for ensuring that there is an internal control risk function, which is charged with (i) ensuring that there is information which provides a comprehensive and objective representation of the risks within the organisation and (ii) proposing changes in processes and documentation regarding risk management. These obligations are evidenced by regular compliance, internal audit, general risk and financial risk reports to the Movestic Liv Board. The latter is supplemented by quarterly returns to the Swedish regulator, Finansinspektionen, which set out estimated capital requirements in respect of insurance, market, credit, liquidity, currency and operational risks.

Risk management processes are enhanced by stress and scenario testing, which evaluates the impact on the Group of certain adverse events occurring separately or in combination. There is a strong correlation between these adverse events and the risks identified in ‘principal risks and uncertainties’ below. The outcome of this testing provides context against which the Group can assess whether any changes to its risk management processes are required.

Group and subsidiary auditors regularly report to management on identified control weaknesses together with suggested improvements.

In accordance with the need to comply with the requirements of Solvency II on an EU-wide basis, we are currently reviewing and upgrading our risk management processes, so that Group-wide they will be enhanced in a uniform and consistent manner, embracing:

- articulation of risk appetite statements, following from documented strategic objectives;
- formulation and monitoring of associated risk metrics;
- risk identification and assessment;
- calculation of risk-based capital; and
- the embedding of risk management processes so that they are at the forefront of, and underpin, strategic and operating decisions.

These developments continued in 2012 and are planned to be completed during 2013.

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 the specific insurance and financial risks which are set out in Notes 5 and 6 to the IFRS financial statements in respect of the year ended 31 December 2011. The analysis below includes a re-presentation of the more significant risks identified therein.

Principal risks and uncertainties

Risk	Impact	Control
Adverse mortality /morbidity /longevity experience	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.	▪ Effective underwriting techniques and reinsurance programmes. ▪ Option on certain contracts to vary premium rates in the light of actual experience. ▪ Partial risk diversification in that the Group has a portfolio of annuity contracts where the benefits cease on death.
Adverse persistency experience	Persistency rates significantly lower than those assumed will lead to reduced Group profitability in the medium to long term.	▪ In closed life and pensions books, persistency rates tend to improve over time due to policyholder/investor inertia. ▪ Active investment management to ensure competitive policyholder investment funds. ▪ Outsourcer service levels ensure strong customer service standards. ▪ Proactive customer retention processes.
Expense overruns and unsustainable unit cost growth	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 with charging structures such that the cost is sensitive to book run off to the fullest extent possible. ▪ The Swedish operations assume growth through new business such that the general unit cost trend is positive. ▪ For both the UK and Swedish businesses, the Group maintains a strict regime of budgetary control.
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.	▪ Individual fund mandates may give rise to a degree of diversification of risk and within those funds, hedging techniques are used where appropriate. ▪ Investment management costs fall in line with market falls and hence cost savings partially hedge the impact on income. ▪ There is a wide range of investment funds and managers so that there is no significant concentration of risk.
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.	▪ The Group maintains rigorous matching programmes to ensure that exposure to mismatching is minimised. ▪ Active investment management such that, where appropriate, asset mixes will be changed to mitigate the potential adverse impact on declines in bond yields.
Adverse sterling: Swedish Krona exchange rate movements	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	▪ The Group monitors exchange rate movements and the cost of hedging the currency risk on cash flows when appropriate.

	in sterling.	

Principal risks and uncertainties continued

Risk	Impact	Control
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.	▪ 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 Limited ('Guardian'), the Group has a floating charge over the reinsurer's related investment assets, which ranks the Group equally with Guardian's policyholders.
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.	▪ Rigorous service level measures and management information flows under its contractual arrangements. ▪ Continuing and close oversight of the performance of both service providers. ▪ The supplier relationship management approach is conducive to ensuring the outsource arrangements deliver obligations. ▪ 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. ▪ The Group maintains succession plans and remuneration structures which comprise a retention element. ▪ The Group complements its internal expertise with established relationships with external specialist partners.
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; and (ii) the implementation of Solvency II requirements.	Tax specialist advice is taken regarding the review of the changes in the tax regime. Initial indications are that the financial impact is not material. The current opinion is that the implementation of Solvency II will strengthen the long-term risk management environment of Chesnara (as is its intention). The Solvency II programme is covered in more detail on the following page. The key risks are mitigated as follows: ▪ Proposed appointment of external specialist Quality Assurance partner; ▪ Dedicated internal team; and ▪ Robust programme governance framework.

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 misspelling 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 2011.

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 2012, and none is expected to arise over the remainder of 2012.

Focus On Solvency II

Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry. It aims to establish a revised set of EU-wide capital requirements and risk management standards that will replace the current solvency requirements. Solvency II's primary objective is to strengthen policyholder protection by aligning capital requirements more closely with the risk profile of the company. The regime has a three pillar structure, with each pillar governing a different aspect of the Solvency II requirements and approach. As well as requiring firms to disclose their capital and risk frameworks, the Directive also asks firms to demonstrate how and where the requirements are embedded in their wider activities. Implementation is currently scheduled for 1 January 2014.

Chesnara's Approach

Pillar 1

Pillar 1 considers the quantitative requirements of the system, including the calculation of technical provisions and the rules relating to the calculation of the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR). Under Solvency II there are two prescribed methods for assessing an insurer's SCR; either a Standard Formula set by the regulator or an Internal Model specific to that insurer and which is subject to regulatory approval. Chesnara has opted for the Standard Formula approach for both CA and Movestic on the grounds that it is a good fit and appropriate for its businesses at the current time. However, we will continue to monitor our position on the choice of approach as our businesses evolve.

Pillar 2

Pillar 2 deals with two main areas: firstly, that our businesses have in place effective strategies and controls to assess and manage the risks to which they are exposed and to assess and maintain their solvency capital based on their own risk profiles and, secondly, that their strategies, controls and assessment of their solvency capital are subject to supervisory review. This pillar requires us to produce either, an Own Risk and Solvency Assessment (ORSA) for each subsidiary and one for the Group or a single Group-wide ORSA. We will be producing an ORSA for each subsidiary and the Group ORSA. Each ORSA is subject to review and scrutiny by the relevant regulator who will have the power to impose a higher capital requirement should it find any inadequacies in the approach to calculating the SCR or in the risk and governance controls in operation.

Pillar 3

Pillar 3 seeks to enhance market discipline on regulated firms by requiring them to disclose publicly key information that is relevant to market participants. As such, in choosing which information should be selected for disclosure under Pillar 3, supervisors will be guided by the actual needs of market participants rather than by their own information needs. The key reporting requirements are a Solvency & Financial Condition Report (SFCR) and a Regular Supervisory Report (RSR). The SFCR is for public disclosure and will follow a prescribed format. The RSR is not public and is only communicated to the relevant supervisor and, again, will largely follow a prescriptive format.

Progress Update

For Pillar 1, work to develop the models underpinning the Standard Formula calculations is progressing and our target date for completing and reviewing the outputs from the initial dry run of the models, at an individual business level, remains as Q1 2013 with the consolidated Group dry run scheduled for May 2013. Further runs will be completed during 2013 leading up to the current go-live date of 1 January 2014.

For Pillar 2, risk appetites have been defined for the respective businesses as have the risk types relevant to the business. Work continues to define the risk tolerances applying to each of our risk types with a view to then aligning all of these aspects with the underlying processes for risk identification, mitigation and management. From this work we will develop both our approach to the ORSA and to our assessment of capital requirements using our own risk profile. Our target to complete this work by mid-2013 remains unchanged. Work is progressing to plan on drafting the various policies required under Solvency II and these remain on target for completion by the end of 2012.

For Pillar 3, work is under way defining the data requirements for the Quantitative Reporting Templates, SFCR and RSR and we still anticipate being in a position to carry out a dry run to produce these reports in the latter half of 2013.

IFRS FINANCIAL STATEMENTS

IN THIS SECTION

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

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';
- 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
- 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	**Graham Kettleborough**
Chairman	Chief Executive Officer
30 August 2012	30 August 2012

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

We have been engaged by the Company to review the condensed set of financial statements in the half-year financial report for the six months ended 30 June 2012 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 7. We have read the other information contained in the half-year 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 2012 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 2012

Condensed Consolidated Statement of Comprehensive Income for the six months ended 30 June 2012

	Note	Unaudited Six months ended 30 June 2012 £000	Unaudited Six months ended 30 June 2011 £000	Year ended 31 December 2011 £000
Insurance premium revenue		59,071	62,880	121,976
Insurance premium ceded to reinsurers		(17,740)	(17,562)	(34,970)
Net insurance premium revenue		**41,331**	**45,318**	**87,006**
Fee and commission income		33,539	34,840	67,863
Net investment return		115,767	9,876	(192,402)
Total revenue net of reinsurance payable		**190,637**	**90,034**	**(37,533)**
Other operating income		11,178	11,763	21,782
Total income net of investment return		**201,815**	**101,797**	**(15,751)**
Insurance contract claims and benefits incurred				
Claims and benefits paid to insurance contract holders		(129,138)	(140,796)	(267,691)
Net decrease in insurance contract provisions		2,312	56,452	204,864
Reinsurers' share of claims and benefits		19,792	13,277	17,401
Net insurance contract claims and benefits		(107,034)	(71,067)	(45,426)
Change in investment contract liabilities		(48,005)	13,584	164,166
Reinsurers' share of investment contract liabilities		1,102	326	(1,500)
Net change in investment contract liabilities		(46,903)	13,910	162,666
Fees, commission and other acquisition costs		(8,821)	(8,855)	(17,276)
Administrative expenses		(18,209)	(17,722)	(38,798)
Other operating expenses				
Charge for amortisation of acquired value of in-force business		(4,190)	(4,554)	(9,032)
Charge for amortisation of acquired value of customer relationships		(194)	(383)	(758)
Other		(5,132)	(6,983)	(9,664)
Total expenses net of change in insurance contract provisions and investment contract liabilities		**(190,483)**	**(95,654)**	**41,712**
Total income less expenses		**11,332**	**6,143**	**25,961**
Share of profit/(loss) of associate		207	293	(152)
Exceptional item	**5**	(4,778)	-	-
Operating profit		**6,761**	**6,436**	**25,809**
Financing costs		(2,281)	(2,626)	(3,388)
Profit before income taxes	**4**	**4,480**	**3,810**	**22,421**
Income tax (expense)/credit				
Before exceptional item		(2,152)	(603)	3,244
Exceptional item	**5**	4,778	-	-
After exceptional item		2,626	(603)	3,244
Profit for the period	**3,4**	**7,106**	**3,207**	**25,665**
Foreign exchange translation differences arising on the revaluation of foreign operations		(873)	1,972	(738)
Total comprehensive income for the period		**6,233**	**5,179**	**24,927**
Basic earnings per share (based on profit for the period)	**2**	6.19p	2.79p	22.35p
Diluted earnings per share (based on profit for the period)	**2**	6.19p	2.79p	22.35p

Condensed Consolidated Balance Sheet at 30 June 2012

		Unaudited 30 June		31 December
	Note	2012 £000	2011 £000	2011 £000
Assets				
Intangible assets				
Deferred acquisition costs		21,365	17,651	19,720
Acquired value of in-force business		78,245	90,892	83,346
Acquired value of customer relationships		2,026	2,761	2,255
Software assets		5,897	7,405	6,744
Property and equipment		256	513	385
Investment in associates		1,793	2,150	1,613
Investment properties		129,902	125,684	132,128
Reinsurers' share of insurance contract provisions		267,274	277,482	263,792
Amounts deposited with reinsurers		29,075	30,058	28,031
Financial assets				
Equity securities at fair value through income		377,093	460,834	404,431
Holdings in collective investment schemes at fair value through income		2,945,330	3,153,838	2,917,935
Debt securities at fair value through income		319,604	319,406	330,610
Policyholders' funds held by the Group		47,628	57,899	49,080
Insurance and other receivables		42,771	119,506	30,799
Prepayments		3,619	4,197	3,234
Derivative financial instruments		6,891	7,022	10,308
Total financial assets		3,742,936	4,122,702	3,746,397
Reinsurers' share of accrued policyholder claims		4,115	4,685	4,667
Income taxes		3,662	5,096	6,956
Cash and cash equivalents		211,156	168,820	195,920
Total assets	**4**	**4,497,702**	**4,855,899**	**4,491,954**
Liabilities				
Bank overdrafts		1,599	1,729	834
Insurance contract provisions		2,179,788	2,346,571	2,184,685
Unallocated divisible surplus		5,904	-	6,254
Financial liabilities				
Investment contracts at fair value through income		1,899,876	2,055,139	1,876,463
Liabilities relating to policyholders' funds held by the Group		47,628	57,899	49,080
Borrowings	6	54,344	61,293	54,753
Derivative financial instruments		26	1,103	144
Total financial liabilities		2,001,874	2,175,434	1,980,440
Provisions		2,688	1,480	2,811
Deferred tax liabilities		10,459	17,994	15,390
Reinsurance payables		17,659	16,455	16,336
Payables related to direct insurance and investment contracts		43,099	39,887	40,651
Deferred income		9,451	11,013	10,000
Income taxes		5,274	7,202	947
Other payables		17,004	41,860	24,417
Total liabilities	**4**	**4,294,799**	**4,659,625**	**4,282,765**
Net assets		**202,903**	**196,274**	**209,189**
Shareholders' equity				
Share capital		42,024	42,024	42,024
Share premium		42,523	42,523	42,523
Treasury shares		(217)	(217)	(217)
Other reserves		6,105	9,688	6,978
Retained earnings	3	112,468	102,256	117,881
Total shareholders' equity		**202,903**	**196,274**	**209,189**

Condensed Consolidated Statement of Cash Flows for the six month ended 30 June 2012

	Unaudited Six months ended 30 June		Year ended 31 December
	2012	**2011**	**2011**
	£000	**£000**	**£000**
Profit for the year	7,106	3,207	25,665
Adjustments for:			
Depreciation of property and equipment	103	110	219
Amortisation of deferred acquisition costs	3,845	3,618	7,339
Amortisation of acquired value of in-force business	4,190	4,554	9,032
Amortisation of acquired value of customer relationships	194	383	758
Amortisation of software assets	1,072	910	1,968
Tax (recovery) / expense	(2,626)	603	(3,244)
Interest receivable	(12,335)	(14,378)	(28,632)
Dividends receivable	(26,898)	(21,915)	(40,261)
Interest expense	2,281	2,626	3,388
Change in fair value of investment properties	(389)	(2,088)	(4,233)
Fair value (gains)/losses on financial assets	(69,941)	24,688	272,517
Loss on sale of property and equipment	2	50	-
Share of (profit)/loss of associate net of impairment	(207)	(293)	152
Interest received	13,270	13,837	27,874
Dividends received	27,286	12,832	40,350
Increase in intangible assets related to insurance and investment contracts	(5,717)	(6,253)	(12,642)
Changes in operating assets and liabilities			
Decrease in financial assets	68,792	74,752	44,697
(Increase)/decrease in reinsurers share of insurance contract provisions	(3,621)	3,950	15,442
(Increase)/decrease in amounts deposited with reinsurers	(1,044)	206	2,233
(Increase)/decrease in insurance and other receivables	(13,489)	(75,453)	2,967
(Increase)/decrease in prepayments	(413)	(198)	659
Decrease in assets held for sale	-	388	380
Decrease in liabilities held for sale	-	(388)	(380)
Decrease in insurance contract provisions	(4,225)	(60,042)	(212,424)
Increase/(decrease) in investment contract liabilities	41,442	7,415	(115,100)
(Decrease)/increase in provisions	(123)	(342)	989
Increase/(decrease) in reinsurance payables	1,555	(6,536)	(5,859)
Increase in payables related to direct insurance and investment contracts	2,587	3,844	4,981
(Decrease)/increase in other payables	(2,652)	24,392	5,719
Cash generated from/(utilised by) operations	**30,045**	**(5,521)**	**44,554**
Income tax received/(paid)	47	(2,125)	(9,119)
Net cash generated from / (utilised by) operating activities	**30,092**	**(7,646)**	**35,435**
Cash flows from investing activities			
Development of software	(330)	(1,217)	(1,968)
Disposals of property and equipment	19	18	63
Net cash utilised by investing activities	**(311)**	**(1,199)**	**(1,905)**
Cash flows from financing activities			
Proceeds from/(repayment of) borrowings	23	(2,149)	(7,510)
Dividends paid	(12,519)	(12,174)	(19,007)
Interest paid	(2,425)	(2,648)	(3,625)
Net cash utilised by financing activities	**(14,921)**	**(16,971)**	**(30,142)**
Net increase/(decrease) in cash and cash equivalents	**14,860**	**(25,816)**	**3,388**
Cash and cash equivalents at beginning of period	195,086	191,980	191,980
Effect of exchange rate changes on cash and cash equivalents	(389)	927	(282)
Cash and cash equivalents at end of the period	**209,557**	**167,091**	**195,086**

Condensed Consolidated Statement of Changes in Equity for the six months ended 30 June 2012

	Unaudited six months ended 30 June 2012					
	Share capital £000	**Share premium £000**	**Other reserves £000**	**Treasury shares £000**	**Retained earnings £000**	**Total £000**
Equity shareholders' funds at 1 January 2012	**42,024**	**42,523**	**6,978**	**(217)**	**117,881**	**209,189**
Profit for the period representing total recognised income and expenses	-	-	-	-	7,106	7,106
Dividends paid	-	-	-	-	(12,519)	(12,519)
Foreign exchange translation reserve	-	-	(873)	-	-	(873)
Equity shareholders' funds at 30 June 2012	**42,024**	**42,523**	**6,105**	**(217)**	**112,468**	**202,903**

	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 representing total recognised income and expenses	-	-	-	-	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**

	Year ended 31 December 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 year representing total recognised income and expenses	-	-	-	-	25,665	25,665
Dividends paid	-	-	-	-	(19,007)	(19,007)
Foreign exchange translation reserve	-	-	(738)	-	-	(738)
Equity shareholders' funds at 31 December 2011	**42,024**	**42,523**	**6,978**	**(217)**	**117,881**	**209,189**

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 which were applied in the preparation of the Group's published consolidated financial statements for the year ended 31 December 2011 except for the application of the following additional accounting policy, which was not applicable for reporting periods up to and including 31 December 2011:

Exceptional items

Exceptional items are those which are separately identified by virtue of their size or incidence to allow a full understanding of the underlying performance of the Group.

The Group's published consolidated financial statements for the year ended 31 December 2011 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 2011.

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 2011 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
	2012	**2011**	**2011**
Profit for the period (£000)	7,106	3,207	25,665
Weighted average number of ordinary shares	114,848,651	114,848,651	114,848,651
Basic earnings per share	6.19p	2.79p	22.35p
Diluted earnings per share	6.19p	2.79p	22.35p

The weighted average number of ordinary shares in respect of the six months ended 30 June 2012, the six months ended 30 June 2011 and the year ended 31 December 2011 is based upon 115,047,662 shares in issue at the beginning and end of the periods, less 199,011 own shares held in treasury at the beginning and end of the periods.

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

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

3 Retained earnings

	Unaudited Six months ended 30 June		Year ended 31 December
	2012	2011	2011
	£000	£000	£000
Balance at 1 January	**117,881**	**111,223**	**111,223**
Profit for period	7,106	3,207	25,665
Dividends			
Final approved and paid for 2010	-	(12,174)	(12,174)
Interim approved and paid for 2011	-	-	(6,833)
Final approved and paid for 2011	(12,519)	-	-
Balance at 30 June / 31 December	**112,468**	**102,256**	**117,881**

The interim dividend in respect of 2011, approved and paid in 2011, was paid at the rate of 5.95p per share.

The final dividend in respect of 2011, approved and paid in 2012, was paid at the rate of 10.90p per share so that the total dividend paid to the equity shareholders of the parent company in respect of the year ended 31 December 2011 was made at the rate of 16.85p per share.

An interim dividend of 6.10p per share in respect of the year ending 31 December 2012, payable on 15 October 2012 to equity shareholders of the parent company registered at the close of business on 14 September 2012, the dividend record date, was approved by the Directors after 30 June 2012. The resulting interim dividend of £7.0m has not been provided in these financial statements.

The following summarises dividends per share in respect of the year ended 31 December 2011 and 31 December 2012:

	2012 p	2011 p
Interim dividend	6.10	5.95
Final dividend		10.90
Total		**16.85**

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 2012 comprise:

CA

This segment is part of the Group's UK life insurance and pensions run-off portfolio and comprises the original business of Countrywide Assured plc, the Group's principal UK operating subsidiary, and of City of Westminster Assurance Company Limited which was acquired in 2005 and the long-term business of which was transferred to Countrywide Assured plc during 2006. It is responsible for conducting unit-linked and non-linked business.

S&P

This segment, which was acquired on 20 December 2010, is the balance of the Group's UK life insurance and pensions run-off portfolio and comprises the business of Save & Prosper Insurance Limited and its subsidiary Save & Prosper Pensions Limited. It is responsible for conducting both unit-linked and non-linked business, including a with-profits portfolio, which carries significant additional market risk. On 31 December 2011 the whole of the business of this segment was transferred to Countrywide Assured plc under the provisions of Part VII of the Financial Services and Markets Act 2000.

Movestic

This segment comprises the Group's Swedish life and pensions business, Movestic Livförsäkring AB (`Movestic') and its subsidiary and associated companies, which are open to new business and which are responsible for conducting both unit-linked and non-linked business.

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

4 Operating segments (continued)

Other Group Activities

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

There were no changes to the basis of segmentation during the six months ended 30 June 2012.

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 2012 or the year ended 31 December 2011.

(i) Segmental income statement for the six months ended 30 June 2012

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Insurance premium revenue	34,649	5,046	19,376	-	59,071
Insurance premium ceded to reinsurers	(6,321)	(119)	(11,300)	-	(17,740)
Net insurance premium revenue	**28,328**	**4,927**	**8,076**	**-**	**41,331**
Fee and commission income	17,966	1,393	14,180	-	33,539
Net investment return	47,711	41,192	26,739	125	115,767
Total revenue (net of reinsurance payable)	**94,005**	**47,512**	**48,995**	**125**	**190,637**
Other operating income	1,271	5,544	4,362	1	11,178
Segmental income	**95,276**	**53,056**	**53,357**	**126**	**201,815**
Insurance contract claims and benefits incurred					
Claims and benefits paid to insurance contract holders	(73,524)	(48,321)	(7,293)	-	(129,138)
Net (increase)/decrease in insurance contract provisions	(3,875)	9,452	(3,265)	-	2,312
Reinsurers' share of claims and benefits	12,759	(3)	7,036	-	19,792
Net insurance contract claims and benefits incurred	(64,640)	(38,872)	(3,522)	-	(107,034)
Change in investment contract liabilities	(19,215)	(2,498)	(26,292)	-	(48,005)
Reinsurers' share of investment contract liabilities	1,102	-	-	-	1,102
Net change in investment contract liabilities	(18,113)	(2,498)	(26,292)	-	(46,903)
Fees, commission and other acquisition costs	(472)	(30)	(8,319)		(8,821)
Administrative expenses	(4,266)	(5,917)	(7,441)	(585)	(18,209)
Other operating expenses					
Charge for amortisation of acquired value of in-force business	(1,717)	(426)	(2,047)	-	(4,190)
Charge for amortisation of acquired value of customer relationships	-	-	(194)	-	(194)
Other	(222)	(659)	(4,362)	111	(5,132)
Segmental expenses	**(89,430)**	**(48,402)**	**(52,177)**	**(474)**	**(190,483)**
Segmental income less expenses	**5,846**	**4,654**	**1,180**	**(348)**	**11,332**
Share of profit from associates	-	-	207	-	207
Exceptional item	-	(4,778)	-	-	(4,778)
Segmental operating profit/(loss)	**5,846**	**(124)**	**1,387**	**(348)**	**6,761**
Financing costs	-	(1)	(1,661)	(619)	(2,281)
Profit/(loss) before tax	**5,846**	**(125)**	**(274)**	**(967)**	**4,480**
Income tax (expense)/credit					
Before exceptional item	(1,584)	(491)	(77)	-	(2,152)
Exceptional item	-	4,778	-	-	4,778
After exceptional item	(1,584)	4,287	(77)	-	2,626
Profit/(loss) after tax	**4,262**	**4,162**	**(351)**	**(967)**	**7,106**

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

4 Operating segments (continued)

(ii) Segmental income statement for the six months 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
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)
Profit/(loss) after tax	**6,881**	**(438)**	**(1,500)**	**(1,736)**	**3,207**

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

4 Operating segments (continued)

(iii) Segmental income statement for the year ended 31 December 2011

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Insurance premium revenue	72,892	10,699	38,385	-	121,976
Insurance premium ceded to reinsurers	(13,331)	(259)	(21,380)	-	(34,970)
Net insurance premium revenue	**59,561**	**10,440**	**17,005**	**-**	**87,006**
Fee and commission income	37,675	2,768	27,420	-	67,863
Net investment return	(19,009)	(21,685)	(151,938)	230	(192,402)
Total revenue (net of reinsurance payable)	**78,227**	**(8,477)**	**(107,513)**	**230**	**(37,533)**
Other operating income	3,584	11,702	6,446	50	21,782
Segmental income	**81,811**	**3,225**	**(101,067)**	**280**	**(15,751)**
Insurance contract claims and benefits incurred					
Claims and benefits paid to insurance contract holders	(148,964)	(102,901)	(15,826)	-	(267,691)
Net decrease/(increase) in insurance contract provisions	83,323	122,009	(468)	-	204,864
Reinsurers' share of claims and benefits	8,660	(1,045)	9,786	-	17,401
Net insurance contract claims and benefits incurred	(56,981)	18,063	(6,508)	-	(45,426)
Change in investment contract liabilities	13,231	(963)	151,898	-	164,166
Reinsurers' share of investment contract liabilities	(1,500)	-	-	-	(1,500)
Net change in investment contract liabilities	11,731	(963)	151,898	-	162,666
Fees, commission and other acquisition costs	(1,293)	(63)	(15,920)	-	(17,276)
Administrative expenses	(8,734)	(11,687)	(15,342)	(3,035)	(38,798)
Other operating expenses					
Charge for amortisation of acquired value of in-force business	(3,640)	(964)	(4,428)	-	(9,032)
Charge for amortisation of acquired value of customer relationships	-	-	(758)	-	(758)
Other	(729)	(1,087)	(6,457)	(1,391)	(9,664)
Segmental expenses	**(59,646)**	**3,299**	**102,485**	**(4,426)**	**41,712**
Segmental income less expenses	**22,165**	**6,524**	**1,418**	**(4,146)**	**25,961**
Share of profit from associates	-	-	(152)	-	(152)
Segmental operating profit/(loss)	**22,165**	**6,524**	**1,266**	**(4,146)**	**25,809**
Financing costs	-	(12)	(1,957)	(1,419)	(3,388)
Profit/(loss) before tax	**22,165**	**6,512**	**(691)**	**(5,565)**	**22,421**
Income tax (expense)/credit	(1,307)	3,079	275	1,197	3,244
Profit/(loss) after tax	**20,858**	**9,591**	**(416)**	**(4,368)**	**25,665**

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

4 Operating segments (continued)

(iv) Segmental balance sheet as at 30 June 2012

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Intangible assets	21,171	7,665	78,697	-	107,533
Property and equipment	46	-	210	-	256
Investment in associates	-	-	1,793	-	1,793
Reinsurers' share of insurance contract provisions	216,609	5,844	44,821	-	267,274
Amounts deposited with reinsurers	29,075	-	-	-	29,075
Investment properties	648	129,254	-	-	129,902
Financial assets	1,367,193	1,118,089	1,256,999	655	3,742,936
Reinsurers' share of accrued policyholder claims	4,051	64	-	-	4,115
Income tax	-	2,465	-	1,197	3,662
Cash and cash equivalents	126,132	13,728	26,085	45,211	211,156
Total assets	**1,764,925**	**1,277,109**	**1,408,605**	**47,063**	**4,497,702**
Bank overdrafts	1,408	188	-	3	1,599
Insurance contract provisions	1,043,117	1,070,824	65,847	-	2,179,788
Unallocated divisible surplus	-	5,904	-	-	5,904
Financial liabilities	607,667	104,236	1,254,403	35,568	2,001,874
Provisions	1,278	-	-	1,410	2,688
Deferred tax liabilities	5,367	4,260	832	-	10,459
Reinsurance payables	2,414	22	15,223	-	17,659
Payables related to direct insurance and investment contracts	20,816	12,824	9,459	-	43,099
Deferred income	9,451	-	-	-	9,451
Income taxes	2,551	-	2,723	-	5,274
Other payables	3,107	7,953	4,432	1,512	17,004
Total liabilities	**1,697,176**	**1,206,211**	**1,352,919**	**38,493**	**4,294,799**
Net assets	**67,749**	**70,898**	**55,686**	**8,570**	**202,903**

(v) 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
Total assets	**1,895,391**	**1,391,612**	**1,535,363**	**33,533**	**4,855,899**
Bank overdrafts	1,474	255	-	-	1,729
Insurance contract provisions	1,106,865	1,174,704	65,002	-	2,346,571
Unallocated divisible surplus	-	-	-	-	-
Financial liabilities	644,759	109,456	1,381,832	39,387	2,175,434
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**

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

4 Operating segments (continued)

(vi) Segmental balance sheet as at 31 December 2011

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Intangible assets	23,210	8,091	80,764	-	112,065
Property and equipment	55	-	330	-	385
Investment in associates	-	-	1,613	-	1,613
Reinsurers' share of insurance contract provisions	214,719	6,008	43,065	-	263,792
Amounts deposited with reinsurers	28,031	-	-	-	28,031
Investment properties	648	131,480	-	-	132,128
Financial assets	1,353,290	1,152,265	1,240,546	296	3,746,397
Reinsurers' share of accrued policyholder claims	4,644	23	-	-	4,667
Income tax	-	448	5,311	1,197	6,956
Cash and cash equivalents	150,267	5,894	24,122	15,637	195,920
Total assets	**1,774,864**	**1,304,209**	**1,395,751**	**17,130**	**4,491,954**
Bank overdrafts	828	6	-	-	834
Insurance contract provisions	1,042,030	1,078,873	63,782	-	2,184,685
Unallocated divisible surplus	-	6,254	-	-	6,254
Financial liabilities	599,587	105,599	1,239,768	35,486	1,980,440
Provisions	1,311	-	-	1,500	2,811
Deferred tax liabilities	6,077	8,546	767	-	15,390
Reinsurance payables	1,901	20	14,415	-	16,336
Payables related to direct insurance and investment contracts	21,864	10,269	8,518	-	40,651
Deferred income	10,000	-	-	-	10,000
Income taxes	947	-	-	-	947
Other payables	4,833	5,906	11,591	2,087	24,417
Total liabilities	**1,689,378**	**1,215,473**	**1,338,841**	**39,073**	**4,282,765**
Net assets	**85,486**	**88,736**	**56,910**	**(21,943)**	**209,189**

5 Exceptional items

Following the transfer, on 31 December 2011, of the whole of the business of the S&P operating segment to Countrywide Assured plc under the provisions of Part VII of the Financial Services and Markets Act 2000, S&P policyholder liabilities to taxation have, with effect from 1 January 2012, been re-classified within the Condensed Consolidated Balance Sheet from deferred tax liabilities to insurance contract provisions. The purpose of this is to align the classification with that adopted by the CA operating segment. As a consequence there is:

(i) as at 1 January 2012 a reduction of £4.8m in deferred tax liabilities and an equal and opposite increase of £4.8m in insurance contract provisions; and

(ii) in the Condensed Consolidated Statement of Comprehensive Income a pre-tax charge of £4.8m and a deferred tax release to income tax of £4.8m, both of these amounts being presented as exceptional items, by virtue of their size and incidence. The net-of-tax result in the Condensed Consolidated Statement of Comprehensive Income attributable to these exceptional items is, accordingly, £nil.

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

6 Borrowings

	Unaudited 30 June 2012 £000	Unaudited 30 June 2011 £000	31 December 2011 £000
Bank loan	35,568	39,387	35,486
Amount due in relation to financial reinsurance	18,776	21,906	19,267
Total	**54,344**	**61,293**	**54,753**

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 which is payable 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 2012 and 31 December 2011 was £36,000,000 (30 June 2011: £40,000,000).

The fair value of amounts due in relation to financial reinsurance as at 30 June 2012 was £19,780,185 (30 June 2011: £22,314,675 and 31 December 2011: £20,672,526).

7 Approval of consolidated report for the six months ended 30 June 2012

This condensed consolidated report was approved by the Board of Directors on 30 August 2012. 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.

EEV SUPPLEMENTARY INFORMATION

IN THIS SECTION

Directors' Responsibility Statement in respect of the 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-year financial report for the six months ended 30 June 2012 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-year 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 2012. 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-year 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 2012 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 2012 has not been properly prepared in accordance with the EEV principles using the methodology and assumptions set out on pages 54 to 60.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester,
United Kingdom

30 August 2012

Supplementary Information – European Embedded Value Basis

Summarised EEV Consolidated Income Statement for the six months ended 30 June 2012

	Note	Unaudited Six months ended 30 June 2012 £000	Unaudited Six months ended 30 June 2011 £000	Year ended 31 December 2011 £000
Operating profit of covered business	**6(b)**	**14,169**	**832**	**15,314**
Other operational result	**6(b)**	(133)	(605)	(2,811)
Operating profit		**14,036**	**227**	**12,503**
Variation from longer-term investment return	**6(b)**	7,043	(4,698)	(16,929)
Effect of economic assumption changes	**6(b)**	(798)	4,823	(32,479)
Profit/(loss) before tax and before exceptional item		**20,281**	**352**	**(36,905)**
Exceptional item				
Effect of modelling adjustments	**6(a)**	-	(5,267)	(10,328)
Profit/(loss) before tax		**20,281**	**(4,915)**	**(47,233)**
Tax	**6(b)**	(4,345)	(1,890)	7,123
Profit/(loss) after tax		**15,936**	**(6,805)**	**(40,110)**

	2012	2011	Year ended 31 December 2011
Profit/(loss) per share			
Based on profit/(loss) for the period	13.88p	(5.93)p	(34.92)p
Diluted profit/(loss) per share			
Based on profit/(loss) for the period	13.88p	(5.93)p	(34.92)p

Supplementary Information – European Embedded Value Basis

Summarised EEV Consolidated Balance Sheet as at 30 June 2012

	Note	Unaudited 30 June 2012 £000	Unaudited 30 June 2011 £000	31 December 2011 £000
Assets				
Value of in-force business	5, 8	203,098	265,495	199,560
Deferred acquisition costs arising on unmodelled business		717	734	834
Acquired value of customer relationships		615	876	694
Property and equipment		256	513	385
Investment in associate		1,793	2,150	1,613
Reinsurers' share of insurance contract provisions		232,581	242,704	230,891
Amounts deposited with reinsurers		27,707	28,828	26,637
Investment properties		129,902	125,684	132,128
Financial assets				
Equity securities at fair value through income		377,093	460,834	404,431
Holdings in collective investment schemes at fair value through income		2,945,330	3,153,838	2,917,935
Debt securities at fair value through income		319,604	319,406	330,610
Insurance and other receivables		42,771	119,506	30,799
Prepayments		3,619	4,197	3,234
Policyholders' funds held by the Group		47,628	57,899	49,080
Derivative financial instruments		6,891	7,022	10,308
Total financial assets		3,742,936	4,122,702	3,746,397
Reinsurers' share of accrued policy claims		4,115	4,685	4,667
Income taxes		3,662	5,096	6,932
Deferred tax asset		1,382	-	-
Cash and cash equivalents		211,156	168,820	195,920
Total assets		**4,559,920**	**4,968,287**	**4,546,658**
Liabilities				
Bank overdraft		1,599	1,729	834
Insurance contract provisions		2,142,880	2,309,733	2,149,676
Unallocated divisible surplus		15,338	13,349	15,644
Financial liabilities				
Investment contracts at fair value through income		1,910,241	2,065,127	1,887,261
Borrowings		60,642	67,693	61,765
Derivative financial instruments		26	1,103	144
Liabilities relating to policyholders' funds held by the Group		47,628	57,899	49,080
Total financial liabilities		2,018,537	2,191,822	1,998,250
Provisions		2,688	1,480	2,811
Deferred tax liabilities		-	5,087	3,080
Reinsurance payables		17,215	15,994	15,883
Payables related to direct insurance and investment contracts		43,099	39,887	40,651
Income taxes		5,274	7,202	923
Other payables		17,004	41,860	24,417
Total liabilities		**4,263,634**	**4,628,143**	**4,252,169**
Net assets		**296,286**	**340,144**	**294,489**
Equity				
Share capital		42,024	42,024	42,024
Share premium		42,523	42,523	42,523
Treasury shares		(217)	(217)	(217)
Foreign exchange reserve		12,406	19,543	14,026
Other reserves		50	50	50
Retained earnings		199,500	236,221	196,083
Total shareholders' equity	5, 8	**296,286**	**340,144**	**294,489**

Notes to the EEV 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 IAS 34 'Interim Financial Reporting', as adopted by the EU. 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.

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 Business (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.

On 31 December 2011, under the provisions of Part VII of the Financial Services and Markets Act 2000 ('The Part VII Transfer'), the long-term business funds and certain of the shareholder funds of the companies comprising the S&P segment, being Save & Prosper Insurance Limited and Save & Prosper Pensions Limited, were transferred to Countrywide Assured plc ('CA'), the principal operating subsidiary company of the UK Business. As a result, the whole of the covered business of the UK Business subsists within CA with effect from that date. The transfer gives rise to benefits which have been recognised within the covered business, including:

i) Determination of the capital requirements of the covered business on a combined basis; and
ii) Other financial synergies: the impact of these benefits has been recognised in the cash flow projections relating to the value of business in force as at 31 December 2011 and in the income statement for the year then ended.

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.

Notes to the EEV Supplementary Information (unaudited) (continued)

3 Methodology (continued)

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 Business does 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.

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 Swedish Business Review on page 16 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 in Note 6 is as follows:

Pensions and savings covered business	**Unaudited Six months ended 30 June**		**Year ended 31 December**
	2012	**2011**	**2011**
New business premium income*	£20.0m	£25.5m	£45.2m

* Basis: annualised premium plus 1/10 single premium translated into sterling at the 2012 average rate of SEK 10.7983= £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.

In respect of Movestic there are certain non-linear exposures of shareholder profit to asset returns arising from variable administrative fees and variable investment fund rebates which are modelled deterministically rather than stochastically.

Participating business

For participating business within the S&P business the Group maintains the assets and liabilities in separate with-profits funds. 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 funds contain 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, allowance has been made for planned reductions in corporation tax, as announced by the Chancellor in his budget speech on 21 March 2012. The value as at 31 December 2011 has not been restated to allow for this announcement. No allowance has been made for changes to insurance taxation expected to take effect from 1 January 2013. It is not anticipated that these changes will materially impact the embedded value.

Notes to the EEV Supplementary Information (unaudited) (continued)

3 Methodology (continued)

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.

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.

Notes to the EEV Supplementary Information (unaudited) (continued)

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 the UK Business, 162.5% 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; and

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

Prior to the Part VII Transfer CA and S&P operated with separate capital requirements: for CA this was 150% of the LTICR together with 100% of the RCR, whilst S&P operated with a requirement of 175% of the LTICR together with 100% of the RCR. These requirements were used in calculating the value as at 30 June 2011.

The required level of regulatory capital is provided as follows:

(i) for the UK Business, 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 2011 and at 31 December 2011: 50 basis points), and 70 basis points for Movestic (as at 30 June 2011 and at 31 December 2011: 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.

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.

Notes to the EEV Supplementary Information (unaudited) (continued)

3 Methodology (continued)

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 last reviewed in December 2011.

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 2011 are considered to be best estimate and, consequently, no further adjustments are required. In respect of the CA Business, 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 Reinsurance

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

	CA			S&P			Movestic		
	Unaudited 30 Jun		31 Dec	Unaudited 30 Jun		31 Dec	Unaudited 30 Jun		31 Dec
	2012	**2011**	**2011**	**2012**	**2011**	**2011**	**2012**	**2011**	**2011**
Investment Return* %	1.70	3.10	1.90						
5 year				1.27	2.55	1.58	2.09	3.26	2.04
10 year				2.17	3.71	2.36	2.41	3.52	2.37
15 year				2.68	4.19	2.79	2.41	3.64	2.42
20 year				2.97	4.29	3.00	2.41	3.67	2.39
25 year				3.12	4.30	3.14	2.41	3.67	2.39
30 year				3.22	4.25	3.20	2.41	3.67	2.39
Inflation – RPI %	2.20	3.00	2.40	2.20	3.50	2.40	1.89	2.00	2.30

(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.

Certain products contain provisions that provide for the charges in respect of mortality risk to be reviewable. In these cases assumptions for future experience and charges are assumed to be in linked and assumptions are only updated when decisions have been made regarding product charges, so as not to capitalise any benefits that may not accrue to shareholders.

(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 21 March 2012, so reflect a reduction from the current rate of 24% to 22% in steps of 1%. If allowance had only been made for the enacted change to 24%, the embedded value would have been £1.2m lower as at 30 June 2012.

(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.

EEV Guidance requires that no allowance is made for future productivity improvements in expense assumptions. For the UK business, for expenses relating to policy administration this requirement is met. As the UK company is essentially closed to new business, those governance expenses which are not immediately variable can reasonably be expected to reduce through management control in the future, though the timing and scale of such reductions is not fixed. A prudent estimate of the reductions has been allowed for within the expense assumptions.

Notes to the EEV Supplementary Information (unaudited) (continued)

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 (as at 30 June 2011 and at 31 December 2011: 50 basis points) and 70 basis points for Movestic (as at 30 June 2011 and at 31 December 2011: 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 profit 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.

Notes to the EEV Supplementary Information (unaudited) (continued)

5 Analysis of shareholders' equity

30 June 2012 (unaudited)	**CA £000**	**S&P £000**	**Movestic £000**	**Other Group Activities £000**	**Total £000**
Regulated entities					
Capital required	27,936	56,631	16,557	-	101,124
Restricted capital	-	5,904	-	-	5,904
Free surplus	21,543	10,257	14,061	-	45,861
Regulatory capital resource of regulated entities	**49,479**	**72,792**	**30,618**	**-**	**152,889**
Adjustments to shareholder net worth					
Deferred acquisition costs	-	-	(53,128)	-	(53,128)
Financial reinsurance liability	-	-	(4,814)	-	(4,814)
Software asset adjustment	-	-	(5,897)	-	(5,897)
Adjustment to insurance contract provisions	-	2,733	-	-	2,733
Unallocated divisible surplus	-	(15,384)	-	-	(15,384)
Other asset / liability adjustments	401	-	6,251	-	6,652
Adjusted shareholder net worth	**49,880**	**60,141**	**(26,970)**	**-**	**83,051**
In-force value of covered business	48,291	24,003	130,804	-	203,098
Embedded value of regulated entities	**98,171**	**84,144**	**103,834**	**-**	**286,149**
Less: amount financed by borrowings	-	(35,568)	-	-	(35,568)
Embedded value of regulated entities attributable to shareholders	**98,171**	**48,576**	**103,834**	**-**	**250,581**
Net equity of other Group companies	-	-	1,279	44,426	45,705
Total shareholders' equity	**98,171**	**48,576**	**105,113**	**44,426**	**296,286**

30 June 2011 (unaudited)	**CA £000**	**S&P £000**	**Movestic £000**	**Other Group Activities £000**	**Total £000**
Regulated entities					
Capital required	29,650	44,732	18,945	-	93,327
Restricted capital	10,350	-	-	-	10,350
Free surplus	11,986	24,173	4,885	-	41,044
Regulatory capital resource of regulated entities	**51,986**	**68,905**	**23,830**	**-**	**144,721**
Adjustments to shareholder net worth:					
Deferred acquisition costs	-	-	(54,490)	-	(54,490)
Financial reinsurance liability	-	-	(5,229)	-	(5,229)
Software asset adjustment	-	-	(7,405)	-	(7,405)
Adjustment to insurance contract provisions	-	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	288	-	8,346	-	8,634
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 entities	**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**

Notes to the EEV Supplementary Information (unaudited) (continued)

5 Analysis of shareholders' equity (continued)

31 December 2011	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Regulated entities					
Capital required	28,701	59,237	18,131	-	106,069
Restricted capital	-	6,254	-	-	6,254
Free surplus	37,147	24,531	11,474	-	73,152
Regulatory capital resource of regulated entities	**65,848**	**90,022**	**29,605**	**-**	**185,475**
Adjustments to shareholder net worth					
Deferred acquisition costs	-	-	(53,293)	-	(53,293)
Financial reinsurance liability	-	-	(5,499)	-	(5,499)
Software asset adjustment	-	-	(6,744)	-	(6,744)
Adjustment to insurance contract provisions	-	2,913	-	-	2,913
Unallocated divisible surplus	-	(15,686)	-	-	(15,686)
Other asset / liability adjustments	308	-	7,784	-	8,092
Adjusted shareholder net worth	**66,156**	**77,249**	**(28,147)**	**-**	**115,258**
In-force value of covered business	50,941	20,816	127,803	-	199,560
Embedded value of regulated entities	**117,097**	**98,065**	**99,656**	**-**	**314,818**
Less: amount financed by borrowings	-	(35,486)	-	-	(35,486)
Embedded value of regulated entities attributable to shareholders	**117,097**	**62,579**	**99,656**	**-**	**279,332**
Net equity of other Group companies	-	-	1,332	13,825	15,157
Total shareholders' equity	**117,097**	**62,579**	**100,988**	**13,825**	**294,489**

EEV free surplus, as shown above, represents the balance of the shareholder net worth above the capital required. The movement in free surplus is analysed as follows:

Six months ended 30 June 2012 (unaudited)	CA £000	S&P £000	Movestic £000	Total £000
Free surplus at beginning of the period	**37,147**	**24,531**	**11,474**	**73,152**
Dividend paid to parent	(22,000)	(22,000)	-	(44,000)
Contribution from parent	-	-	-	-
Surplus / (deficit) arising in the period	5,631	5,120	1,013	11,764
Adjustments to required capital	765	2,606	1,574	4,945
Free surplus at end of the period	**21,543**	**10,257**	**14,061**	**45,861**

Six months ended 30 June 2011 (unaudited)	CA £000	S&P £000	Movestic £000	Total £000
Free surplus at beginning of the period	**30,064**	**24,066**	**4,736**	**58,866**
Dividend paid to parent	(26,000)	-	-	(26,000)
Contribution from parent	-	-	-	-
Adjustments to restricted capital	(600)	-	-	(600)
Surplus / (deficit) arising in the period	7,922	(759)	509	7,672
Adjustments to required capital	600	866	(360)	1,106
Free surplus at end of the period	**11,986**	**24,173**	**4,885**	**41,044**

Year ended 31 December 2011	CA £000	S&P £000	Movestic £000	Total £000
Free surplus at beginning of the year	**30,064**	**24,066**	**4,736**	**58,866**
Dividend paid to parent	(26,000)	-	-	(26,000)
Contribution from parent	-	-	5,265	5,265
Synergies and adjustments arising from Part VII transfer, including adjustments to surplus	10,144	1,501	-	11,645
Surplus / (deficit) arising in the year	21,784	(3,344)	1,019	19,459
Adjustments to required capital	1,155	2,308	454	3,917
Free surplus at end of the year	**37,147**	**24,531**	**11,474**	**73,152**

Notes to the EEV 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 2012 (unaudited)	CA £000	S&P £000	Movestic £000	Total £000
Value at beginning of period	**50,941**	**20,816**	**127,803**	**199,560**
Amount charged to foreign exchange reserve	-	-	(2,044)	(2,044)
Amount credited/charged to operating profit	(2,650)	3,187	5,045	5,582
Value at end of period	**48,291**	**24,003**	**130,804**	**203,098**

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 (charged)/credited to operating profit	(5,251)	2,674	(2,912)	(5,489)
Value at end of period	**74,109**	**43,981**	**147,405**	**265,495**

Year ended 31 December 2011	CA £000	S&P £000	Movestic £000	Total £000
Value at beginning of year	**79,360**	**41,307**	**144,748**	**265,415**
Amount charged to foreign exchange reserve	-	-	(1,409)	(1,409)
Amount charged to operating profit	(28,419)	(20,491)	(15,536)	(64,446)
Value at end of year	**50,941**	**20,816**	**127,803**	**199,560**

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 instalments 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. In accordance with this £4m of the loan was repaid on 20 December 2011 and there was principal outstanding of £36m as at 31 December 2011 and 30 June 2012.

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.

Notes to the EEV Supplementary Information (unaudited) (continued)

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 (unaudited)**		**Year ended 31 December**
	2012 £000	**2011 £000**	**2011 £000**
Shareholders' equity at beginning of the period	**294,489**	**354,636**	**354,636**
Profit/(loss) for the period attributable to shareholders before modelling adjustments	15,936	(1,538)	(29,782)
Effect of modelling adjustments	-	(5,267)	(10,328)
Profit/(loss) for the period	**15,936**	**(6,805)**	**(40,110)**
Foreign exchange reserve movement	(1,620)	4,487	(1,030)
Dividends paid	(12,519)	(12,174)	(19,007)
Shareholders' equity at end of the period	**296,286**	**340,144**	**294,489**

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 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 this resulted in an increase in embedded value of £2.7m;

(ii) Movestic modelling 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 £12.4m; and

(iii) S&P model enhancements giving rise to a further £0.6m reduction in EEV, account for the balance of the total modelling adjustments of £(10.3)m for the year ended 31 December 2011, as presented above.

The European Embedded Value principles issued by the European CFO Forum in May 2004, together with supplementary guidance, do not provide specific guidance on how the errors identified in (ii) above 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.

(b) The profit/(loss) for the year before modelling adjustments is analysed as:

Six months ended 30 June 2012 (unaudited)	**CA £000**	**S&P £000**	**UK Total £000**	**Movestic £000**	**Other Group Activities £000**	**Total £000**
Covered business						
New business contribution	237	(13)	224	(302)	-	(78)
Return from in-force business						
Expected return	1,217	141	1,358	1,757	-	3,115
Experience variances	4,569	2,128	6,697	(4,075)	-	2,622
Operating assumption changes	(152)	189	37	4,878	-	4,915
Return on shareholder net worth	278	3,317	3,595	-	-	3,595
Operating profit of covered business	**6,149**	**5,762**	**11,911**	**2,258**	**-**	**14,169**
Variation from longer-term investment return	1,570	4,300	5,870	1,173	-	7,043
Effect of economic assumption changes	(835)	(1,982)	(2,817)	2,019	-	(798)
Profit of covered business before tax	**6,884**	**8,080**	**14,964**	**5,450**	**-**	**20,414**
Tax thereon			(4,284)	-	-	(4,284)
Profit of covered business after tax			**10,680**	**5,450**	**-**	**16,130**
Results of non-covered business and of other group companies						
Profit/(loss) before tax			-	354	(487)	(133)
Tax			-	(61)	-	(61)
Profit/(loss) after tax			**10,680**	**5,743**	**(487)**	**15,936**

Notes to the EEV Supplementary Information (unaudited) (continued)

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

Six months ended 30 June 2011 (unaudited)	**CA £000**	**S&P £000**	**UK Total £000**	**Movestic £000**	**Other Group Activities £000**	**Total £000**
Covered business						
New business contribution	353	11	364	2,004	-	2,368
Return from in-force business						
Expected return	2,089	133	2,222	2,905	-	5,127
Experience variances	2,088	(854)	1,234	(6,703)	-	(5,469)
Operating assumption changes	(2,145)	-	(2,145)	(797)	-	(2,942)
Return on shareholder net worth	434	1,314	1,748	-	-	1,748
Operating profit/(loss) of covered business	**2,819**	**604**	**3,423**	**(2,591)**	**-**	**832**
Variation from longer-term investment return	947	515	1,462	(6,160)	-	(4,698)
Effect of economic assumption changes	(746)	2,887	2,141	2,682	-	4,823
Profit/(loss) of covered business before tax	**3,020**	**4,006**	**7,026**	**(6,069)**	**-**	**957**
Tax thereon			(1,612)	-	-	(1,612)
Profit/(loss) of covered business after tax			**5,414**	**(6,069)**	**-**	**(655)**
Results of non-covered business and of other group companies						
Profit/(loss) before tax			-	24	(629)	(605)
Tax			-	(278)	-	(278)
Profit/(loss) after tax			**5,414**	**(6,323)**	**(629)**	**(1,538)**

Year ended 31 December 2011	**CA £000**	**S&P £000**	**UK Total £000**	**Movestic £000**	**Other Group Activities £000**	**Total £000**
Covered business						
New business contribution	398	42	440	3,074	-	3,514
Return from in-force business						
Expected return	4,072	257	4,329	5,902	-	10,231
Experience variances	5,203	(157)	5,046	(4,922)	-	124
Operating assumption changes	(2,397)	372	(2,025)	(592)	-	(2,617)
Return on shareholder net worth	1,126	2,936	4,062	-	-	4,062
Operating profit of covered business	**8,402**	**3,450**	**11,852**	**3,462**	**-**	**15,314**
Variation from longer-term investment return	3,066	(1,762)	1,304	(18,233)	-	(16,929)
Effect of economic assumption changes	(8,754)	(23,706)	(32,460)	(19)	-	(32,479)
Profit/(loss) of covered business before tax	**2,714**	**(22,018)**	**(19,304)**	**(14,790)**	**-**	**(34,094)**
Tax thereon			5,651	-	-	5,651
Loss of covered business after tax			**(13,653)**	**(14,790)**	**-**	**(28,443)**
Results of non-covered business and of other group companies						
Profit/(loss) before tax			-	308	(3,119)	(2,811)
Tax			-	280	1,192	1,472
Loss after tax			**(13,653)**	**(14,202)**	**(1,927)**	**(29,782)**

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.

Notes to the EEV Supplementary Information (unaudited) (continued)

7 Sensitivities to alternative assumptions

The following tables show the sensitivity of the embedded value as reported at 30 June 2012, and of the new business contribution of Movestic, 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 for the six month ended 30 June 2012 as the reported level of new business contribution is not considered to be material (see Note 3(a)).

	Embedded Value					New Business Contribution
	UK Business				Swedish Business	Swedish Business
	CA Pre-tax £m	S&P Pre-tax £m	Tax £m	UK Post-tax £m	Post-tax £m	£m
Published value as at 30 June 2012	**113.1**	**84.1**	**(14.9)**	**182.3**	**103.8**	**(0.3)**
Changes in embedded value/new business contribution arising from:						
Economic sensitivities						
100 basis point increase in yield curve	(0.3)	16.3	(6.7)	9.3	(0.4)	-
100 basis point reduction in yield curve	(1.4)	(17.8)	(0.5)	(19.7)	0.4	-
10% decrease in equity and property values	(3.0)	(9.7)	1.5	(11.2)	(9.2)	-
Operating sensitivities						
10% decrease in maintenance expenses	3.2	3.8	(1.7)	5.3	5.7	0.2
10% decrease in lapse rates	2.3	(2.1)	0.3	0.5	8.8	0.5
5% decrease in mortality/morbidity rates						
Assurances	1.5	0.5	(0.4)	1.6	0.2	-
Annuities	(2.5)	(0.6)	0.7	(2.4)	n/a	n/a
Reduction in the required capital to statutory minimum	0.5	0.8	-	1.3	-	-

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; and

(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.

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 EEV Supplementary Information (unaudited) (continued)

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

30 June 2012 (unaudited)	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Shareholders' equity on the IFRS basis	**67,749**	**70,898**	**55,686**	**8,570**	**202,903**
Reclassifications					
Debt finance	-	(35,568)	-	35,568	-
Other	(288)	-	-	288	-
Adjustments					
Deferred acquisition costs					
Investment contracts	(4,958)	-	(15,246)	-	(20,204)
Deferred income	8,752	-	-	-	8,752
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(11,034)	-	-	-	(11,034)
Adjustments to provisions on insurance contracts, net of reinsurers' share	130	2,085	-	-	2,215
Adjustments to provisions on unallocated divisible surplus	-	(9,434)	-	-	(9,434)
Acquired in-force value	(12,178)	(5,825)	(54,811)	-	(72,814)
Acquired value of customer relationships	-	-	(1,411)	-	(1,411)
Software assets	-	-	(5,897)	-	(5,897)
Adjustment to borrowings	-	-	(6,298)	-	(6,298)
Deferred tax	1,707	2,417	2,286	-	6,410
Shareholder net worth	**49,880**	**24,573**	**(25,691)**	**44,426**	**93,188**
Value of in-force business	48,291	24,003	130,804	-	203,098
Shareholders' equity on the EEV basis	**98,171**	**48,576**	**105,113**	**44,426**	**296,286**
Shareholder net worth comprises:					
Shareholder net worth in regulated entities	49,880	60,141	(26,970)	-	83,051
Shareholders' net equity in other Group companies	-	-	1,279	44,426	45,705
Debt finance	-	(35,568)	-	-	(35,568)
Total	**49,880**	**24,573**	**(25,691)**	**44,426**	**93,188**

30 June 2011 (unaudited)	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Shareholders' equity on the IFRS basis	**71,511**	**78,707**	**53,271**	**(7,215)**	**196,274**
Reclassifications					
Debt finance	-	(39,387)	-	39,387	-
Other	(334)	-	-	334	-
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)
Software assets	-	-	(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**

Notes to the EEV Supplementary Information (unaudited) (continued)

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

31 December 2011	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Shareholders' equity on the IFRS basis	**85,486**	**88,736**	**56,910**	**(21,943)**	**209,189**
Reclassifications					
Debt finance	-	(35,486)	-	35,486	-
Other	(282)	-	-	282	-
Adjustments					
Deferred acquisition costs					
Investment contracts	(5,272)	-	(13,161)	-	(18,433)
Deferred income	9,285	-	-	-	9,285
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(11,477)	-	-	-	(11,477)
Adjustments to provisions on insurance contracts, net of reinsurers' share	(119)	2,227	-	-	2,108
Adjustments to provisions on unallocated divisible surplus		(9,390)	-	-	(9,390)
Acquired in-force value	(13,350)	(6,068)	(57,770)	-	(77,188)
Acquired value of customer relationships	-	-	(1,561)	-	(1,561)
Software assets	-	-	(6,744)	-	(6,744)
Adjustment to borrowings	-	-	(7,012)	-	(7,012)
Deferred tax	1,885	1,744	2,523	-	6,152
Shareholder net worth	**66,156**	**41,763**	**(26,815)**	**13,825**	**94,929**
Value of in-force business	50,941	20,816	127,803	-	199,560
Shareholders' equity on the EEV basis	**117,097**	**62,579**	**100,988**	**13,825**	**294,489**
Shareholder net worth comprises:					
Shareholder net worth in regulated entities	66,156	77,249	(28,147)	-	115,258
Shareholders' net equity in other Group companies	-	-	1,332	13,825	15,157
Debt finance	-	(35,486)	-	-	(35,486)
Total	**66,156**	**41,763**	**(26,815)**	**13,825**	**94,929**

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 SEK10.7983 **=** £1 ruling in the six months ended 30 June 2012 (six months ended 30 June 2011: SEK10.3046 = £1 and year ended 31 December 2011: SEK10.4104 = £1), while all items in the balance sheet are stated at the closing rates ruling at the reported balance sheet date, being SEK10.8273 = £1 at 30 June 2012 (SEK10.1320 = £1 at 30 June 2011 and SEK10.6553 = £1 at 31 December 2011). 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 2012 been 10% higher at SEK11.9100 = £1, then the reported embedded value of £296.3m as at 30 June 2012 would have been reported as £286.7m.

ADDITIONAL INFORMATION

IN THIS SECTION

Board of Directors

Peter Mason was appointed as Chairman of Chesnara plc, Chairman of its Nomination Committee and Chairman of Countrywide Assured plc 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 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. 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 has worked in the life assurance industry for the last 28 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, Chairman of its Remuneration Committee and a member of the Countrywide Assured plc Board. 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 joined Countrywide Assured Group plc in 1992 and was Managing Director of Countrywide Assured plc until July 2002 and continues as a non-executive member of its Board. 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 is also a member of the Countrywide Assured plc Board and chairs its With-Profits Committee. 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.

Financial Calendar

31 August 2012	Interim results for the six months ended 30 June 2012 announced
12 September 2012	Ex dividend date
14 September 2012	Dividend record date
15 October 2012	Dividend payment date
19 November 2012	Interim Management Statement for the quarter ending 30 September 2012 announced
29 March 2013	Results for the year ended 31 December 2012 announced

Key Contacts

Registered and Head Office	Harbour House Portway Preston Lancashire PR2 2PR Tel: 01772 840000 Fax: 01772 840010 www.chesnara.co.uk	
Legal Advisors	Ashurst LLP Broadwalk House 5 Appold Street London EC2A 2HA	Addleshaw Goddard LLP 100 Barbirolli Square Manchester M2 3AB
Auditor	Deloitte LLP Chartered Accountants and Statutory Auditor PO Box 500 2 Hardman Street Manchester M60 2AT United Kingdom	
Registrars	Capita The Registry 34 Beckenham Road Beckenham Kent BR3 4TU	
Stockbrokers	Panmure Gordon One New Change London EC4M 9AF	Canaccord Genuity Limited 88 Wood Street London EC2V 7QR
Bankers	National Westminster Bank plc 135 Bishopsgate London EC2M 3UR The Royal Bank of Scotland 8th Floor, 135 Bishopsgate London EC2M 3UR	Lloyds TSB Bank plc 3rd Floor, Black Horse House Medway Wharf Road Tonbridge Kent TN9 1QS
Public Relations Consultants	Cubitt Consulting 30 Coleman Street London EC2R 5AL	
Corporate Advisors	Canaccord Genuity Hawkpoint Limited 41 Lothbury London EC2R 7AE	