



Chesnara

Interim Financial Statements
for the Six Months Ended
30 June 2013

SECTION A

OVERVIEW AND STRATEGY

05	Performance Highlights
06	Chairman's Statement
09	Our Vision & Strategy
10	Strategic Objectives
13	The Chesnara Business
14	Business Model

SECTION B

PERFORMANCE

16	Chief Executive's Review
23	Financial Review
35	Financial Management
39	Risk Management
42	Focus on Solvency II

SECTION C

IFRS FINANCIAL STATEMENTS

44	Directors' Responsibility Statement
45	Independent Auditor's Review Report to the Members of Chesnara plc
46	Condensed Consolidated Statement of Comprehensive Income
47	Condensed Consolidated Balance Sheet
48	Condensed Consolidated Statement of Cash Flows
49	Condensed Consolidated Statement of Changes in Equity
50	Notes to the Condensed Consolidated Financial Statements

SECTION D

EEV BASIS SUPPLEMENTARY INFORMATION

59	Directors' Responsibility Statement
60	Independent Auditor's Review Report
61	Summarised EEV Consolidated Income Statement
62	Summarised EEV Consolidated Balance Sheet
63	Notes to the EEV Basis Supplementary Information

SECTION E

ADDITIONAL INFORMATION

78	Board of Directors
79	Financial Calendar
80	Key Contacts

FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements with respect to certain of the plans and current expectations relating to the future financial condition, business performance and results of Chesnara plc. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of Chesnara plc including, amongst other things, UK domestic, Swedish domestic 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.

NOTES ON TERMINOLOGY

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

CA	which comprises the business of Countrywide Assured plc, the Group's original UK operating subsidiary, and of 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;
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
Movestic	which comprises the Group's Swedish business, Movestic Livforsakring AB and its subsidiary and associated companies.

In these Interim Financial 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. 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
- vi. 'Movestic' may also refer to Movestic Livforsakring AB, as the context implies.

SECTION A

OVERVIEW & STRATEGY

IN THIS SECTION











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HIGHLIGHTS – SIX MONTHS ENDED 30 JUNE 2013 (UNAUDITED)

Notes

1. Throughout the Chairman's Statement, Chief Executive's Review and Financial Review sections following, all results quoted at business segment level exclude the impact of consolidation adjustments relating to the amortisation of acquired value in force (VIF) and other adjustments, arising on the acquisition of Movestic. These consolidation adjustments are analysed by business segment on page 25.
2. Net cash generation in the period 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.

Throughout the Interim Financial Statements the following symbols are used to help distinguish between the various financial and non-financial measures reported:

	IFRS
	Cash generation
	EEV
	EEV earnings
	Solvency
	Dividend
	Part VII
	Operational performance
	Compliance
	New business market share

FINANCIAL



134% INCREASE IN IFRS PRE-TAX PROFIT

Increase in IFRS pre-tax profit for the six months to 30 June 2013 to £21.8m (six months ended 30 June 2012: £9.3m, excluding exceptional item).

Financial Review Page 25



CASH GENERATION £21.9M

Net cash generated six months ended 30 June 2013 of £21.9m (six months ended 30 June 2012: £12.4m).

Cash Generation Page 29



EEV INCREASE OF £26.3M

Increase in EEV from £311.1m at 31 December 2012 to £337.4m at 30 June 2013 after recognising the impact of £12.9m dividend distributions.

Financial Review Page 32



EEV EARNINGS AFTER TAX AND BEFORE MODELLING ADJUSTMENTS £35.4M

EEV earnings net of tax increased by £19.5m to £35.4m for the six months ended 30 June 2013 (six months ended 30 June 2012: £15.9m).

Financial Review Page 30



MOVESTIC NEW BUSINESS PROFIT OF £2.3M

Movestic has generated a new business profit of £2.3m in the six months to 30 June 2013 (six months ended 30 June 2012: £0.3m loss).

Financial Review Page 31



GROUP SOLVENCY 232%

Strong Insurance Group Directive solvency cover of 232% (31 December 2012: 244%).

Financial Management Page 37



INTERIM DIVIDEND INCREASED BY 2.5%

Proposed interim dividend increased by 2.5% to 6.25p per share.

OPERATIONAL



STRONG OUTSOURCER PERFORMANCE

All administration and asset management partners have outperformed their respective targets and benchmarks.



GOOD COMPLIANCE RECORD

Good regulatory compliance record continues.



MOVESTIC NEW BUSINESS GROWTH

Return of IFA support has driven a 39.1% increase in like for like new business volumes.



MOVESTIC NEW BUSINESS MARKET SHARE

Strong recovery of unit-linked new pensions business market share continues in the first half of 2013 to 12.4% (H2 2012: 8.7%).

CHAIRMAN'S STATEMENT



I am pleased with the levels of profit and cash generated during the first half of 2013 from UK operations. In addition, the advances in Movestic's operational effectiveness have driven a marked improvement in its results and I am increasingly confident that Movestic is well positioned to deliver significant value to our stakeholders.

Peter Mason
Chairman

CHAIRMAN'S STATEMENT (CONTINUED)

Chesnara has delivered a strong set of financial results benefitting in part from generally favourable investment market conditions during the half year.

Whilst we have benefitted from investment market conditions throughout 2012 and into the first half of 2013, the Board remains mindful that the financial strength and hence dividend paying capacity remain sensitive to economic conditions and, as such, the management of market risk remains a key priority. To this end the management of market risk and capital management have remained a key focus of the Board and Executive Management during the period, in particular through:

- Executive Management track key economic variables against Board approved “triggers” on a continuous basis with matters reported to the Board as appropriate.
- A Financial Condition Report and an Internal Capital Assessment Report have been reviewed by the Board during the period.
- We continue to set internal solvency targets that require surplus capital significantly in excess of statutory requirements.
- Financial projections are regularly updated and are subject to Board review and assessment.
- Investment Committee terms of reference ensure the Group actively manages asset holdings to ensure an optimal balance between asset performance and risk exposure. The Committee continues to adopt a generally risk averse bias regarding investment decisions.
- The Board has made improvements to its business planning processes to ensure that strategic and operational plans actively consider the risk profile of the Group with specific consideration to market risk.

The ongoing improvements in our management of market risk give me comfort regarding the ability of the Group to weather any foreseeable adverse market conditions that may arise.

Financial review Executive summary

Within the Financial Review section of the 2012 Annual Report and Accounts the Chesnara financial model was characterised as having three major components identified as: the “stable core”, the “variable element” and the “growth operation”. The results for the six months to 30 June 2013 very much support this characterisation of the financial dynamics of the business.

The “stable core”, namely the CA business, has continued to deliver a significant and consistent level of both IFRS profit and cash. This is underpinned by continued positive levels of product-based deductions. The requirement from this book is to provide a predictable and stable platform for the financial model and dividend strategy as has continued to be the case during the first half of the year.

S&P is recognised as having more variable earnings, in particular due to the cost of product guarantees and its sensitivity to movements in investment markets. The results for the six months to 30 June 2013 clearly illustrate this level of variability, with a pre-tax IFRS profit of £17.2m being positively impacted by a significant reduction in the reserve for the cost of guarantees resulting from favourable investment market conditions.

Movestic is the “growth operation” and in light of this it is encouraging to report positive performance in many key measures.



In particular Movestic's assets under management and new business both show significant levels of growth.

Despite the difficult operating conditions experienced during 2012 the funds under management grew by 10.2% with a further 8.5% growth during the first half of 2013. New business volumes have increased by 39.1% in 2013 compared with the first half of 2012.

IFRS

On an IFRS basis, we have achieved a pre-tax profit of £21.8m. This compares well to a pre-tax IFRS profit of £9.3m, excluding exceptional items, for the first half of 2012. The improvement relates in the main to the more variable S&P result which has increased by £12.1m period on period. During the first half of 2013 we have seen a reduction in the cost of guarantees resulting from the positive impact of investment market conditions whereas during the corresponding period of 2012 there was a small increase in the cost of guarantees.

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 £14.4m, compare well against the 2012 half-year equivalent of £13.6m.

In addition, the Movestic IFRS result continues to move in the right direction. Movestic has posted a pre-tax profit of £1.0m compared with a pre-tax profit of £0.1m during the first half of 2012.

EEV

On the EEV basis of reporting, we realised a profit after tax of £35.4m for the half year ended 30 June 2013, compared with a profit after tax of £15.9m for the half year ended 30 June 2012. This improvement in EEV profitability is primarily due to a £26.9m improvement in economic profits which have benefitted from an upturn in UK and Swedish equity values, and an increase in UK bond yields.

The Movestic result includes £2.3m of new business profit compared with a loss of £0.3m for the first half of 2012. Whilst the short term impact of this turn-around in context of the overall Group results is relatively modest, the fact that Movestic has demonstrated it can generate acquisition profits is of strategic relevance.

CHAIRMAN'S STATEMENT (CONTINUED)

Business review



I noted in my statement in the 2012 Annual Report and Accounts that following a difficult period, I was encouraged that there were signs of recovery in the Movestic business. I am delighted to report that those early positive signs have resulted in a significant recovery in IFA support of the Movestic business during the first half of the year.

This is illustrated by the 39.1% increase in new business volumes compared with the first half of 2012. This growth has been achieved without a deterioration in profit margin nor has it required any increase in the acquisition cost base. As a result, the results show a significant new business contribution for the six months to 30 June 2013. From this profitable base and with the level of momentum and positive sentiment to the new business proposition, I expect Movestic to make an increasingly significant contribution to the Embedded Value of the Group from its new business operations in the future.

The demonstrable return in IFA support has not, unfortunately, resulted in an improvement in the level of policy transfers out and surrenders. We believe this indicates that the levels of persistency experienced during the first half of 2013 are reflective of the dynamics of the IFA market, rather than being a direct reflection of the recent dip in customer service levels within Movestic. Whilst transfers between providers remains a feature of the industry, it is the ratio between transfers out and transfers in that is a key measure we can directly influence. In light of this, I am pleased to report that although there has been no improvement in the absolute level of business transferring out from Movestic, there has been a significant improvement in the ratio between transfers out and transfers in.

M&A

During the first half of the year a general sense of increased economic stability, as illustrated by improving economic growth indicators, a gradual recovery of the banking industry, equity market growth and a perception that the Eurozone is perhaps slightly less volatile than during recent years, has begun to have a positive impact in terms of levels of M&A activity in the sector.



I see the signs of an increase in M&A market activity as a positive indicator for the delivery of our stated strategy to “Acquire Life and Pensions Businesses”.

Solvency and cash generation

The capacity of the Group to pursue its dividend policy relies on the continuing generation of cash in the UK business. During the six months ended 30 June 2013 cash generation was £21.9m. This healthy outcome supports the current dividend strategy and is reinforced by a strong Group solvency ratio which was 232% at 30 June 2013.

We have continued to make progress on the implementation of Solvency II requirements and further information on this is provided on page 42.

Dividend

Continuing surplus generated from CA, together with a positive result from S&P, enables the Group to continue its attractive dividend policy. The 2013 interim dividend of 6.25p per share (2012: 6.10p per share) represents a 2.5% increase and equates to an interim dividend payable to shareholders of £7.2m.

Corporate Governance

As reported in the 2012 Report & Accounts, the first half of the year has seen a significant change to our Board. I am pleased to report that the transition has worked extremely effectively and I am confident that the refreshed Board's mix of skills and experience creates the ideal platform to take the Group forward.

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 9, 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 has not been finalised, 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.

Outlook

Recent UK 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. In addition, the recent improvements in Movestic, support the target EEV growth model and continued improvements in IFRS profit expectations. The existing businesses therefore continue to support the Chesnara investment proposition. The UK business continues to support the strategy to pay attractive dividends and the Movestic business will ensure we minimise the Embedded Value decline that will inevitably occur in an otherwise closed book environment. The long-term strategy remains focused on making further value-adding acquisitions and the outlook regarding potential opportunities is more positive than has been the case for the past few years.

Peter Mason
Chairman
29 August 2013

OUR VISION & STRATEGY

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 UK 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 and shareholders, 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.

STRATEGIC OBJECTIVES

MAXIMISE VALUE FROM THE IN-FORCE BOOKS

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 proposition.

How do we deliver this strategic objective?

We proactively manage continuing financial exposures:

- Significant financial exposures in life and pensions portfolios typically arise in the areas of onerous policy options and guarantees and of compensation claims for past mis-selling of products. The Group’s portfolios have, historically, had very little exposure to the impact of investment market performance on options and guarantees. However, just over 29% of the policies managed by S&P, which was acquired in December 2010, contain guarantees to policyholders and therefore the Group’s exposure has increased. Furthermore, the Group continues to have exposure to market falls by way of the impact on policyholders’ linked funds, from which surplus is generated. We seek to minimise this exposure by regular review of investment asset holdings and by adjusting investment manager guidelines where appropriate and within the boundaries of our obligations to policyholders.

We operate in a manner that aims to ensure that policy attrition is as low as possible, as this is a key determinant of our future profitability and of the level and longevity of the emergence of surplus, which underpins our dividend-paying capacity.

We continue to maintain a focus on the retention of policies where it is in the interest of customers to continue with their arrangements.

We continue to manage investment performance so as to provide a competitive level of return to our policyholders. The CA funds are primarily managed by Schroder Investment Management Limited while the CWA funds continue to be managed by Irish Life Investment Managers Limited. The S&P funds are managed by JPMorgan Asset Management (UK) Ltd in order to maintain continuity for policyholders. We meet formally with fund managers on a quarterly basis to assess past performance and future strategy.

The Movestic funds are managed by a carefully selected range of fund managers who have strong performance records in the relevant sector. Performance is monitored very closely and regular meetings are held with fund managers. Should under performance continue then an alternative manager is sourced and appointed to manage the relevant assets. Where a new market niche or specific opportunity is identified new funds may also be added.

We adopt a business operating model which ensures unit expenses remain appropriate for the scale of the in-force book.

- UK operations are predominantly outsourced, with contract charging structures that ensure a significant element of the cost base is variable with run off of the business.
- Acquisitions are integrated into the Chesnara Group in a manner to ensure optimum operational and financial synergies.

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 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 can maintain and increase the Group’s cash flow and operational economies of scale.

How do we deliver this strategic objective?

Ultimately we rely on acquisition opportunities being available in the market: our target market being the UK and Western Europe.

We actively engage with various investment bank advisers (including Canaccord Genuity Limited on a retained basis) to ensure we are aware of acquisition opportunities.

We will leverage our proven track record in the consolidation market. Past experience suggests we maintain a high degree of credibility with regulators, policyholders, lenders and shareholders. All prior acquisitions have been delivered with no adverse impact in terms of treating customers fairly, regulatory standing or our reputation in the life and pensions consolidation market.

We will not pursue opportunities which do not meet very stringent assessment criteria.

Risks associated with this strategic objective

- If Chesnara makes 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.

STRATEGIC OBJECTIVES (CONTINUED)

ENHANCED VALUE THROUGH NEW BUSINESS IN SELECTED MARKETS

Why is this of strategic importance?

- The Chesnara business model primarily focuses on “closed book” consolidation. However, 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 for the Group.
- Maintaining a flexible position regarding the willingness to remain open to new business will potentially increase the 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 Swedish business. Movestic has a new business operation that delivers a positive new business contribution. There are detailed business plans in place that aim to increase new business profits through a combination of new product launches and improvements to operational effectiveness. Local and group management receive management information to enable 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.
- Ensures compliance with regulatory requirements.
- Supports potential acquisition opportunities.
- Supports ongoing dividend capability.

How do we deliver this strategic objective?

We ensure the Board is 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. Trigger points are set and documented such that management action will be instigated should any of the key trigger points be reached. The setting and review of trigger points is an integral component of the Group’s risk appetite model.

Potential acquisitions are assessed by taking a prudent view on not only the short-term impact on the Group’s Solvency position but also on 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.
- Changes in legal or regulatory requirements e.g. Solvency II.

STRATEGIC OBJECTIVES (CONTINUED)

ADOPT GOOD REGULATORY PRACTICE AT ALL TIMES

Why is this of strategic importance?

Chesnara management fully recognises 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 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 our principal regulators, the Financial Conduct Authority ('FCA'), the Prudential Regulation Authority ('PRA') and the Finansinspektionen ('FI').

Accordingly, significant effort is directed towards ensuring that the operations are effectively managed in terms of conduct of business regulations and of prudential solvency requirements and towards the significant change that is required in the business to implement Solvency II and to ensure continuing compliance with its requirements.

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

- All governance roles, with direct impact on regulatory compliance, are carried out by people with significant industry experience.
- The level of investment in the Governance team is fully reflective of the Board's recognition and understanding of the implications and challenges of effective adherence to all regulatory best practice.
- The Chesnara culture ensures other objectives do not conflict with the objective of adopting good regulatory practice at all times.

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 fulfillment 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 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.

The higher proportion of pensions policies in the successive acquisitions made by Chesnara has progressively increased the overall longevity of its run-off portfolio, while diversifying the long-term policy base. At 30 June 2013, the Group had 256,000 pension policies and 112,000 life 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 an attractive dividend yield, although opportunities which present a significant value uplift or growth opportunity will also be evaluated.

History (2004 – 2013)

'04

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.

'05

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.

'06

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.

'09

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.

'10

Movestic acquired the in-force business, personnel, expertise and systems of Aspis Forsäkrings 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 pensions policies (both unit-linked and with-profits), endowments (some with-profits) and protection policies.

'11

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.

'12

SPI and SPP were de-authorised from conducting activities regulated under the provisions of the Financial Services and Markets Act 2000, thereby releasing £7.0m of solvency capital.

BUSINESS MODEL

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, while Movestic is based in Stockholm in Sweden. Chesnara has 22 full-time equivalent employees in its corporate governance team in the UK. In Sweden, the headcount is 119.

UK

- The primary focus of the UK business 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 business. 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 business 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 Movestic manages the selection of appropriate investment funds, investment decisions are made solely by the fund managers.

CHIEF EXECUTIVE'S REVIEW

HIGHLIGHTS

- Growth in IFRS pre-tax profits to £21.8m (six months ended 30 June 2012: £9.3m, excluding exceptional items).
- Continued growth in total funds under management has contributed to an increase in Movestic IFRS profit to £1.0m (six months ended 30 June 2012: £0.1m).
- Cash generation and Group solvency remain strong.
- Recovery in Movestic new business volumes results in a new business profit of £2.3m (six months ended 30 June 2012 £0.3m loss).
- Increase in Group EEV by £26.3m since 31 December 2012, after recognition of the dividend payment of £12.9m.
- Interim dividend increased by 2.5% to 6.25p per share.
- 4.3% increase in total Group Funds under Management since 31 December 2012.
- General increase in M&A activity in the sector.



Group IFRS pre-tax profit £21.8m

Six months ended 30 June 2012: £9.3m*

*Excluding exceptional item



Group EEV earnings net of tax £35.4m*

Six months ended 30 June 2012: £15.9m

*Excluding modelling adjustments



Insurance Group Directive Solvency 30 June 2013 232% 31 December 2012: 244%

Business review

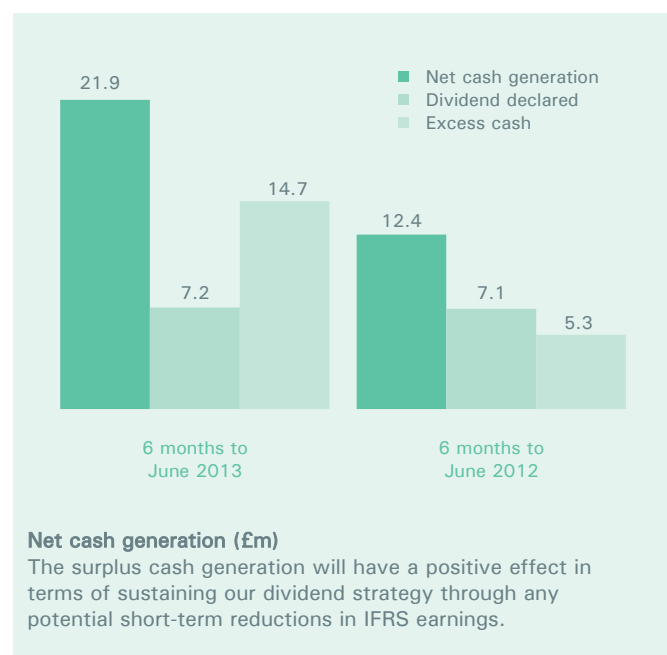
Financial

First and foremost I am extremely pleased with the levels of earnings on both the IFRS and EEV bases. The UK IFRS result underpins cash generation and cash transfers to the Chesnara parent company.



As has been the case in both 2011 and 2012 the level of cash generation in the UK continues to be more than sufficient to support the continuation of our attractive dividend strategy.

The total cash generated during the six months to 30 June 2013 of £21.9m is equivalent to 110% of the total 2012 dividend payment.



CHIEF EXECUTIVE'S REVIEW (CONTINUED)

UK



Good policy retention combined with strong investment performance has resulted in an increase in total funds under management compared with the end of 2012.

Given that the UK business is in run-off it is particularly pleasing to report the growth in funds under management as they are the key source of product-based revenues. This increase will help ensure the longevity of surpluses from the UK closed business.

Whilst policy retention and fund performance are to a great extent outside the direct control of management, they are both significantly influenced by the performance levels of our administration and asset management partners. In light of this, I am pleased to report that all our outsource partners have outperformed their respective targets and benchmarks.

Negotiations on a revised outsource contract with HCL have recently recommenced and we believe we can take these through to a satisfactory conclusion.

Sweden



I have continued to give significant attention to the Movestic business during the period and am pleased to report that the early signs of a recovery in support from the IFA community seen towards the end of 2012 have gained significant momentum in 2013.

Significant growth in levels of new business has been achieved with neither a reduction in margin nor an increase in total acquisition costs.

In light of the recent administration performance issues I am particularly encouraged that re-engineered processes have coped well with the sharp increase in new business volumes.

Changes to the senior management structure together with the transfer of certain IFA-critical processes to Stockholm have had a positive impact and ensure the operating model is now appropriate to support the acquisition and marketing proposition.

There is a positive management environment which means staff are well motivated and there is a strong collective sense of commitment to continue with improvements required to fully recover and consolidate its market position. I made the statement in the 2012 Annual Report and Accounts that "The business foundations are significantly stronger than last year and from this improved base I am confident that Movestic can begin to deliver longer-term financial benefits to the Chesnara Group". I am now able to reiterate the statement but with an increased level of confidence, given the strong recovery as evidenced by the results for the first six months of 2013.

Group outlook

The Group continues to investigate further acquisition opportunities and we will progress these where we see value and a clear strategic fit. We remain open-minded as to location in the UK and Western Europe and, as ever, we will continue to apply our strict financial and risk criteria when we assess them.



I share the view of the Chairman that there is a general sense of increased activity in the M&A market. This, together with our flexible financing capability, a strong regulatory record and a proven track record of implementing previous acquisitions to the mutual benefit of all stakeholders, means I remain optimistic as regards our ability to make further value-adding acquisitions.

That said, whilst growth through acquisition remains a key strategic objective, projections do indicate that the Group remains able to deliver its core objectives, in the medium term, without any further acquisitions.

UK BUSINESS REVIEW

Key performance indicators

IFRS pre-tax profit



£24.0m

Six months ended 30 June 2012: £12.6m
(excluding AVIF amortisation and exceptional items)

Cash generated



£24.5m

Six months ended 30 June 2012: £13.8m

EEV result net of tax

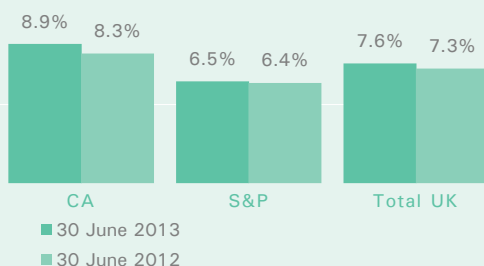


£29.1m

Six months ended 30 June 2012: £10.4m

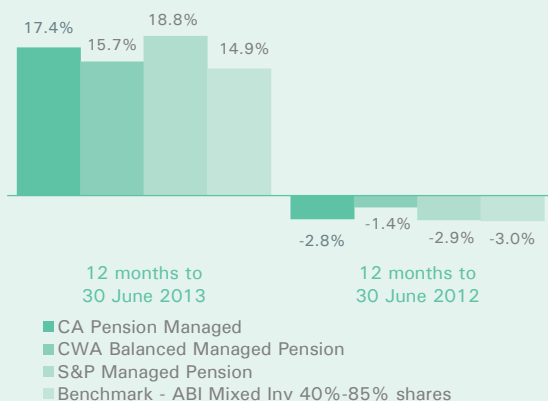
Annualised policy attrition rate

The annualised policy attrition rates for the two components of the UK business have increased slightly when compared with the same period in 2012, driven by slightly higher endowment maturities being seen in both components.



Fund Performance

Relative outperformance in the unit-linked funds helps promote policy retention and, when positive, increases the embedded value of the Group as future management charges received will be of a higher magnitude.



Good operational performance, together with a positive investment market impact, results in strong financial performance in terms of IFRS and EEV earnings, cash transfer to Chesnara and CA Solvency.

HIGHLIGHTS

- Pre-tax IFRS profits of £24.0m (six months ended 30 June 2012: £12.6m), excluding AVIF amortisation and exceptional items).
- £24.5m cash generation (six months ended 30 June 2012: £13.8m).
- £29.1m increase in EEV since 31 December 2012 (excluding impact of dividend payments).
- Increase in solvency ratio to 244% (31 December 2012: 199%).
- Core product-based deductions remain resilient to book run-off.
- Good regulatory compliance record continues, with no complication resulting from the transition to the new regulatory regime.

Review of the period

As the integration of the S&P business is complete, we now focus on three key areas - management of the assets, regulatory compliance and ensuring we continue to provide a high quality service to policyholders in terms of administration service levels and investment return.

Management of assets

The acquisition of S&P, as signalled at the time of the acquisition, results in an increased level of earnings volatility for the UK business. S&P has a proportion of its product base that provides guaranteed returns. The probability of guarantees being of value to policyholders increases when the value of assets held to match the policy liabilities fall or when, particularly for those guarantees expressed as an amount of pension, bond yields fall. To mitigate this risk, to some extent, assets held by shareholders to provide security for these guarantees are invested in cash and long bonds. As a consequence, our results will be vulnerable to (a) falls in equity and property values, which impact assets backing policyholder liabilities; and (b) falls in bond yields, which impacts the cost of providing the guarantees.

Policyholder service and investment return

Our administration and asset management outsource partners have all performed well in the first half of 2013 and generally exceeded service level arrangements and relevant benchmarks.

UK BUSINESS REVIEW (CONTINUED)

Regulation and legal

As ever in this highly regulated industry there have been a number of new and ongoing initiatives that have led to various levels of attention and challenge. We are pleased to report that none of these has given rise to significant issues and below I set out a list of the key activities and a little background.

Solvency II

- Continued commitment to this project means that our progress remained in line with our plans. As the implementation date has, as widely expected, been postponed to 2016 this has given us the opportunity to review necessary progress, whilst bearing in mind that interim measures will be introduced. Therefore, we are continuing to develop the key aspects of the prospective regulations as they stand. Further information on our Solvency II project is provided on page 42.

PRA/FCA

- Interaction with the new regulatory bodies has been limited to date, as we would have expected, bearing in mind our regulatory track record. The contact that has occurred has given rise to the establishment of good relationships and no issues of concern. We maintain our commitment to maintaining a compliant operating model and a good relationship with our regulators.

Treating Customers Fairly

- We have continued to monitor performance against, and to continue the development of, our TCF measures. The results are discussed, where relevant, with our outsourcing partners and are reviewed by senior management and reported to the CA Board. No issues of significance have arisen.

Gender Neutral Rates

- We have decided not to introduce gender neutral rates (other than for annuities). This, to some degree, limits previously available flexibility in some product lines. To date this has not had any significant effect on policy cessation. We will continue to monitor this closely and have the option to introduce gender neutral rates if it is felt necessary in the future.

Complaints

- On the underlying business, complaints have remained at reasonable levels, with no discernible change in the number of complaints referred to the Financial Ombudsman or the percentage of such referred complaints being successful. However, the absolute number of complaints remains slightly higher than we might have expected due to Complaints Management Companies submitting complaints to us alleging that we mis-sold Payment Protection Insurance (PPI). Although we have never sold PPI policies and, therefore, cannot have any possible liability, we are still required to open a complaint file and formally respond.

New life tax regime

- A new regime pertaining to the taxation of Life Assurance companies came into effect at the end of last year. The planning we undertook for this change has proved successful and the models we developed are working efficiently.

Retail Distribution Review

- Although significant in the wider market this regulation, which essentially moves IFA's to a fee-charging model by banning commission by providers, has, as expected, had little effect on our closed books of business.

Policyholder Investment Funds

- The CA Investment Committee has continued its oversight of policyholder funds through regular meetings with the investment managers. We continue to work with our managers in order to ensure the underlying investment mix is the most appropriate for policyholders. In particular, the programme to move the ex-S&P Pension Property Fund from direct investment to collective funds over an eighteen-month period is going to plan.

Cash generation

Cash generation remains strong. This is due in the main to the core product based surpluses remaining resilient although a reduction in the cost of S&P guarantees has also made a significant cash contribution.



The S&P book has made a significant contribution of £20.3m to the 2013 cash generation. This is consistent with the fact that the S&P surplus is sensitive to investment market performance, which was generally favourable during the six months to 30 June 2013.

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 a function of:

- performance of the funds across UK equities, international equities, property and fixed interest securities;
- received and invested premiums; and
- policies closed, due to surrender, transfer or claim.



The combined impact of these three drivers has resulted in an increase in unit-linked assets under management from £2,221m at the end of 2012 to £2,270m at 30 June 2013.

SWEDISH BUSINESS REVIEW

Key performance indicators

IFRS pre-tax profit*



£1.0m

Six months ended 30 June 2012: £0.1m

*excluding consolidation adjustments

EEV result net of tax



£8.0m

Six months ended 30 June 2012: £6.1m

Funds under management



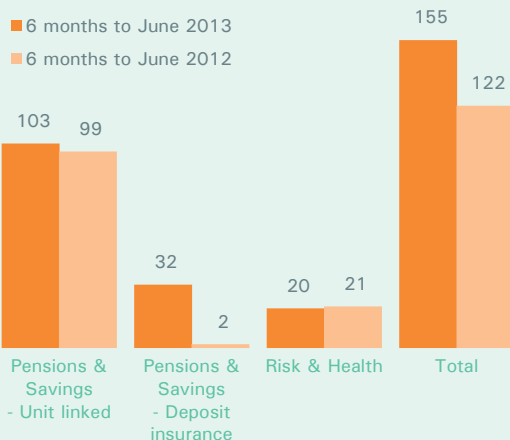
£1,519m

31 December 2012: £1,399m

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.



Premiums (£m)



Premium income, in the form of new business and continuing premiums into existing contracts, is important to the success of Movestic. The increase in total premiums primarily reflects the increase in new business volumes during the period.

KPIs continue on page 22



IFA support of the Movestic proposition has continued to gain momentum as evidenced by a 39.1% increase in new business volumes compared with the same period in 2012. Importantly the re-engineered servicing processes have held up well to the significant increase in processing volumes and none of the issues that caused the IFA dissatisfaction during 2012 have been seen during the period.

HIGHLIGHTS

- Increase in IFRS pre-tax profit to £1.0m (six months ended 30 June 2012: £0.1m) before amortisation of intangibles.
- Strong growth in funds under management.
- Positive EEV development, despite a further modest strengthening of lapse assumptions, which generated a £2.4m loss in the period.
- Process re-engineering programme has successfully mitigated the servicing problems experienced during 2011 and 2012.
- 39.1% increase in new business volumes compared with the same period in 2012.
- The ratio of transferred in business to transferred out has improved from 1:4 during 2012 to 2:4 for the six months to 30 June 2013.
- Continued recovery in new business market share throughout the period.

Review of the period

Financial results

Despite difficult operating conditions in 2012 the business ended the year relatively unscathed in terms of its core financial foundation. Continued positive investment conditions, compounded by more positive business performance during 2013, have resulted in significant improvements in the financial strength of the business:

- given that the revenue model is largely dependent on the level of unit-linked funds under management, it is pleasing to report that these have increased by 10.2% during the first half of 2013 and by 19.6% since the start of 2012.
- the Embedded Value of the business has increased by £10.9m (10.9%), including modelling adjustments and foreign currency translation reserve movements of £0.8m and £2.9m respectively during the six months to 30 June 2013.
- the business has generated c.£5m of new business profits on an annualised basis.

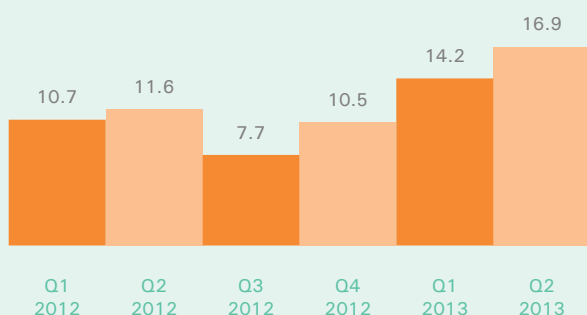
SWEDISH BUSINESS REVIEW (CONTINUED)

Business review

New business

New business volumes have increased by 39.1% compared with the six months to 30 June 2012. A key driver of this is the recovery in IFA sentiment towards Movestic following the significant improvements in service levels when compared with prior periods. The monthly trend is upwards and we expect new business growth to continue.

New business premium income (£m)

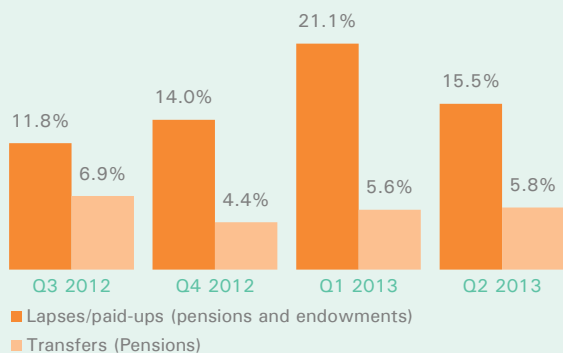


Policy attrition

The return in IFA support, as demonstrated by the increase in new business volumes, has not resulted in a corresponding improvement in the level of policy transfers out and surrenders. We believe this indicates that the levels of persistency experienced during the first half of 2013 are reflective of the broader dynamics of the IFA market, rather than being a direct reflection of the recent dip in customer service levels within Movestic. In light of this, the persistency assumptions have been further strengthened at 30 June 2013. The embedded value and the value of new business, as reported within the results to 30 June 2013, therefore now broadly align to current levels of persistency. The embedded value therefore assumes no early improvement in persistency. Management still believes that, in time, the impact of continued improvements in service levels, together with general external market developments, should have a positive impact on the long term persistency levels, but the positive impact will only be recognised if improvements are seen in actual lapse rates.

Despite there being no improvements in persistency levels, the ratios of transferred in business to transferred out has improved from 1:4 during 2012 to 2:4 during the six months to 30 June 2013.

Paid up and transfer rates 2013



Fund performance

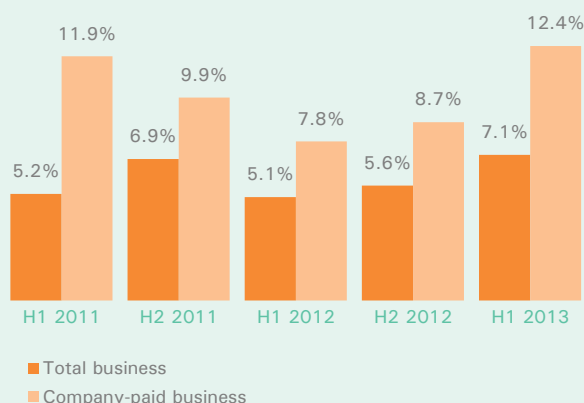
The relative fund performance measure adopted within the KPI's on the following page focuses on the number of funds under or over performing their relevant indices. An alternative and well established fund performance measure, produced by a respected industry magazine, compares the value of savers' average fund holdings. This measure best reflects the investment performance from a policyholder perspective. Movestic's fund range had the best performance over the period 2005 to 2010 and the second best performance for the period 2006 to 2011. The results for the period ended 31 December 2012 are not published until the second half of 2013.

Outlook

Funds under management are growing, new business operations are profitable and the servicing processes are proving to be "fit for purpose". Improvements in the financial and operating foundations of the business, when combined with renewed IFA support and a focused and positive management, team suggest the outlook for Movestic is good and much improved from 2012.

Movestic saw a gradual recovery in its market share of the company-paid pension market during the second half of 2012. During the first half of 2013 the share of the company paid pension market increased sharply to 12.4% from a 2012 average of 8.2%.

Share of unit-linked pensions market 2013

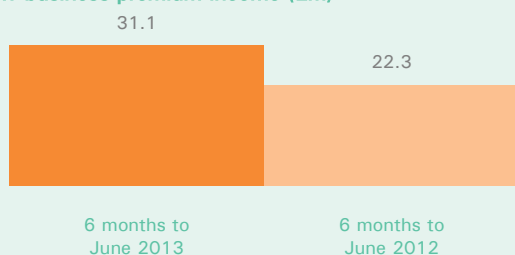


Economic conditions in Sweden have remained sound and it has proved to be relatively immune to economic pressures experienced across the rest of Europe. However, there remains a general sense of uncertainty that has resulted in consumer preference for more traditional investment products than for equity-based unit-linked investments. Movestic remains committed to the unit-linked market and believes that, in time, as equity market confidence recovers and that as the traditional investment offerings become less sustainable for providers, there will be a general shift back towards unit-linked investments.

SWEDISH BUSINESS REVIEW (CONTINUED)

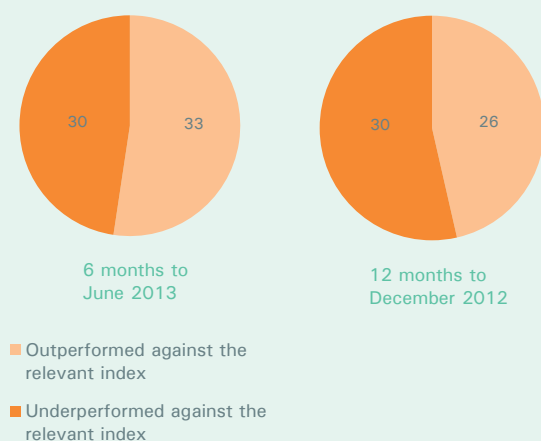
New business premium income

New business markets have remained challenging. The unit-linked market continues to be less strong than the market for more traditional investment products, which have a lower risk profile and continue to offer guarantees, which we believe to be unsustainable. Despite this ongoing external factor, the operational improvements in Movestic have resulted in an increase in total new business premium income for the six months to 30 June 2013, when compared with the same period in 2012.

New business premium income (£m)**Fund performance**

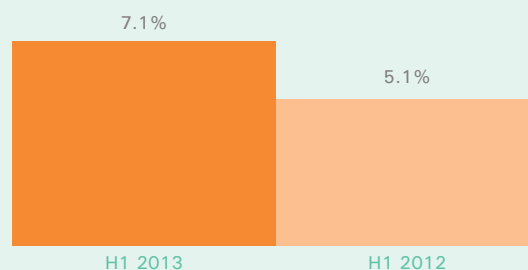
The increase in the number of funds out-performing their indices is a testament to our investment and fund selection strategy. One of Movestic's key differentiators is its approach to selecting the funds available to investors. Rather than adopt mainstream funds, which, in Sweden, are those predominantly managed by subsidiaries of banks which also have life assurance subsidiaries, we 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 made with managers to ensure that the underlying reason for fund 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. Where applicable we continue to add further funds to fill perceived gaps in the range.

Relative fund performance**New business market share**

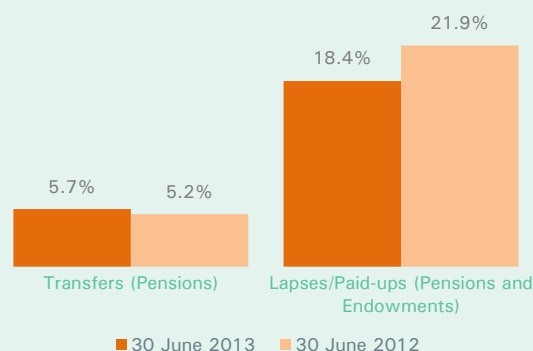
Movestic's primary target market is unit-linked pensions business and, within that, company-paid contribution business. The servicing issues during 2011 which continued into 2012 resulted in a loss of average market share compared with 2011, although as can be seen below new business market share during the first half of 2013 has shown signs of improvement.

This performance should be seen in the context of some of the traditional product providers having undertaken campaigns to move customers to 'new' unit-linked policies to address the challenges inherent in traditional guaranteed return products.

Total unit-linked pension business market share (excluding 'tick the box' market)**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.

We have continued with relatively high rates of attrition throughout the first half of 2013, although we have seen improvements in lapses when compared with the same period in 2012.



The percentages for transfers are based on the capital amount surrendered or transferred, divided by the amount of capital potentially transferable. For lapses, they are the annual premium of lapsed policies, divided by the total annual premium in force at the start of the period.

FINANCIAL REVIEW

The Group's key financial performance indicators as at 30 June 2013 and for the period 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

£21.8m

Six months ended 30 June 2012:
£9.3m (excluding exceptional item)



Cash generation

£21.9m

Six months ended 30 June 2012:
£12.4m

The presentation of the results in accordance with International Financial 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 £21.8m, shows a 134% improvement from the six months ended 30 June 2012 of £9.3m, excluding exceptional items.
- Profits from the core CA closed book remain significant, and have increased compared with the six months ended 30 June 2012 (six months ended 30 June 2013: £22.5m; six months ended 30 June 2012: £10.5m). The increase is predominately due to investment market movements, with the core underlying product based-surplus remaining resilient to book run-off.
- The 2013 result includes a £16.8m profit from the S&P business. This compares favourably with the profit for the six months ended 30 June 2012 of £4.7m, largely as a result of a reduction on the cost of guarantees driven by favourable investment market movements.
- There was a £0.9m improvement in the Movestic result when compared with the same period in 2012.

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 £4.2m cash generation in CA continues to be strong (six months ended 30 June 2012: £6.4m).
- S&P has contributed £20.3m cash in generation in the six months ended 30 June 2013 results compared with £7.4m for the equivalent period in 2012.
- Movestic has required no capital support during the six months to 30 June 2013 (six months to 30 June 2012: nil).

FINANCIAL REVIEW (CONTINUED)



EEV earnings, net of tax* £35.4m profit

Six months ended 30 June 2012:
£15.9m loss

*excluding modelling adjustments of
£0.8m in 2013 (six months ended
30 June 2012: nil)

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

- Significant economic profit of £33.1m (six months ended 30 June 2012: £6.2m).
- Decrease in operating profit to £4.6 m (six months ended 30 June 2012: £14.0m).
- Movestic has generated a £7.2m EEV profit despite modest strengthening of lapse assumptions.
- Movestic has generated a new business contribution of £2.3m in the period.



EEV £337.4m

31 December 2012: £311.1m

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

- £39.2m increase in EEV before recognition of dividend payments.
- Model enhancements generated a £0.8m increase in EEV in the period (six months ended 30 June 2012: £nil; six months ended 31 December 2012: £3.6m).
- Good balance of EEV across the operating segments.
- Good product diversification within the value in-force.
- A strengthening of Swedish Krona against sterling has contributed to a £2.9m increase in Embedded Value in the period.

FINANCIAL REVIEW



IFRS PRE-TAX PROFIT

£21.8m Six months ended 30 June 2012 £9.3m (excluding exceptional item)

Executive summary

The IFRS results by business segment reflect the natural dynamics of each line of business. In summary the current financial model has three 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 six months to 30 June 2013 support this objective, with product-based deductions of £14.4m continuing to emerge in a predictable fashion and at a level that compares favourably against the equivalent period in 2012 of £13.6m. This level of product-based deductions has underpinned CA’s ability to generate a significant level of IFRS pre-tax profit at £6.8m. Results show a 3.9% increase in assets under management since 31 December 2012.

Variable element

The S&P component brings an element of earnings volatility to the Group, with the results being particularly sensitive to investment market movements. This is illustrated by a material reduction in the reserve for costs of guarantees since the start of the year, giving rise to a £14.2m economic benefit to the result during the period. In addition to this, market movements have also given rise to a negative return of £2.2m on the shareholder assets within the with-profits funds, predominantly driven by the reduction in bond values compared with year end, and also a reduction in sterling and expenses reserves, realising a benefit of £3.4m in the period.

Growth operation

Although, at its current scale, Movestic has posted a small and increasing, 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. There has been an increase in funds under management of 8.5% since 31 December 2012.

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

	Unaudited Six months ended 30 June		Year ended 31 December	Note
	2013 £m	2012 £m	2012 £m	
CA	6.8	7.5	18.5	2
S&P	17.2	5.1	14.6	
Movestic	1.0	0.1	1.4	
Chesnara	(1.2)	(1.0)	(5.8)	
Consolidation adjustments	(2.0)	(2.4)	(4.2)	
Total profit before tax and exceptional item	21.8	9.3	24.5	
Exceptional item	-	(4.8)	(4.8)	1
Total profit before tax	21.8	4.5	19.7	
Tax	(4.6)	2.6	8.2	1
Total profit after tax	17.2	7.1	27.9	

Note 1 – As explained in Note 5 to the IFRS financial statements, an exceptional item of £4.8m was reported in the six months to 30 June 2012 relating to the reclassification of policyholder tax liabilities within the 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 tax 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.

Note 2 – The S&P results for the period include £12.2m arising from the impact of movements in investment markets on the cost of guarantee reserve.

The adjustments arising on consolidation are analysed below:

	Unaudited Six months ended 30 June		Year ended 31 December
	2013 £m	2012 £m	2012 £m
CA – Amortisation of AVIF	(1.1)	(1.6)	(2.8)
S&P – Amortisation of AVIF	(0.4)	(0.4)	(0.8)
Movestic:			
Amortisation of AVIF	(2.2)	(2.0)	(4.0)
Write back of DAC	1.7	1.6	3.4
Total	(0.5)	(0.4)	(0.6)
Total	(2.0)	(2.4)	(4.2)

FINANCIAL REVIEW

IFRS PRE-TAX PROFIT (CONTINUED)

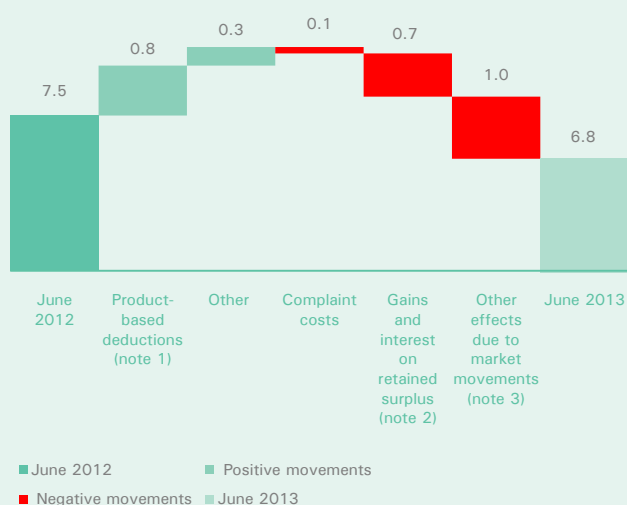
The IFRS results by business segment are analysed in more detail as follows:

CA

Despite a slight increase in product-based deductions, the core source of IFRS earnings, the overall CA IFRS result has declined slightly as compared with the same period in 2012. There are a number of complex aspects to the IFRS result but the primary drivers of this slight decline is the impact of market movements compared with the same period in 2012, as illustrated below:

Profit before tax movement

Six months ended 30 June 2012 to six months ended 30 June 2013 (£m)



Note 1 – Product-based deductions continue to remain strong and are a core source of profit. The deductions during the first half of 2013 slightly exceeded the same period in 2012 primarily driven by higher policyholder tax deductions.

Note 2 – Gains and interest on the retained surplus has fallen when compared with the same period in 2012, largely driven by a fall in bond values since the 31 December 2012.

Note 3 – The CA book has experienced some negative movements as a result of market movements since the year end, primarily as a result of mismatch losses, tax reserve increases and other reserve increases.

The key components of the IFRS result for the six months ended 30 June 2013 are summarised as follows:

	Unaudited Six months ended 30 June		Year ended 31 December 2012	Note
	2013 £m	2012 £m	2012 £m	
Product-based deductions	14.4	13.6	26.3	1
Gains and interest on retained surplus	1.8	2.5	5.4	1
Administration expenses	(4.8)	(4.8)	(9.1)	1
Other effects due to market movements	(4.2)	(3.2)	(1.7)	2
Complaint costs	(0.6)	(0.5)	(2.3)	3
Other	0.2	(0.1)	(0.1)	
Total	6.8	7.5	18.5	

Note 1 – Product-based deductions and returns on retained surplus remain significantly in excess of recurring administration expenses. The total level of product-based deductions has increased slightly when compared with the same period in 2012 despite the run-off of the book.

Note 2 – The impact of investment market conditions is generally relatively muted for the CA book compared with S&P. The first six months of 2013 includes the impact of some mismatch losses, tax reserve increases and some other reserve changes, all of which contribute to the £4.2m adverse impact of market movements seen during the period.

Note 3 – During the year ended 31 December 2012 complaint costs included the impact of the strengthening of the mortgage endowment mis-selling reserve. No further strengthening has been required to this reserve during the six months to 30 June 2013.

FINANCIAL REVIEW

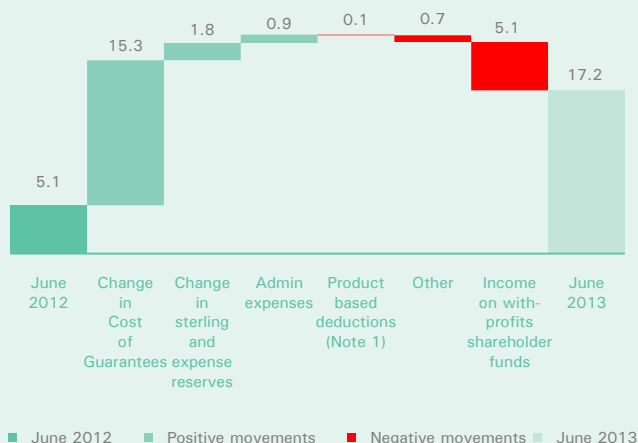
IFRS PRE-TAX PROFIT (CONTINUED)

S&P

The S&P pre-tax profit has increased significantly compared with the six month period of 30 June 2012:

Profit before tax movement

Six months ended 30 June 2012 to six months ended 30 June 2013 (£m)



S&P posted a pre-tax IFRS profit of £17.2m for the six months ended 30 June 2013, the key components of the result being:

Pre-tax IFRS profit	Unaudited Six months ended 30 June		Year ended 31 December 2012	
	2013 £m	2012 £m		
Product based deductions	8.3	8.4	16.9	1
Administration expenses	(5.0)	(5.9)	(11.0)	1
Income on with-profits shareholder funds	(2.2)	2.9	6.3	2
Change in cost of guarantees in with-profit funds	-	-		3
Investment market movements	4.0	1.6	9.0	
Change in yield curve	10.2	(2.0)	(6.5)	
Lapse experience	(1.7)	-	(3.3)	
Other	0.5	(1.9)	(1.9)	
Total	13.0	(2.3)	(2.7)	
Change in sterling and expense reserves	3.4	1.6	3.9	4
Other	(0.3)	0.4	1.2	
Total	17.2	5.1	14.6	

Note 1 – Product-based deductions have held up well as the book runs off, aided to some extent by the impact of capital growth on funds under management. Product deductions exceed administration expenses by £3.3m and £2.5m in the six months to 30 June 2013 and 2012 respectively.

Note 2 – The income on with-profits shareholder funds is driven by investment market performance. The 2013 result includes the impact of the reduction in bond values that has been witnessed during the period which did not occur during the same period in 2012.

Note 3 – During the six months ended 30 June 2013 the impact of movements in reserves for the cost of guarantees was positive, resulting in an £13.0m benefit to the IFRS result (six months ended 30 June 2012: £2.3m loss). The key drivers of this benefit in 2013 were a combination of increases in bond yields and increases in equity values since the year end.

A small lapse experience loss has been recognised in 2013 driven by observed lapses being slightly less than assumed at the start of the period.

Note 4 – Sterling and expense reserves are sensitive to both the expense base and to investment market movements. As investment markets improve, the level of sterling reserves (which provide against situations where future policy-based revenue does not cover future administration costs) reduces. The profit of £3.4m in the first six months of 2013 is predominantly driven by investment market movements.

FINANCIAL REVIEW

IFRS PRE-TAX PROFIT (CONTINUED)

Movestic

Pre-tax IFRS profit	Unaudited Six months ended 30 June		Year ended 31 December	
	2013	2012	2012	
	£m	£m	£m	
Pensions and Savings	0.8	0.1	(0.3)	1
Risk and Health	0.8	0.3	0.9	2
Other	(0.6)	(0.3)	0.8	3
Total profit before tax	1.0	0.1	1.4	

Note 1 – The Pensions and Savings business model is directly dependent upon fees and rebates earned on funds under management (FUM). The average FUM has increased during six months to 30 June 2013 resulting in a £1.0m (9%) increase in fee and rebate income. This is partly offset by a £0.7m (8%) increase in expenses and brokerage fees. Reinsurance financing costs have also made a positive contribution to the year on year improvement, having reduced by £0.6m.

Note 2 – The Risk and Health business, although not the core target growth operation, is significant to the Movestic financial and operating model. Unlike the longer-term Pension and Savings business the Risk and Health business tends to be cash generative in the short-term, thereby providing a source of internal funding. Further, the Risk and Health business is operationally significant due to the size of the book, there being 390,662 short-term policies in force as at 30 June 2013, which generated £41.4m of gross annual premiums in the first six months of 2013. The improvement in pre-tax profit compared with the six months to 30 June 2012 has been achieved despite a 4% reduction in gross premiums and is principally due to a 21% (£0.7m) reduction in claims net of reinsurance.

Note 3 – The “Other” component includes the results of the associate, Modernac, Movestic investment income and the impact of fair value adjustments to the Financial Reinsurance liability. The Modernac and Movestic investment income results have improved by £0.2m and £0.1m respectively half year on half year. The financial reinsurance fair value adjustment for the first half of 2013 has generated a £1.2m loss compared with a £0.6m loss for the first half of 2012. All of these movements are predominately a consequence of investment market conditions.

FINANCIAL REVIEW



CASH GENERATION

£21.9m Six months ended 30 June 2012 £12.4m



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.

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

HIGHLIGHTS

- Net cash generation in the UK run-off businesses, has increased by £10.7m in the half year compared with the same period in 2012, driven by more favourable investment markets.
- The pause in Movestic funding has continued, although this funding is anticipated to resume at a modest level in the second half of 2013.

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 ultimately naturally decline over time as the UK businesses run off, despite the increase in cash generation in the first six months of 2013 when compared with the same period in 2012.

Although investment returns are less predictable, a significant portion of the investment risk is borne by policyholders. However, the S&P segment continues to demonstrate short-term volatility. 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):

	Unaudited Six months ended 30 June		Year ended 31 December
	2013 £m	2012 £m	2012 £m
Cash generated from/(utilised by):			
CA			
Surplus and profits arising in the period	4.3	5.6	13.3
Change in target capital requirement	(0.1)	0.8	1.7
S&P			
Surplus and profits arising in the period	20.7	3.8	14.5
Change in target capital requirement	0.3	2.6	5.4
(Decrease)/increase in policyholder funds cover for target capital requirement	(0.7)	1.0	(0.3)
Total UK cash generation	24.5	13.8	34.6
Synergistic effects of Part VII transfer	–	–	7.0
Movestic			
Additional capital contributions	–	–	–
Chesnara			
Cash utilised by operations	(2.6)	(1.4)	(0.6)
Net cash generation	21.9	12.4	41.0

FINANCIAL REVIEW



EEV EARNINGS, EXCLUDING MODELLING ADJUSTMENTS

£35.4m profit Six months ended 30 June 2012: £15.9m profit

EEV result

Summary

The headline EEV result has improved significantly during the six months to 30 June 2013. The majority of the improvement relates directly to investment market conditions. The results benefit from both economic experience and assumption profits, which have benefitted predominately from equity market growth and an increase in the yield curve respectively.

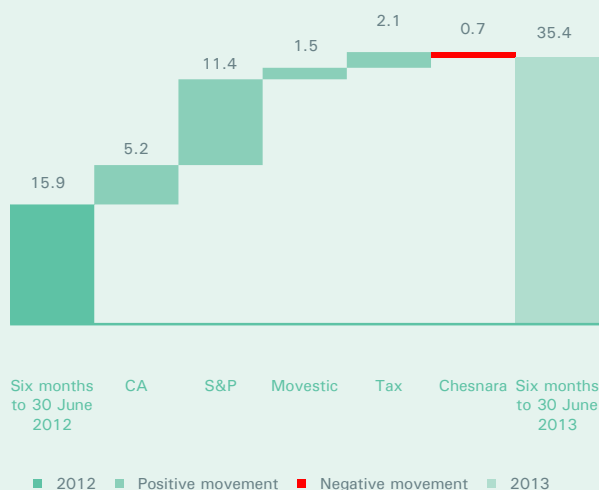
The operating result, upon which management has the most direct and immediate influence, represented a more significant proportion of the total earnings during 2012. The 2012 comparatives include some £13m due to positive assumption changes relating to broker and fund manager rebates in Movestic that have not been replicated to the same degree during 2013.

A significant proportion of the operating profit is also directly the result of investment market movements. The return on shareholder net worth loss of £2.3m reflects a reduction in bond capital values. During the six months to 30 June 2012 reducing bond yields led to a corresponding £3.6m profit.

The following tables analyse the Group EEV earnings after-tax by source and by business segment:

Profit after tax movement

Six months to 30 June 2012 to six months to 30 June 2013 (£m)



Analysis of the EEV result in the period by business segment

	Unaudited Six months ended 30 June		Year ended 31 December
	2013	2012	2012
	£m	£m	£m
CA	12.1	6.9	13.1
S&P	19.5	8.1	15.7
Movestic	7.3	5.8	13.0
Chesnara	(1.2)	(0.5)	(5.7)
Total pre-tax profit	37.7	20.3	36.1
Tax	(2.3)	(4.4)	(4.9)
Profit after tax	35.4	15.9	31.2

Analysis of the EEV result in the period by earnings source

	Unaudited Six months ended 30 June		Year ended 31 December
	2013	2012	2012
	£m	£m	£m
New business contribution	2.8	(0.1)	2.9
Return from in-force business			
Expected return	2.6	3.1	5.8
Experience variances	1.5	2.7	0.4
Operating assumption changes	0.2	4.9	2.0
Return on shareholder net worth	(2.3)	3.6	7.9
Operating profit of covered business	4.8	14.2	19.0
Variation from longer term investment return	20.8	7.0	28.0
Effect of economic assumption changes	12.3	(0.8)	(6.5)
Profit on covered business before tax	37.9	20.4	40.5
Tax	(2.5)	(4.3)	(6.0)
Profit on covered business after tax	35.4	16.1	34.5
Uncovered business and other group activities	(0.1)	(0.1)	(4.4)
Tax on uncovered business	0.1	(0.1)	1.1
Profit after tax	35.4	15.9	31.2

Economic conditions

As indicated above, the EEV result is sensitive to economic conditions. Economic experience and assumption changes contributed a profit of £33.1m in the six months to 30 June 2013 compared with a profit of £6.2m for the six months to 30 June 2012. The results are sensitive to both equity markets and bond yields (further sensitivity analysis is provided in Note 7 of EEV Supplementary Information). The economic assumption profit is dominated by bond yield movements, which following a period of decline during 2012, have increased relatively sharply during 2013. The "variation from longer term investment return" profit is predominantly due to continued equity market growth. The impact of these effects on each operating segment is illustrated below:

Economic experience and assumption changes	Unaudited Six months ended 30 June		Year ended 31 December
	2013	2012	2012
	£m	£m	£m
CA	6.5	0.7	4.7
S&P	18.1	2.3	8.3
Movestic	8.5	3.2	8.5
Total	33.1	6.2	21.5

The S&P profit in 2013 includes an experience profit of £6.9m together with a £11.2m assumption profit. Both items are largely due to a general reduction in the cost of guarantee reserve which has reduced by £11.2m in the period. Of the total reduction in the cost of guarantees, 75% relates to the increase in assumed level of the risk-free rate of return.

FINANCIAL REVIEW

EEV EARNINGS (CONTINUED)

Economic conditions (continued)

The Movestic business is sensitive to movements in equity markets (predominantly Swedish) due to its core income stream being dependent upon management charges levied on funds under management, which are primarily equity-based. The majority (£7m) of the Movestic profit relates to equity growth in the period. An increase in longer-term investment yield assumption has added a further £1.5m of profit. The CA result is relatively less sensitive to investment market movements although during the six months to 30 June 2013 the results have benefitted from tax deductions and movements in tax liabilities that are a direct result of investment market performance.

New business contribution

The new business contribution relates primarily to the Movestic Pensions and Savings business. Movestic also writes Risk and Health policies, but due to its more short-term nature the Risk and Health business is reported as uncovered business and hence does not contribute to the new business result. The Movestic contribution is £2.3m, of which £0.9m relates to the value of premium increments received on existing policies. Profits on "new contract" business of £1.4m, have recovered significantly compared with the 2012 equivalent of £0.2m. The 2013 results remain lower than the profit during the first half of 2011 of £3.1m, which illustrates the potential further upside opportunity. The recent recovery is due to a 39.1% increase in new business volumes following the rectification of the 2012 servicing issues that arose from a 2011 systems migration.

Experience variances

Experience variances	Unaudited		Year ended
	Six months ended 30 June		31 December
	2013	2012	2012
	£m	£m	£m
CA	3.2	4.6	5.2
S&P	3.0	2.2	3.1
Movestic	(4.7)	(4.1)	(7.9)
Total	1.5	2.7	0.4

The CA favourable variances relate to policy persistency and mortality experience being better than assumed. The S&P favourable variances in 2013 relate principally to policyholder tax deductions and better than assumed expense and lapse experience of £0.8m and £1.6m respectively.

The Movestic experience variances include significant but reducing lapse experience variances. The 2012 full year result included a £6.0m persistency loss. This has reduced to a loss of £1.5m for the six months to 30 June 2013. The improvement is primarily due to recent strengthening of lapse assumptions. Despite the previous assumption strengthening, persistency losses have continued into 2013. In recognition of the level of continuing adverse experience, lapse assumptions have been further strengthened as at 30 June 2013, the impact of which is included in the operating assumption changes.

Operating assumption changes

Operating assumption changes	Unaudited		Year ended
	Six months ended 30 June		31 December
	2013	2012	2012
	£m	£m	£m
CA	1.2	(0.2)	(0.3)
S&P	0.8	0.2	(2.9)
Movestic	(1.8)	4.9	5.2
Total	0.2	4.9	2.0

The S&P 2012 full year result reflected a loss of £3.7m following a change in lapse assumptions. Policies are expected to run-off at a slower rate than previously assumed and for a book carrying guarantees this has a negative impact as more policies are anticipated to rank for guarantee payments. This was partially offset by a profit resulting from a reduction in future expenses assumptions. No further operating assumption change profit has emerged from the S&P book in the first half of 2013.

Investigation of CWA lapse experience highlighted that the level of assumption out-performance is higher than previously expected and as such CWA lapse assumptions have been weakened at the 30 June 2013 resulting in a profit of £1.8m.

During 2012 the Movestic long-term lapse assumptions were strengthened, with a total adverse impact of £7.9m. This was more than offset by positive assumption changes relating to broker and fund manager rebates totalling some £13m. Lapse assumptions have been further strengthened as at 30 June 2013 such that they now broadly align to current levels of experience. This resulted in a £2.4m loss. Changes to expense assumptions added a further £0.6m loss. Continuing positive changes relating to broker and fund manager rebates have had a £1m positive compensating effect.

Uncovered business and other group activities

	Unaudited		Year ended
	Six months ended 30 June		31 December
	2013	2012	2012
	£m	£m	£m
Chesnara	(1.2)	(0.5)	(5.7)
Movestic	1.0	0.4	1.3
Total	(0.2)	(0.1)	(4.4)

The result includes Chesnara parent company costs relating to corporate governance and business development, not attributable to the covered business. The 2013 expense is reflective of the steady state cost base, whereas the 2012 full year comparison included a £2.5m one-off increase in a provision to cover future contractual property costs associated with the Group Head Office.

The Movestic result is impacted by:

- Risk and Health results: This business is less long-term in nature and hence is not modelled as covered business. Profit of £0.8m is £0.5m higher than the prior year equivalent.
- Profit from the Modernac associate, which at £0.4m for the six months to 30 June 2013 has increased marginally from a profit of £0.2m for the six months to 30 June 2012.
- Valuation adjustments for the Movestic financial reinsurance arrangements which had a £0.2m adverse impact on the results for the six months to 30 June 2013 compared with having no impact on the EEV figures during the first half of 2012.

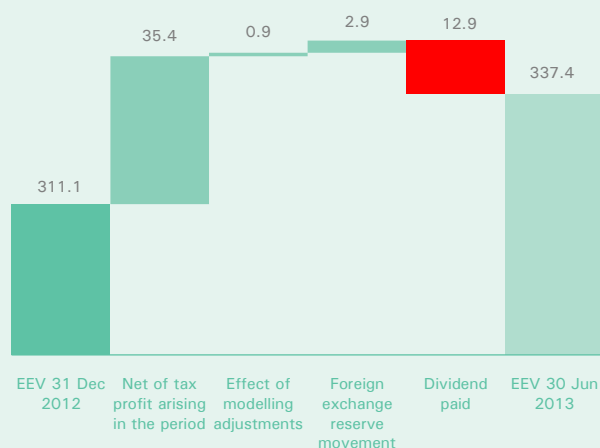
FINANCIAL REVIEW



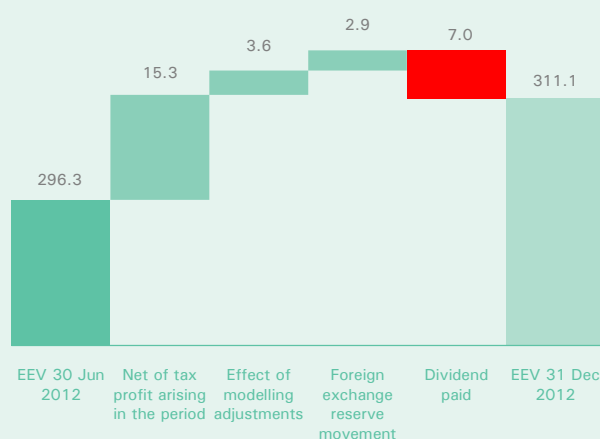
EUROPEAN EMBEDDED VALUE

£337.4m 31 December 2012; £311.1m

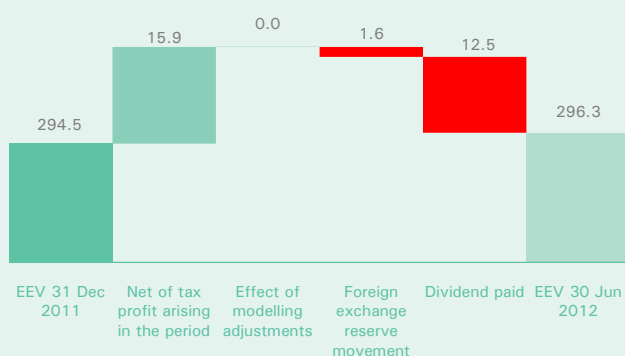
EEV movement 31 December 2012 to 30 June 2013:



EEV movement 30 June 2012 to 31 December 2012:



EEV movement 31 December 2011 to 30 June 2012:



Net of tax profit

The EEV profit arising during the period is analysed in more detail within the preceding section.

Effect of modelling adjustments

Modelling adjustments during the six months ended 30 June 2013 have reduced when compared with those included in the six months ended 31 December 2012.

Modelling adjustments this period of £0.8m relate entirely to the Movestic business and have arisen due to further small refinements that have been made to the model since the year end that are outside of our operating results. These adjustments followed a thorough external review of our model by an external consultancy.

The modelling adjustments that were reported during the second half of 2012 were more material, contributing to an increase in EEV of £3.6m, comprising:

Movestic

As a result of a review of the model during 2012 the following adjustments were reflected in the EEV at 31 December 2012:

- Levels of commission claw-back within the future cash flow projections were overstated by £7.9m; and
- Several enhancements to policy fee cash flow estimates and data input routines have been identified with a total net adverse impact of £1.1m.

UK

The CA and CWA EEV models previously assumed a single average rate of investment return for all durations as opposed to the use of a full yield curve. This approximation was reported in the EEV assumptions section of the Supplementary Information within the 2011 Report and Accounts. As at 31 December 2012 the models were enhanced to recognise differing rates of return across the different durations of the yield curve, resulting in a net of tax increase of £12.6m.

Foreign exchange reserve movements

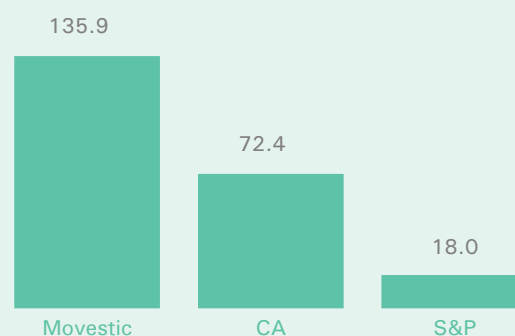
The £2.9m foreign exchange reserve movement during 2013 has arisen as a result of a strengthening of the Swedish Krona against Sterling by 2.74% since the end of 2012.

EUROPEAN EMBEDDED VALUE (CONTINUED)EEV – Value in force (VIF) and adjusted shareholder net worth (SNW)
(£m)

HIGHLIGHTS

- There is a good balance in EEV across the core business segments, with the UK businesses representing the majority (51%) of the total EEV. The value in-force component is dominated by the Swedish business which represents 60% of the total Group VIF.
- There is a significant level of product diversification within the VIF. When adjusted to recognise the impact of the S&P cost of guarantees which are predominantly pension contract related, 63% of the total product level value in-force relates to pension contracts, 18% to protection business and 13% to endowments.

Analysis of VIF at 30 June 2013 - £226.3m



FINANCIAL REVIEW

EUROPEAN EMBEDDED VALUE (CONTINUED)

The tables below set out the value of in-force business by major product line at each period end. Analysis of the composition of the VIF by business and major product category provides a useful insight into the commercial dynamics underpinning the value of Chesnara.

30 June 2013 (unaudited)	Number of policies				Value of in-force business			
	CA 000's	S&P 000's	Movestic 000's	Total 000's	CA £m	S&P £m	Movestic £m	Total £m
Endowment	36	5	11	52	26.0	2.8	7.9	36.7
Protection	41	5	-	46	49.3	3.8	-	53.1
Annuities	6	-	-	6	7.4	1.0	-	8.4
Pensions	45	125	80	250	33.8	44.0	135.7	213.5
Other	3	11	-	14	3.8	4.1	-	7.9
Total at product level	131	146	91	368	120.3	55.7	143.6	319.6
Valuation adjustments:								
Holding company expenses					(6.7)	(3.0)	(7.6)	(17.3)
Other					(21.1)	(32.0)	-	(53.1)
Cost of capital/frictional costs					(1.0)	(2.7)	(0.1)	(3.8)
Value in-force pre-tax					91.5	18.0	135.9	245.4
Taxation					(19.1)	-	-	(19.1)
Value in-force post-tax					72.4	18.0	135.9	226.3

30 June 2012 (unaudited)	Number of policies				Value of in-force business			
	CA 000's	S&P 000's	Movestic 000's	Total 000's	CA £m	S&P £m	Movestic £m	Total £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

31 December 2012	Number of policies				Value of in-force business			
	CA 000's	S&P 000's	Movestic 000's	Total 000's	CA £m	S&P £m	Movestic £m	Total £m
Endowment	39	5	12	56	27.7	3.8	8.1	39.6
Protection	43	5	-	48	49.2	3.7	-	52.9
Annuities	6	-	-	6	7.8	0.9	-	8.7
Pensions	46	128	78	252	33.6	55.0	124.2	212.8
Other	3	12	-	15	3.2	3.3	-	6.5
Total at product level	137	150	90	377	121.5	66.7	132.3	320.5
Valuation adjustments:								
Holding company expenses					(7.0)	(3.9)	(7.7)	(18.6)
Other					(28.6)	(41.8)	-	(70.4)
Cost of capital/frictional costs					(1.1)	(2.4)	(0.1)	(3.6)
Value in-force pre-tax					84.8	18.6	124.5	227.9
Taxation					(17.8)	-	-	(17.8)
Value in-force post-tax					67.0	18.6	124.5	210.1

FINANCIAL MANAGEMENT

OBJECTIVES



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

- i) safeguards policyholders' interests by meeting regulatory requirements established by the regulators of the insurance markets in which the Group's regulated companies operate, while not retaining unnecessary excess capital;
- ii) seeks to meet the dividend expectations of shareholders and to optimise the gearing ratio to ensure an efficient capital base;
- iii) ensures there is sufficient liquidity to meet obligations to policyholders, debt financiers and creditors as they fall due; and
- iv) maintains the Group as a going concern so that it continues to provide returns and to meet obligations to shareholders.

CAPITAL STRUCTURE AND CASH FLOWS

The Group's UK operations are ordinarily financed through retained earnings and through the current emergence of surplus in the UK life businesses.

Movestic is financed by a combination of external financial reinsurance arrangements and capital contributions from Chesnara.

With respect to acquisitions the Group seeks to finance these through a suitable mix of debt and equity, within the constraints imposed by the operation of regulatory rules over the level of debt finance which may be borne by Insurance Groups without breaching solvency requirements.

The acquisition of S&P in December 2010 for £63.5m was accomplished by way of debt: equity financing broadly in a ratio of 2:1. This introduced a modest level of gearing to the structure of Group financing.

Other factors which may place a demand on capital resources in the future include the costs of unavoidable large scale systems developments such as those which may be involved with changing regulatory requirements. To the extent that ongoing administration of the UK life businesses is performed within the terms of its third-party outsourcing agreements, the Group is sheltered, to a degree, from these development costs as they are likely to be on a shared basis.

The Group's longer-term cash flow cycle continues to be characterised by the strong inflow to shareholders' funds of transfers from the long-term insurance funds of CA, which is supported by the emergence of surplus within those funds.

These flows are used:

- i) to repay our debt obligations;
- ii) to support dividend distributions to shareholders; and
- iii) to support the medium-term requirements of Movestic to meet regulatory solvency capital requirements as it expands.

METHODS

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

- i) regulatory solvency capital resource and capital requirements analysis, where the relevant Boards set minimum targets for solvency capital resources;
- ii) longer-term projections of key financial variables, including the regulatory solvency calculations set out in (i); and
- iii) the setting of policies and investment manager guidelines for the investment of policyholder and shareholder funds.

Regulatory solvency capital resources and requirements

The operation of the UK, Swedish and EU regulatory regimes with respect to solvency capital requirements at the individual regulated company and Group level together with details of minimum target solvency ratios are set out in the IFRS financial statements ('Capital Management'). Targets are established at a level which aims 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 businesses, which are in run-off, and absorbed by Movestic which is in a development phase. In respect of the UK businesses 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; and
- ii) a Pillar 2 calculation which compares a risk-based assessment of solvency capital with an associated measure of capital based on a realistic assessment of insurance liabilities; 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.

These calculations are monitored continuously.

FINANCIAL MANAGEMENT (CONTINUED)

Longer-term projections

On a six monthly basis, longer-term projections are prepared on a Group basis embracing:

- i) Segmental earnings and surplus arising in the long-term insurance funds;
- ii) Chesnara company cash flows;
- iii) Regulatory solvency and capital resources and requirements on a regulated individual entity basis and on a consolidated Group basis; and
- iv) European embedded value.

The projections are prepared for a base case and for various sensitivities; the base case follows the latest assumptions approved by the respective boards, regarding:

- i) the calculation of actuarial liabilities for longer-term insurance contracts; and
- ii) cash flows within the embedded value calculation.

The sensitivities which are prepared include the impact of movements in:

- i) equity, property and bond markets;
- ii) variations in anticipated new business volumes in the Swedish business; and
- iii) adverse movements in the Sterling: Swedish Krona exchange rate.

In addition:

- Financial condition reports are prepared on an annual basis which includes assessments of the ability of the business to withstand key adverse events, including increased rates of policy lapse, expense overruns and unfavourable market conditions.
- Reverse stress testing techniques are employed which assess events and circumstances which would cause the combined CA and S&P business to become unviable. In this context, unviable is defined as the point at which the market loses confidence in the firm being able to carry out its normal business activities.

Investment management

An element of meeting policyholders' expectations and thereby, promoting customer retention is the pursuit of good relative investment performance in the policyholder funds.

The CA funds are primarily managed by Schroder Investment Management Limited while the CWA funds continue to be managed by Irish Life Investment Managers Limited and the S&P funds continue to be managed by JPMorgan Asset Management (UK) Ltd.

We meet formally with fund managers on a quarterly basis to assess past performance and future strategy. Investment guidelines for investment fund managers are established for each fund having regard to the nature of the fund and to contractual obligations to policyholders. For the with-profits funds these are also in accordance with the published Principles and Practices of Financial Management.

Movestic funds are managed by a carefully selected range of fund managers who have strong performance records in the relevant sector. Performance is monitored very closely and regular meetings are held with fund managers. Should under performance continue then an alternative manager is sourced and appointed to manage the relevant assets. Where a new market niche or specific opportunity is identified new funds may also be added.

The CA Board continues to have a conservative approach to the investment of shareholders' funds in the UK life businesses, which underpins our strong solvency position. For the UK businesses, where the greater part of shareholders' funds subsist, this approach targets the investment of 100% of available funds in cash and fixed interest securities. In the light of recent volatility in financial markets, particular attention is given to the mix and spread of these investments to ensure that we are not unduly exposed to particular sectors and that our counterparty limits are strictly adhered to.

FINANCIAL MANAGEMENT (CONTINUED)

OUTCOMES

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

Solvency and regulatory capital

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

	30 June 2013		31 December 2012		30 June 2012	
	Solvency ratio %	Excess capital £m	Solvency ratio %	Excess capital £m	Solvency ratio %	Excess capital £m
CA						
- Pre proposed dividend to Chesnara	244	49.1	279	64.6	213	36.7
- Post proposed dividend to Chesnara	244	49.1	199	24.6	213	36.7
S&P	n/a	n/a	n/a	n/a	115	0.9
Movestic	309	18.2	280	15.1	277	14.1
Group (Consolidated EU Insurance Groups Directive basis post proposed dividend)	232	83.6	244	90.4	198	71.1

- i) During the financial year ended 31 December 2011, the business of S&P was transferred to CA under part VII of the FSMA. The amounts reported as S&P as at 30 June 2012 represent residual S&P shareholder funds which were retained to cover the minimum EU regulatory capital resource requirements for regulated entities. The S&P companies were de-authorised during 2012 thereby removing the need for them to maintain regulatory capital resources.
- ii) Excess capital is determined by the minimum regulatory capital resource targets set by the respective boards, except for the Group solvency ratio for which no target is set above the regulatory minimum of 100%. Reliance is placed instead on the efficacy of targets set at the subsidiary level.
- iii) The Movestic Board has set a minimum target of 150% of the regulatory capital requirement. Swedish solvency regulation requires that a certain proportion of assets, to be fully admissible, is to be held in the form of cash. The operation of this requirement may, from time to time, act as the operative constraint in determining the level of additional funding requirements, thereby causing Movestic's solvency ratio to rise above what it would otherwise have been, had the form of assets matching capital resources not been a constraint.

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

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

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.

FINANCIAL MANAGEMENT (CONTINUED)

Returns to shareholders



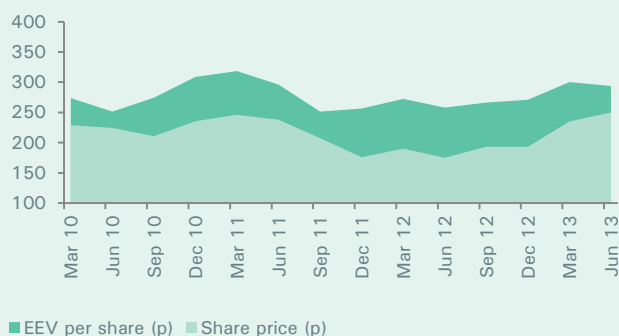
The Board's primary aim is to continue to provide an attractive dividend flow to shareholders within the context of the emergence of surplus in the UK businesses.

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.

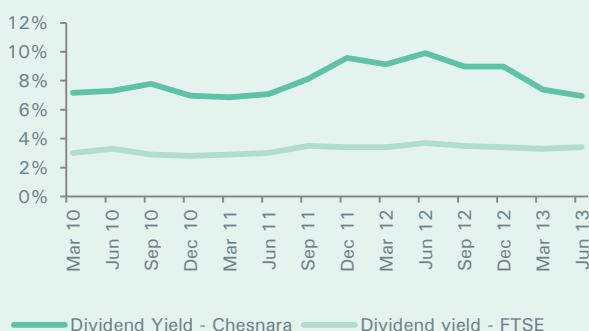
These realisations are utilised in the first instance for the repayment and servicing of debt. The surpluses arise from the realisation of in-force value of UK businesses, which are in run-off. The return on shareholder net assets is determined by the Group's investment policy. Shareholder funds bear 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.

Returns to shareholders can be assessed by reference to many measures including the actual share price, the yields on the shares and the comparison of total market capital to embedded value. The following graphs illustrate how these measures have progressed over recent years and into 2013:

EEV per share versus share price:



Dividend yield:



Note: The dividend yield reported for 2013 is based on dividends for the 2012 financial year.

Throughout 2012 and up to 19 August 2013 there has been a general gradual increase in the share price. During 2013 (up to 19 August) the share price has increased by 35%.

Throughout the same periods dividend yields have remained strong and significantly in excess FTSE average returns.

The combined impact of the recent share price growth and the continuing attractive yield means shareholders will have achieved good total shareholder return.

Returns to policyholders

Key aspects of policyholder fund performance in respect of the UK Business and in respect of the Swedish Business are set out in the Chief Executive's Review.

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.

Going concern

The Group's cash flow position, together with the return on financial assets in the parent company, supports the ability to trade in the short term. Accordingly, the underlying solvency position of the UK life business and their ongoing ability to generate surpluses which support cash transfers to shareholders' funds is critical to the ongoing ability of the Group to continue trading and to meet its obligations as they fall due.

The information set out in 'Solvency and Regulatory Capital' above indicates a strong solvency position as at 30 June 2013 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 the UK business, the financial condition report and reverse stress testing assessments indicate that it is able to withstand the impact of adverse scenarios, including the effect of significant investment market falls, while the business's outsourcing arrangements protect it 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 – indeed, as indicated, its day to day operations are cash generative. The Group 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 risk of bond default, particularly in respect of financial institutions. In order to manage this risk we ensure that our bond portfolio is actively monitored and well diversified. Other significant counterparty default risk relates to our principal reinsurers. We monitor their financial position and are satisfied that any associated credit default risk is low. It is noteworthy that we have negligible 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 an attractive dividend policy and to meet the short-term financing requirements of Movestic.

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 PRA and FCA, 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 PRA 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 Movestic subsidiary 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 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 have continued during the first half of 2013 and are planned to be completed during 2014.

Principal risks and uncertainties

Risks 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 an attractive 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.

RISK MANAGEMENT (CONTINUED)

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 it faces.

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.	<ul style="list-style-type: none"> – 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.	<ul style="list-style-type: none"> – 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.	<ul style="list-style-type: none"> – 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, which may lead to policyholders switching to lower-margin, fixed-interest funds.	<ul style="list-style-type: none"> – 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 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 in sterling.	<ul style="list-style-type: none"> – The Group monitors exchange rate movements and the cost of hedging the currency risk on cash flows when appropriate.

RISK MANAGEMENT (CONTINUED)

Risk	Impact	Control
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.	<ul style="list-style-type: none"> – 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.
Counterparty failure	The Group carries significant inherent risk of counterparty failure in respect of: <ul style="list-style-type: none"> – its fixed interest security portfolio; – cash deposits; and – amounts due from reinsurers. 	<ul style="list-style-type: none"> – 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.	<ul style="list-style-type: none"> – 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 know how within particular key individuals and the Group is, accordingly, exposed to the sudden loss of the services of these individuals.	<ul style="list-style-type: none"> – The Group promotes the sharing of know how 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 know how 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: <ul style="list-style-type: none"> i) the implementation of Solvency II requirements; and ii) potential change in the regulatory environment in Sweden. 	<p>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 in Section B of the Annual Report and Accounts. The key risks are mitigated as follows:</p> <ul style="list-style-type: none"> – Proposed appointment of external specialist Quality Assurance partner; – Dedicated internal resource; and – Robust programme governance framework. <p>Management continually reviews the potential impact of any prospective regulatory changes.</p>

FOCUS ON SOLVENCY II



Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry.

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. The European Insurance and Occupational Pensions Authority (EIOPA), an adviser to the European Commission on Solvency II, launched a public consultation on Guidelines related to the preparation for Solvency II on March 27th 2013. The Guidelines provide support to National Competent Authorities (NCA's) and insurers and reinsurers in preparing for Solvency II. The Guidelines cover the areas that EIOPA considers fundamental to ensure effective preparation for Solvency II:-

- system of governance, including risk management;
- forward looking assessment of the undertaking's own risk (based on the Own Risk and Solvency Assessment (ORSA) principles);
- submission of information to National Competent Authorities (NCA's); and
- pre-application of internal models.

It will be up to NCAs to determine how to comply with EIOPA's Guidelines by incorporating them into their regulatory or supervisory framework in an appropriate manner. The public consultation ended on 19 June 2013 and EIOPA plans to publish the final Guidelines in the autumn of 2013. This should allow NCAs to put in place certain important aspects of the preparation for Solvency II starting on 1 January 2014.

The current anticipated implementation date is 1 January 2016 although this has yet to be formalised and is already being viewed in some quarters as ambitious given the significant work still required to finalise requirements, the legal framework and achieve support across the EU.

Chesnara's approach

Pillar one

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.

Progress update

The majority of the Pillar 1 development is complete and the Pillar 1 results for the CA and Movestic businesses have been produced and reviewed by the respective boards. Consolidated Pillar 1 results for the Group have also been produced and reviewed by the Chesnara board.

Pillar two

Pillar 2 deals with two main areas: firstly, that our businesses have in place effective strategies and controls to assess and manage the risks it is exposed to and to assess and maintain its solvency capital based on its own risk profile and, secondly, that its strategies, controls and assessment of its 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.

Progress update

Work is ongoing to develop our SII-compliant approach to risk management, business planning, projections, stress testing and solvency assessment. Work has also continued on drafting the various policies required under Solvency II and these are at various stages of development. We await clarity on the revised timetable and interim requirements before firming up on future plans.

Pillar three

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

To date, the main focus of Pillar 3 development has been on the analysis of the Quantitative Reporting Templates (QRTs). This work will identify the source of the data required for populating the QRTs and estimate the development work required to deliver the completed QRTs. Good progress has been made and a dry run has been completed with one of our outsource partners. We continue to work with our asset managers to finalise the asset data requirements and we now expect to complete this stage of the project early in Q4 2013.

SECTION C

IFRS FINANCIAL STATEMENTS

IN THIS SECTION

44	Directors' Responsibilities Statement
45	Independent Auditor's Review Report to the Members of Chesnara plc
46	Condensed Consolidated Statement of Comprehensive Income
47	Condensed Consolidated Balance Sheet
48	Condensed Consolidated Statement of Cash Flows
49	Condensed Consolidated Statement of Changes in Equity
50	Notes to the Condensed Consolidated Financial Statements

DIRECTORS' RESPONSIBILITY STATEMENT

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
Chairman
29 August 2013

Graham Kettleborough
Chief Executive Officer
29 August 2013

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-yearly financial report for the six months ended 30 June 2013 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 8. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it 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 Conduct 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 2013 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 Conduct Authority.

Deloitte LLP

Chartered Accountants and Statutory Auditor
Manchester
United Kingdom
29 August 2013

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

		Unaudited Six months ended 30 June		Year ended 31 December
	Note	2013 £000	2012 £000	2012 £000
Insurance premium revenue		55,084	59,071	115,520
Insurance premium ceded to reinsurers		(17,115)	(17,740)	(35,336)
Net insurance premium revenue		37,969	41,331	80,184
Fee and commission income		34,867	33,539	66,658
Net investment return		239,013	115,767	332,053
Total revenue net of reinsurance payable		311,849	190,637	478,895
Other operating income		11,048	11,178	19,645
Total income net of investment return		322,897	201,815	498,540
Insurance contract claims and benefits incurred				
Claims and benefits paid to insurance contract holders		(166,471)	(129,138)	(272,479)
Net decrease/(increase) in insurance contract provisions		(23,459)	2,312	(20,732)
Reinsurers' share of claims and benefits		48,362	19,792	47,865
Net insurance contract claims and benefits		(141,568)	(107,034)	(245,346)
Change in investment contract liabilities		(123,174)	(48,005)	(156,663)
Reinsurers' share of investment contract liabilities		2,508	1,102	2,810
Net change in investment contract liabilities		(120,666)	(46,903)	(153,853)
Fees, commission and other acquisition costs		(9,374)	(8,821)	(17,967)
Administrative expenses		(18,718)	(18,209)	(37,029)
Other operating expenses				
Charge for amortisation of acquired value of in-force business		(3,724)	(4,190)	(7,863)
Charge for amortisation of acquired value of customer relationships		(153)	(194)	(391)
Other		(4,863)	(5,132)	(9,205)
Total expenses net of change in insurance contract provisions and investment contract liabilities		(299,066)	(190,483)	(471,654)
Total income less expenses		23,831	11,332	26,886
Share of profit of associate		417	207	1,244
Exceptional item	5	-	(4,778)	(4,778)
Operating profit		24,248	6,761	23,352
Financing costs		(2,438)	(2,281)	(3,670)
Profit before income taxes	4	21,810	4,480	19,682
Income tax (expense)/credit				
Before exceptional item		(4,567)	(2,152)	3,481
Exceptional item	5	-	4,778	4,778
After exceptional item		(4,567)	2,626	8,259
Profit for the period	3,4	17,243	7,106	27,941
Foreign exchange translation differences arising on the revaluation of foreign operations		1,632	(873)	741
Total comprehensive income for the period		18,875	6,233	28,682
Basic earnings per share (based on profit for the period)	2	15.01p	6.19p	24.33p
Diluted earnings per share (based on profit for the period)	2	15.01p	6.19p	24.33p

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

		Unaudited 30 June 2013	2012 (*restated)	31 December 2012
	Note	£000	£000	£000
Assets				
Intangible assets				
Deferred acquisition costs		26,565	21,365	22,555
Acquired value of in-force business		73,968	78,245	76,118
Acquired value of customer relationships		1,788	2,026	1,884
Software assets		5,555	5,897	5,712
Property and equipment		576	256	369
Investment in associates		3,392	1,793	2,902
Investment properties		71,303	129,902	100,167
Deferred tax assets		388	-	2,295
Reinsurers' share of insurance contract provisions		285,288	267,274	278,692
Amounts deposited with reinsurers		31,998	29,075	30,245
Financial assets				
Equity securities at fair value through income		451,639	377,093	427,303
Holdings in collective investment schemes at fair value through income		3,205,255	2,945,330	3,009,799
Debt securities at fair value through income		349,525	319,604	363,377
Policyholders' funds held by the Group		95,499	47,628	61,171
Insurance and other receivables		34,849	42,771	24,313
Prepayments		3,663	3,619	3,160
Derivative financial instruments		2,032	6,891	3,095
Total financial assets		4,142,462	3,742,936	3,892,218
Reinsurers' share of accrued policyholder claims		8,017	4,115	4,489
Income taxes		2,413	3,662	4,299
Cash and cash equivalents		200,891	211,156	228,676
Total assets	4	4,854,604	4,497,702	4,650,621
Liabilities				
Insurance contract provisions		2,226,729	2,185,692	2,207,078
Other provisions		4,669	2,688	5,161
Financial liabilities				
Investment contracts at fair value through income		2,152,673	1,899,876	2,022,314
Liabilities relating to policyholders' funds held by the Group		95,499	47,628	61,171
Borrowings	6	50,100	54,344	48,324
Derivative financial instruments		601	26	286
Total financial liabilities		2,298,873	2,001,874	2,132,095
Deferred tax liabilities		7,754	10,459	5,894
Reinsurance payables		15,254	17,659	16,610
Payables related to direct insurance and investment contracts		38,692	43,099	38,894
Deferred income		8,372	9,451	8,884
Income taxes		2,482	5,274	-
Other payables		25,838	17,004	17,057
Bank overdrafts		1,635	1,599	602
Total liabilities	4	4,630,298	4,294,799	4,432,275
Net assets		224,306	202,903	218,346
Shareholders' equity				
Share capital		42,024	42,024	42,024
Share premium		42,525	42,523	42,523
Treasury shares		(213)	(217)	(217)
Other reserves		9,351	6,105	7,719
Retained earnings	3	130,619	112,468	126,297
Total shareholders' equity		224,306	202,903	218,346

* See Note 1 for an explanation of the restatement of the Consolidated Balance Sheet as at 30 June 2012.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Unaudited Six months ended 30 June		Year ended 31 December
	2013	2012	2012
	£000	£000	£000
Profit for the period	17,243	7,106	27,941
Adjustments for:			
Depreciation of property and equipment	84	103	128
Amortisation of deferred acquisition costs	4,119	3,845	7,657
Amortisation of acquired value of in-force business	3,725	4,190	7,864
Amortisation of acquired value of customer relationships	153	194	391
Amortisation of software assets	2,341	1,072	2,188
Tax recovery	4,567	(2,626)	(8,259)
Interest receivable	(8,562)	(12,335)	(25,961)
Dividends receivable	(6,340)	(26,898)	(46,774)
Interest expense	2,438	2,281	3,670
Change in fair value of investment properties	6,916	(389)	5,650
Fair value gains on financial assets	(225,392)	(69,941)	(254,457)
Loss/(profit) on sale of property and equipment	-	2	(2)
Share of profit of associate	(417)	(207)	(1,244)
Interest received	8,529	13,270	26,357
Dividends received	5,875	27,286	46,738
Increase in intangible assets related to insurance and investment contracts	(7,712)	(5,717)	(10,255)
Changes in operating assets and liabilities:			
Decrease in financial assets	44,217	68,792	145,971
Increase in reinsurers share of insurance contract provisions	(8,852)	(3,621)	(14,138)
Increase in amounts deposited with reinsurers	(1,753)	(1,044)	(2,214)
(Increase)/decrease in insurance and other receivables	(10,282)	(13,489)	402
(Increase)/decrease in prepayments	(462)	(413)	96
Increase/(decrease) in insurance contract provisions	17,760	(4,225)	15,271
Increase in investment contract liabilities	128,717	41,442	140,360
(Decrease)/increase in provisions	(516)	(123)	2,336
(Decrease)/increase in reinsurance payables	(1,819)	1,555	88
(Decrease)/increase in payables related to direct insurance and investment contracts	(368)	2,587	(1,795)
Increase/(decrease) in other payables	8,810	(2,652)	(3,251)
Cash (utilised by)/generated from operations	(16,981)	30,045	64,758
Income tax received/(paid)	3,614	47	(1,152)
Net cash (utilised by)/generated from operating activities	(13,367)	30,092	63,606
Cash flows from investing activities			
Development of software	(2,017)	(330)	(1,094)
(Purchases)/disposals of property and equipment	(293)	19	(109)
Net cash utilised by investing activities	(2,310)	(311)	(1,203)
Cash flows from financing activities			
Proceeds from issue of share capital	2	-	-
Proceeds from/(repayment of) borrowings	1,213	23	(6,406)
Sale treasury shares	4	-	-
Dividends paid	(12,921)	(12,519)	(19,525)
Interest paid	(2,379)	(2,425)	(3,949)
Net cash utilised by financing activities	(14,081)	(14,921)	(29,880)
Net (decrease)/increase in cash and cash equivalents	(29,758)	14,860	32,523
Cash and cash equivalents at beginning of period	228,074	195,086	195,086
Effect of exchange rate changes on cash and cash equivalents	940	(389)	465
Cash and cash equivalents at end of the period	199,256	209,557	228,074

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Unaudited six months ended 30 June 2013

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2013	42,024	42,523	7,719	(217)	126,297	218,346
Profit for the period	-	-	-	-	17,243	17,243
Dividends paid	-	-	-	-	(12,921)	(12,921)
Foreign exchange translation differences	-	-	1,632	-	-	1,632
Sale of treasury shares	-	2	-	4	-	6
Equity shareholders' funds at 30 June 2013	42,024	42,525	9,351	(213)	130,619	224,306

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	-	-	-	-	7,106	7,106
Dividends paid	-	-	-	-	(12,519)	(12,519)
Foreign exchange translation differences	-	-	(873)	-	-	(873)
Equity shareholders' funds at 30 June 2012	42,024	42,523	6,105	(217)	112,468	202,903

Year ended 31 December 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 year	-	-	-	-	27,941	27,941
Dividends paid	-	-	-	-	(19,525)	(19,525)
Foreign exchange translation differences	-	-	741	-	-	741
Equity shareholders' funds at 31 December 2012	42,024	42,523	7,719	(217)	126,297	218,346

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 Conduct 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 2012 except for the application of the following additional accounting policies, which were not applicable for reporting periods up to and including 31 December 2012:

IAS 1 'Presentation of Items of Other Comprehensive Income';

IAS 19 (revised 2011) 'Employee Benefits'; and

IFRS 13 'Fair Value Measurement'.

The amendments to IAS 1 require items of other comprehensive income to be grouped by those items that will be reclassified subsequently to profit or loss and those that will never be reclassified, together with their associated income tax. The adoption of this accounting standard does not materially impact these financial statements.

IAS 19 (revised 2011) and the related consequential amendments have had no impact upon the Movestic defined benefit pension scheme, as due to the multi-employer pooling of the scheme's assets and liabilities, it is accounted for as a defined contribution scheme.

The adoption of IFRS 13 has had no material impact upon the measurement of fair value for financial assets and financial liabilities, as the application of the credit risk of the Group has no material impact upon the associated fair values of the financial liabilities it holds. However, this adoption has introduced additional new disclosures, as set out in note 7.

Change in accounting policy

At 31 December 2012 the Group changed its accounting policy with respect to the treatment of any excess of policyholder assets over policyholder liabilities within the S&P with-profits funds. Prior to that date it had opted, as permitted under IFRS 4, to record such unallocated surplus as a liability within a separate unallocated divisible surplus account. However, in recognition of the fact that such surplus has been determined not to be capable of allocation to shareholders at any time, the Group, with effect from 31 December 2012, opted to classify such surplus as an insurance contract provision. Accordingly, the Consolidated Balance Sheet as at 30 June 2012 has been re-stated to reflect the re-classification of the previously-reported unallocated divisible surplus of £5,904,000 within insurance contract provisions. No associated re-classifications or adjustments are required in the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows or the Consolidated Statement of Changes in Equity.

The following table highlights the impact of this change in accounting policy on the 2012 comparative information:

	As previously presented £000	Adjustment £000	As restated £000
Insurance contract provisions	(2,179,788)	(5,904)	(2,185,692)
Unallocated divisible surplus	(5,904)	5,904	-
Total liabilities	(4,294,799)	-	(4,294,799)
Net assets	202,903	-	202,903

The Group's published consolidated financial statements for the year ended 31 December 2012 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 2012.

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 2012 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

2 Earnings per share

Earnings per share are based on the following:

	Unaudited Six months ended 30 June		Year ended 31 December
	2013	2012	2012
Profit for the period (£000)	17,243	7,106	27,941
Weighted average number of ordinary shares	114,849,115	114,848,651	114,848,651
Basic earnings per share	15.01p	6.19p	24.33p
Diluted earnings per share	15.01p	6.19p	24.33p

The weighted average number of ordinary shares in respect of the six months ended 30 June 2013 is based upon 115,047,662 shares in issue, less 199,011 own shares held in treasury at the beginning of the period, and 115,047,662 shares in issue less 195,696 own shares held in treasury at the end of the period. The six months ended 30 June 2012 and the year ended 31 December 2012 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.

3 Retained earnings

	Unaudited Six months ended 30 June		Year ended 31 December
	2013	2012	2012
	£000	£000	£000
Balance at 1 January	126,297	117,881	117,881
Profit for period	17,243	7,106	27,941
Dividends			
Final approved and paid for 2011	-	(12,519)	(12,519)
Interim approved and paid for 2012	-	-	(7,006)
Final approved and paid for 2012	(12,921)	-	-
Balance at 30 June / 31 December	130,619	112,468	126,297

The interim dividend in respect of 2012, approved and paid in 2012, was paid at the rate of 6.10p per share.

The final dividend in respect of 2012, approved and paid in 2013, was paid at the rate of 11.25p per share so that the total dividend paid to the equity shareholders of the parent company in respect of the year ended 31 December 2012 was made at the rate of 17.35p per share.

An interim dividend of 6.25p per share in respect of the year ending 31 December 2013, payable on 14 October 2013 to equity shareholders of the parent company registered at the close of business on 13 September 2013, the dividend record date, was approved by the Directors after 30 June 2013. The resulting interim dividend of £7.2m has not been provided for in these financial statements.

The following summarises dividends per share in respect of the year ended 31 December 2012 and 31 December 2013:

	2013	2012
	p	p
Interim dividend	6.25	6.10
Final dividend	-	11.25
Total	6.25	17.35

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 2013 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.

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 2013.

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 2013 or the year ended 31 December 2012.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

4 Operating segments (continued)

(i) Segmental income statement for the six months ended 30 June 2013

	CA £000	S&P £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Net insurance premium revenue	25,718	3,895	29,613	8,356	-	37,969
Fee and commission income	16,880	1,308	18,188	16,679	-	34,867
Net investment return	98,395	69,684	168,079	70,854	80	239,013
Total revenue (net of reinsurance payable)	140,993	74,887	215,880	95,889	80	311,849
Other operating income	1,802	5,805	7,607	3,375	66	11,048
Segmental income	142,795	80,692	223,487	99,264	146	322,897
Net insurance contract claims and benefits incurred	(82,565)	(55,742)	(138,307)	(3,261)	-	(141,568)
Net change in investment contract liabilities	(48,247)	(1,799)	(50,046)	(70,620)	-	(120,666)
Fees, commission and other acquisition costs	(388)	(17)	(405)	(8,969)	-	(9,374)
Administrative expenses						
Amortisation charge on software assets	-	-	-	(2,188)	-	(2,188)
Depreciation charge on property and equipment	(22)	-	(22)	(187)	-	(209)
Other	(4,131)	(4,985)	(9,116)	(6,323)	(882)	(16,321)
Other operating expenses						
Charge for amortisation of acquired value of in-force business	(1,189)	(387)	(1,576)	(2,148)	-	(3,724)
Charge for amortisation of acquired value of customer relationships	-	-	-	(153)	-	(153)
Other	(617)	(897)	(1,514)	(3,382)	33	(4,863)
Segmental expenses	(137,159)	(63,827)	(200,986)	(97,231)	(849)	(299,066)
Segmental income less expenses	5,636	16,865	22,501	2,033	(703)	23,831
Share of profit from associates	-	-	-	417	-	417
Segmental operating profit/(loss)	5,636	16,865	22,501	2,450	(703)	24,248
Financing costs	-	(4)	(4)	(1,946)	(488)	(2,438)
Profit/(loss) before tax	5,636	16,861	22,497	504	(1,191)	21,810
Income tax credit/(expense)			(4,722)	(122)	277	(4,567)
Profit/(loss) after tax			17,775	382	(914)	17,243

(ii) Segmental balance sheet as at 30 June 2013

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Total assets	1,842,234	1,255,273	1,698,321	58,776	4,854,604
Total liabilities	1,777,161	1,180,503	1,638,229	34,405	4,630,298
Net assets/(liabilities)	65,073	74,770	60,092	24,371	224,306
Investment in associates	-	-	3,392	-	3,392
Additions to non-current assets	-	966	8,982	-	9,948

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

4 Operating segments (continued)

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

	CA £000	S&P £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Net insurance premium revenue	28,328	4,927	33,255	8,076	-	41,331
Fee and commission income	17,966	1,393	19,359	14,180	-	33,539
Net investment return	47,711	41,192	88,903	26,739	125	115,767
Total revenue (net of reinsurance payable)	94,005	47,512	141,517	48,995	125	190,637
Other operating income	1,271	5,544	6,815	4,362	1	11,178
Segmental income	95,276	53,056	148,332	53,357	126	201,815
Net insurance contract claims and benefits incurred	(64,640)	(38,872)	(103,512)	(3,522)	-	(107,034)
Net change in investment contract liabilities	(18,113)	(2,498)	(20,611)	(26,292)	-	(46,903)
Fees, commission and other acquisition costs	(472)	(30)	(502)	(8,319)	-	(8,821)
Administrative expenses						
Amortisation charge on software assets	-	-	-	(1,072)	-	(1,072)
Depreciation charge on property and equipment	(9)	-	(9)	(105)	-	(114)
Other	(4,257)	(5,917)	(10,174)	(6,264)	(585)	(17,023)
Other operating expenses						
Charge for amortisation of acquired value of in-force business	(1,717)	(426)	(2,143)	(2,047)	-	(4,190)
Charge for amortisation of acquired value of customer relationships	-	-	-	(194)	-	(194)
Other	(222)	(659)	(881)	(4,362)	111	(5,132)
Segmental expenses	(89,430)	(48,402)	(137,832)	(52,177)	(474)	(190,483)
Segmental income less expenses	5,846	4,654	10,500	1,180	(348)	11,332
Share of profit from associates	-	-	-	207	-	207
Exceptional item	-	(4,778)	(4,778)	-	-	(4,778)
Segmental operating profit/(loss)	5,846	(124)	5,722	1,387	(348)	6,761
Financing costs	-	(1)	(1)	(1,661)	(619)	(2,281)
Profit/(loss) before tax	5,846	(125)	5,721	(274)	(967)	4,480
Income tax credit/(expense)						
Income tax credit/(expense) – before exceptional item			(2,075)	(77)	-	(2,152)
Exceptional item			4,778	-	-	4,778
After exceptional item			2,703	(77)	-	2,626
Profit/(loss) after tax			8,424	(351)	(967)	7,106

(iv) Segmental balance sheet as at 30 June 2012

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Total assets	1,764,925	1,277,109	1,408,605	47,063	4,497,702
Total liabilities	1,697,176	1,206,211	1,352,919	38,493	4,294,799
Net assets/(liabilities)	67,749	70,898	55,686	8,570	202,903
Investment in associates	-	-	1,793	-	1,793
Additions to non-current assets	-	-	5,988	-	5,988

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

4 Operating segments (continued)

(v) Segmental income statement for the year ended 31 December 2012

	CA £000	S&P £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Net insurance premium revenue	54,785	8,987	63,772	16,412	-	80,184
Fee and commission income	35,191	2,776	37,967	28,691	-	66,658
Net investment return	128,009	105,936	233,945	97,846	262	332,053
Total revenue (net of reinsurance payable)	217,985	117,699	335,684	142,949	262	478,895
Other operating income	3,484	11,114	14,598	5,047	-	19,645
Segmental income	221,469	128,813	350,282	147,996	262	498,540
Net insurance contract claims and benefits incurred	(140,502)	(97,787)	(238,289)	(7,057)	-	(245,346)
Net change in investment contract liabilities	(52,679)	(4,134)	(56,813)	(97,040)	-	(153,853)
Fees, commission and other acquisition costs	(947)	(62)	(1,009)	(16,958)	-	(17,967)
Administrative expenses						
Amortisation charge on software assets	-	-	-	(2,188)	-	(2,188)
Depreciation charge on property and equipment	(22)	-	(22)	(187)	-	(209)
Other	(8,105)	(11,000)	(19,105)	(13,053)	(2,474)	(34,632)
Other operating expenses						
Charge for amortisation of acquired value of in-force business	(2,892)	(852)	(3,744)	(4,119)	-	(7,863)
Charge for amortisation of acquired value of customer relationships	-	-	-	(391)	-	(391)
Other	(625)	(1,212)	(1,837)	(5,046)	(2,322)	(9,205)
Segmental expenses	(205,772)	(115,047)	(320,819)	(146,039)	(4,796)	(471,654)
Segmental income less expenses	15,697	13,766	29,463	1,957	(4,534)	26,886
Share of profit from associates	-	-	-	1,244	-	1,244
Exceptional item	-	(4,778)	(4,778)	-	-	(4,778)
Segmental operating profit/(loss)	15,697	8,988	24,685	3,201	(4,534)	23,352
Financing costs	-	(1)	(1)	(2,451)	(1,218)	(3,670)
Profit/(loss) before tax	15,697	8,987	24,684	750	(5,752)	19,682
Income tax credit/(expense)						
Income tax credit/(expense) – before exceptional item			2,384	(323)	1,420	3,481
Exceptional item			4,778	-	-	4,778
After exceptional item			7,162	(323)	1,420	8,259
Profit/(loss) after tax			31,846	427	(4,332)	27,941

(vi) Segmental balance sheet as at 31 December 2012

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Total assets	1,815,021	1,266,946	1,534,263	34,391	4,650,621
Total liabilities	1,728,523	1,191,376	1,476,185	36,191	4,432,275
Net assets/(liabilities)	86,498	75,570	58,078	(1,800)	218,346
Investment in associates	-	-	2,902	-	2,902
Additions to non-current assets	230	-	11,353	-	11,583

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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.

6 Borrowings

	Unaudited 30 June		31 December
	2013	2012	2012
	£000	£000	£000
Bank loan	29,747	35,568	29,662
Amount due in relation to financial reinsurance	20,353	18,776	18,662
Total	50,100	54,344	48,324

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 2013 and 31 December 2012 was £30,000,000 (30 June 2012: £36,000,000).

The fair value of amounts due in relation to financial reinsurance as at 30 June 2013 was £20,788,109 (30 June 2012: £19,780,185 and 31 December 2012: £20,197,549).

7 Financial instruments fair value disclosures

The table on the following page shows the determination of the fair value of financial assets and financial liabilities according to a three-level valuation hierarchy. Fair values are generally determined at prices quoted in active markets (Level 1). However, where such information is not available, the Group applies valuation techniques to measure such instruments. These valuation techniques make use of market-observable data for all significant inputs where possible (Level 2), but, in some cases it may be necessary to estimate other than market-observable data within a valuation model for significant inputs (Level 3).

The Group held the following financial instruments at fair value at 30 June 2013. There have not been any transfers of assets or liabilities between levels of the fair value hierarchy. There are no non-recurring fair value measurements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

7 Financial instruments fair value disclosures (continued)

Fair value measurement at 30 June 2013 using:

	(Level 1) £000	(Level 2) £000	(Level 3) £000	Total £000
Recurring fair value measurements:				
Financial assets:				
Equities				
Listed	451,639	-	-	451,639
Debt securities – fixed rate				
Government Bonds	294,945	-	-	294,945
Listed	54,580	-	-	54,580
Debt securities – floating rate				
Listed	-	-	-	-
Total debt securities	349,525	-	-	349,525
Holdings in collective investment schemes	3,204,797	458	-	3,205,255
Policyholders' funds held by the group	95,499	-	-	95,499
Derivative financial instruments	32	2,000	-	2,032
Total	4,101,492	2,458	-	4,103,950
Financial liabilities				
Investment contracts at fair value through income	2,143,861	8,812	-	2,152,673
Liabilities related to policyholders' funds held by the group	95,499	-	-	95,499
Derivative financial instruments	166	435	-	601
Total	2,239,526	9,247	-	2,248,773

Included within Holdings in collective investment schemes are amounts held with JPMorgan Life Limited through a reinsurance arrangement, under which the Group has reassured certain unit-linked liabilities. The contract does not transfer significant insurance risk and is accounted for as Holdings in collective investment schemes, representing the substance of the arrangement in place. These amounts have been classified as level 2 in the above hierarchy table as the reinsurance contract itself is not quoted but is valued using market-observable data.

Within derivative financial instruments is a financial reinsurance embedded derivative related to our Movestic operation. The Group has entered into a reinsurance contract with a third party that has a section that is deemed to transfer significant insurance risk and a section that is deemed not to transfer significant insurance risk. The element of the contract that does not transfer significant insurance risk has two components and has been accounted for as a financial liability at amortised cost and an embedded derivative asset at fair value.

The embedded derivative represents an option to repay the amounts due under the contract early at a discount to the amortised cost, with its fair value being determined by reference to market interest rate at the balance sheet date. It is, accordingly, determined at Level 2 in the three-level fair value determination hierarchy set out above.

The Investment contract liabilities in Level 2 of the valuation hierarchy represent the fair value of non-linked and guaranteed income and growth bonds liabilities valued using established actuarial techniques utilising market observable data for all significant inputs, such as investment yields.

Except as detailed in the following table, the Directors consider that the carrying value amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements are approximately equal to their fair values:

	Carrying amount			Fair value		
	30 June 2013 £000	30 June 2012 £000	31 December 2012 £000	30 June 2013 £000	30 June 2012 £000	31 December 2012 £000
Financial liabilities:						
Borrowings	50,100	54,344	48,324	50,788	55,780	50,198

Borrowings consist of a bank loan and an amount due in relation to financial reinsurance.

The fair value of the bank loan is taken as the principal outstanding at the balance sheet date.

The amount due in relation to financial reinsurance is fair valued with reference to market interest rates at the balance sheet date.

8 Approval of consolidated report for the six months ended 30 June 2013

This condensed consolidated report was approved by the Board of Directors on 29 August 2013. 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.

SECTION D

EEV BASIS SUPPLEMENTARY INFORMATION

IN THIS SECTION

59	Directors' Responsibilities Statement
60	Independent Auditor's Review Report
61	Summarised EEV Consolidated Income Statement
62	Summarised EEV Consolidated Balance Sheet
63	Notes to the EEV Supplementary Information

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 basis 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.

By order of the Board

Peter Mason
Chairman
29 August 2013

Graham Kettleborough
Chief Executive Officer
29 August 2013

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF CHESNARA PLC ON THE EEV BASIS SUPPLEMENTARY INFORMATION

We have been engaged by the Company to review the EEV Basis Supplementary Information in the half-year financial report for the six months ended 30 June 2013 which comprises the summarised EEV consolidated income statement, the summarised EEV consolidated balance sheet and the related notes 1 to 10. 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 EEV Basis Supplementary Information.

We have reported separately on the condensed financial statements of Chesnara plc for the six months ended 30 June 2013. The information contained in the EEV Basis Supplementary Information 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 EEV Basis Supplementary Information for the six months ended 30 June 2013 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 EEV Basis Supplementary Information is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the EEV Basis Supplementary Information 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 EEV Basis Supplementary Information is to express to the Company a conclusion on the EEV Basis Supplementary Information 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 EEV Basis Supplementary Information for the six months ended 30 June 2013 has not been properly prepared in accordance with the EEV principles using the methodology and assumptions set out on pages 63 to 68.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester,
United Kingdom

29 August 2013

SUMMARISED EEV CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		Unaudited Six months ended 30 June		Year ended 31 December
	Note	2013 £000	2012 £000	2012 £000
Operating profit of covered business	6(b)	4,754	14,169	19,032
Other operational result	6(b)	(140)	(133)	(4,446)
Operating profit		4,614	14,036	14,586
Variation from longer-term investment return	6(b)	20,813	7,043	28,035
Effect of economic assumption changes	6(b)	12,317	(798)	(6,504)
Profit before tax and before exceptional item		37,744	20,281	36,117
Exceptional item				
Effect of modelling adjustments	6(a)	848	-	3,574
Profit before tax		38,592	20,281	39,691
Tax	6(b)	(2,315)	(4,345)	(4,862)
Profit for the period attributable to the equity holders of the parent company		36,277	15,936	34,829
Earnings per share				
Based on profit for the period		31.59p	13.88p	30.33p
Diluted profit per share				
Based on profit for the period		31.59p	13.88p	30.33p

The notes and information on pages 63 to 76 form part of this supplementary information.

SUMMARISED EEV CONSOLIDATED BALANCE SHEET (UNAUDITED)

		Unaudited 30 June		31 December
	Note	2013 £000	2012 £000	2012 £000
Assets				
Value of in-force business	5, 8	226,269	203,098	210,080
Deferred acquisition costs arising on unmodelled business		800	717	497
Acquired value of customer relationships		506	615	562
Property and equipment		576	256	369
Investment in associate		3,392	1,793	2,902
Deferred tax asset		793	1,382	1,280
Reinsurers' share of insurance contract provisions		238,490	232,581	235,782
Amounts deposited with reinsurers		30,788	27,707	28,941
Investment properties		71,303	129,902	100,167
Financial assets				
Equity securities at fair value through income		451,639	377,093	427,303
Holdings in collective investment schemes at fair value through income		3,205,255	2,945,330	3,009,799
Debt securities at fair value through income		349,525	319,604	363,377
Insurance and other receivables		34,849	42,771	24,313
Prepayments		3,663	3,619	3,160
Policyholders' funds held by the Group		95,499	47,628	61,171
Derivative financial instruments		2,032	6,891	3,095
Total financial assets		4,142,462	3,742,936	3,892,218
Reinsurers' share of accrued policy claims		8,017	4,115	4,489
Income taxes		2,413	3,662	8,649
Cash and cash equivalents		200,891	211,156	228,676
Total assets		4,926,700	4,559,920	4,714,612
Liabilities				
Insurance contract provisions		2,183,782	2,158,218	2,171,259
Other provisions		4,669	2,688	5,161
Deferred tax liabilities		-	-	-
Financial liabilities				
Investment contracts at fair value through income		2,165,242	1,910,241	2,033,131
Borrowings		56,039	60,642	55,373
Derivative financial instruments		601	26	286
Liabilities relating to policyholders' funds held by the Group		95,499	47,628	61,171
Total financial liabilities		2,317,381	2,018,537	2,149,961
Reinsurance payables		14,850	17,215	16,183
Payables related to direct insurance and investment contracts		38,692	43,099	38,894
Income taxes		2,482	5,274	4,350
Other payables		25,838	17,004	17,057
Bank overdraft		1,635	1,599	602
Total liabilities		4,589,329	4,263,634	4,403,467
Net assets		337,371	296,286	311,145
Equity				
Share capital		42,024	42,024	42,024
Share premium		42,525	42,523	42,523
Treasury shares		(213)	(217)	(217)
Foreign exchange reserve		18,242	12,406	15,378
Other reserves		50	50	50
Retained earnings		234,743	199,500	211,387
Total shareholders' equity	5, 8	337,371	296,286	311,145

The notes and information on pages 63 to 76 form part of this supplementary information.

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.
- (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.
- (iii) The operating expenses of the holding company, Chesnara plc, are allocated across the segments.

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

3 Methodology

(a) Embedded Value

Overview

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

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

New business

CA and S&P

Much of the covered business is in run-off and is, accordingly, substantially closed to new business. Up to 31 December 2012 the UK businesses did 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 20 are not consistent with this definition, as they include non-covered business.

New business premium volume for the period (excluding regular premium increments) are as follows:

Pensions and savings covered business	Unaudited		Year ended
	Six months ended 30		31
	2013	2012	December
	June		2012
New business premium income*	£19.9m	£10.3m	£18.8m

* Basis: annualised premium plus 1/10 single premium translated into sterling at the 2013 average rate of SEK 10.0302 = £1.

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

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

3 Methodology (continued)

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 business, allowance has been made for planned reductions in corporation tax, as announced by the Chancellor in his budget speech on 20 March 2013. The value as at 31 December 2012 has not been restated to allow for this announcement.

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

Cost of capital

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

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. This has involved the use of a stochastic asset model, which is designed to establish a cost of guarantees which is consistent with prices in the market at the valuation date, for example the prices of derivative instruments. For the remaining options and guarantees the cost has been assessed on an approximate basis, appropriate to the level of materiality of the results.

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

3 Methodology (continued)

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;
- (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.

(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 Prudential Regulatory Authority in the UK; and
- (ii) for Movestic, 150% of the regulatory solvency requirement as determined by Finansinspektionen in Sweden.

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 entity; 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 2012 and at 31 December 2012: 50 basis points), and 70 basis points for Movestic (as at 30 June 2012 and at 31 December 2012: 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.

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

3 Methodology (continued)

(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.

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

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

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

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

(e) Assumption Setting

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

Each year the demographic assumptions are reviewed as part of year-end processes and hence were reviewed in December 2012.

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 across the segments in proportion to the value before tax of the in-force business. Hence the expense assumptions used for the cash flow projections include the full cost of servicing this business.

For the Movestic business, persistency assumptions have been updated reflecting latest experience and Management's view of future trends.

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 2012 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)

4 Assumptions

(a) Investment Returns

Investment returns are assumed to be equal to the reference rate, as covered in Note 3(c). For linked business, the aggregate return has been determined by the reference rate less an appropriate allowance for tax. For the valuations at 30 June 2013 and 31 December 2012 the models for the CA business were enhanced to allow for the use of a full yield curve. Refer to Note 6(a) below for the impact of this change which was classified as a modelling adjustment in the year ended 31 December 2012. For the six months ended 30 June 2012, whilst for S&P and Movestic, a full swap curve was used, for the CA business, a single rate was applied for all durations.

The rates presented below are indicative spot rates:

	CA			S&P			Movestic		
	Unaudited		31 Dec	Unaudited		31 Dec	Unaudited		31 Dec
	2013	2012		2013	2012		2013	2012	
Investment Return		1.70%							
5 year	1.57%		1.03%	1.57%	1.27%	1.03%	2.19%	2.09%	1.52%
10 year	2.66%		1.93%	2.66%	2.17%	1.93%	2.73%	2.41%	2.04%
15 year	3.17%		2.58%	3.17%	2.68%	2.58%	2.93%	2.41%	2.28%
20 year	3.41%		2.94%	3.41%	2.97%	2.94%	3.02%	2.41%	2.33%
25 year	3.52%		3.15%	3.52%	3.12%	3.15%	3.02%	2.41%	2.33%
30 year	3.56%		3.23%	3.56%	3.22%	3.23%	3.02%	2.41%	2.33%
Inflation – RPI	2.60%	2.20%	2.30%	2.60%	2.20%	2.30%	1.67%	1.89%	1.71%

(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 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 the UK business allow for changes in Corporation Tax as announced by the Chancellor in his budget speech of 20 March 2013, so reflect a reduction from the current rate of 23% to 20% from April 2015.

(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.

Holding company expenses (for the Chesnara Group such expenses relate largely to listed company functions) are allocated across the segments in proportion to the value before tax of the in-force business. For periods up to and including 30 June 2012 such expenses were previously reported as wholly allocable to the CA segment. All segmental information in the following Notes to the Supplementary Information has, as applicable, been restated to reflect the change in allocation methodology.

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)

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 2012 and at 31 December 2012: 50 basis points) and 70 basis points for Movestic (as at 30 June 2012 and at 31 December 2012: 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 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 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)

5 Analysis of shareholders' equity

30 June 2013 (unaudited)

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Regulated entities					
Capital required	27,099	47,385	17,222	-	91,706
Restricted capital	-	-	-	-	-
Free surplus	19,055	30,036	18,240	-	67,331
Regulatory capital resource of regulated entities	46,154	77,421	35,462		159,037
Adjustments to shareholder net worth:					
Deferred acquisition costs	-	-	(57,690)	-	(57,690)
Financial reinsurance liability	-	-	(4,377)	-	(4,377)
Software asset adjustment	-	-	(5,555)	-	(5,555)
Adjustment to provisions on insurance contracts	-	2,436	-	-	2,436
Policyholder funds	-	(14,608)	-	-	(14,608)
Other asset / liability adjustments	338	-	5,201	-	5,539
Adjusted shareholder net worth	46,492	65,249	(26,959)	-	84,782
In-force value of covered business	72,441	17,986	135,842	-	226,269
Embedded value of regulated entities	118,933	83,235	108,883	-	311,051
Less: amount financed by borrowings	-	(29,747)	-	-	(29,747)
Embedded value of regulated entities attributable to shareholders	118,933	53,488	108,883	-	281,304
Net equity of other Group companies	-	-	1,694	54,373	56,067
Total shareholders' equity	118,933	53,488	110,577	54,373	337,371

30 June 2012 (unaudited) (restated)

	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	-	888	-	-	888
Free surplus	21,543	20,420	14,061	-	56,024
Regulatory capital resource of regulated entities	49,479	77,939	30,618	-	158,036
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 provisions on insurance contracts	-	2,733	-	-	2,733
Policyholder funds	-	(20,531)	-	-	(20,531)
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	57,542	20,862	124,694	-	203,098
Embedded value of regulated entities	107,422	81,003	97,724	-	286,149
Less: amount financed by borrowings	-	(35,568)	-	-	(35,568)
Embedded value of regulated entities attributable to shareholders	107,422	45,435	97,724	-	250,581
Net equity of other Group companies	-	-	1,279	44,426	45,705
Total shareholders' equity	107,422	45,435	99,003	44,426	296,286

The analysis of shareholder equity at 30 June 2012 has been restated to:

- (i) reflect the change in methodology for the allocation of holding company expenses to the segments, as explained in Note 4(d); and to
- (ii) reflect a change in the determination of S&P restricted capital and free surplus within the analysis of the S&P regulated capital resources, there being a £5,366,000 reduction in the determination of restricted capital, and an increase of £10,163,000 in free surplus.

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

5 Analysis of shareholders' equity (continued)

31 December 2012

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Regulated entities					
Capital required	26,967	47,731	17,355	-	92,053
Restricted capital	-	-	-	-	-
Free surplus	37,142	27,513	15,127	-	79,782
Regulatory capital resource of regulated entities	64,109	75,244	32,482	-	171,835
Adjustments to shareholder net worth:					
Deferred acquisition costs	-	-	(54,314)	-	(54,314)
Financial reinsurance liability	-	-	(5,213)	-	(5,213)
Software asset adjustment	-	-	(5,712)	-	(5,712)
Adjustment to provisions on insurance contracts	-	3,052	-	-	3,052
Policyholder funds	-	(15,351)	-	-	(15,351)
Other asset / liability adjustments	388	-	6,340	-	6,728
Adjusted shareholder net worth	64,497	62,945	(26,417)	-	101,025
In-force value of covered business	67,040	18,537	124,503	-	210,080
Embedded value of regulated entities	131,537	81,482	98,086	-	311,105
Less: amount financed by borrowings	-	(29,662)	-	-	(29,662)
Embedded value of regulated entities attributable to shareholders	131,537	51,820	98,086	-	281,443
Net equity of other Group companies	-	-	1,587	28,115	29,702
Total shareholders' equity	131,537	51,820	99,673	28,115	311,145

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 2013 (unaudited)	CA £000	S&P £000	Movestic £000	Total £000
Free surplus at beginning of the period	37,142	27,513	15,127	79,782
Dividend paid to parent	(22,250)	(17,750)	-	(40,000)
Surplus arising in the period	4,295	20,670	2,979	27,944
Adjustments to required capital	(132)	346	134	348
Decrease in policyholder funds cover for capital requirement	-	(743)	-	(743)
Free surplus at end of the period	19,055	30,036	18,240	67,331

Six months ended 30 June 2012 (unaudited) (restated)	CA £000	S&P £000	Movestic £000	Total £000
Free surplus at beginning of the period	37,147	29,854	11,474	78,475
Dividend paid to parent	(22,000)	(22,000)	-	(44,000)
Surplus arising in the period	5,631	8,945	1,013	15,589
Adjustments to required capital	765	2,606	1,574	4,945
Decrease in policyholder funds cover for capital requirement	-	1,015	-	1,015
Free surplus at end of the period	21,543	20,420	14,061	56,024

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

5 Analysis of shareholders' equity (continued)

Year ended 31 December 2012

	CA £000	S&P £000	Movestic £000	Total £000
Free surplus at beginning of the year	37,147	29,854	11,474	78,475
Dividend paid to parent	(22,000)	(22,000)	-	(44,000)
Synergies and adjustments arising from Part VII transfer, including adjustments to required capital	7,000	-	-	7,000
Surplus arising in the year	13,261	14,557	2,877	30,695
Adjustments to required capital	1,734	5,394	776	7,904
Decrease in policyholder funds cover for capital requirement	-	(292)	-	(292)
Free surplus at end of the year	37,142	27,513	15,127	79,782

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

Six months ended 30 June 2013 (unaudited)

	CA £000	S&P £000	Movestic £000	Total £000
Value at beginning of period	67,040	18,537	124,503	210,080
Amount charged to foreign exchange reserve	-	-	3,570	3,570
Amount credited/(charged) to operating profit	5,401	(551)	7,769	12,619
Value at end of period	72,441	17,986	135,842	226,269

Six months ended 30 June 2012 (unaudited) (restated)

	CA £000	S&P £000	Movestic £000	Total £000
Value at beginning of period	60,655	17,519	121,386	199,560
Amount credited to foreign exchange reserve	-	-	(2,044)	(2,044)
Amount (charged)/credited to operating profit	(3,113)	3,343	5,352	5,582
Value at end of period	57,542	20,862	124,694	203,098

The movement in the in-force value for the period ended 30 June 2012 has been restated to reflect the change in methodology for the allocation of holding company expenses to the segments, as explained in Note 4(d).

Year ended 31 December 2012

	CA £000	S&P £000	Movestic £000	Total £000
Value at beginning of year	60,655	17,519	121,386	199,560
Amount charged to foreign exchange reserve	-	-	1,640	1,640
Amount charged to operating profit	6,385	1,018	1,477	8,880
Value at end of year	67,040	18,537	124,503	210,080

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. In accordance with this a further £6.0m of the loan was repaid on 20 December 2012, leaving principal outstanding at 30 June 2013 of £30m.

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)

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	2013 £000	Six months ended 30 June (unaudited) 2012 £000	Year ended 31 December 2012 £000
Shareholders' equity at beginning of the period		311,145	294,489
Profit for the period attributable to shareholders before modelling adjustments	35,429	15,936	31,255
Effect of modelling adjustments	848	-	3,574
Profit for the period		36,277	15,936
Issue of new shares			
Share premium		2	-
Sale of treasury shares		4	-
Foreign exchange reserve movement		2,864	(1,620)
Dividends paid		(12,921)	(12,519)
Shareholders' equity at end of the period		337,371	296,286

Effect of modelling adjustments

Modelling adjustments during the period to 30 June 2013 relate entirely to the Movestic business and have arisen due to further small refinements that have been made to the model since the year end.

Modelling adjustments during the year ended 31 December 2012 give rise to a net increase in EEV of £3.6m, comprising:

Movestic

During 2012, there has been a continued focus on ensuring that the Movestic EEV model is robust. The process, which has included independent review, has identified the following:

- (i) Levels of commission claw-back within the future cash flow projections were overstated by £7.9m; and
- (ii) Several enhancements to policy fee cash flow estimates and data input routines have been identified with a total net adverse impact of £1.1m.

UK

The CA and CWA EEV models previously assumed a single average rate of investment return for all durations as opposed the use of a full yield curve. This approximation was reported in the EEV assumptions section 4(a) of the Supplementary Information within the Interim Financial Statements for the Six Months Ended 30 June 2012. As at 31 December 2012 the models have been enhanced to recognise differing rates of return across the different durations of the yield curve resulting in a net of tax increase of £12.6m.

The effect of 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 period before modelling adjustments is analysed as:

Six months ended 30 June 2013 (unaudited)	CA £000	S&P £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Covered business						
New business contribution	386	7	393	2,336	-	2,729
Return from in-force business						
Expected return	592	79	671	1,919	-	2,590
Experience variances	3,224	2,999	6,223	(4,693)	-	1,530
Operating assumption changes	1,217	768	1,985	(1,796)	-	189
Return on shareholder net worth	199	(2,483)	(2,284)	-	-	(2,284)
Operating profit of covered business	5,618	1,370	6,988	(2,234)	-	4,754
Variation from longer-term investment return	6,867	6,939	13,806	7,007	-	20,813
Effect of economic assumption changes	(392)	11,196	10,804	1,513	-	12,317
Profit of covered business before tax	12,093	19,505	31,598	6,286	-	37,884
Tax thereon			(2,450)	-	-	(2,450)
Profit of covered business after tax			29,148	6,286	-	35,434
Results of non-covered business and of other group companies						
Profit/(loss) before tax			-	1,046	(1,186)	(140)
Tax			-	(142)	277	135
Profit/(loss) after tax			29,148	7,190	(909)	35,429

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

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

Six months ended 30 June 2012 (unaudited) (restated)						
	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	(616)	345	(271)	5,186	-	4,915
Return on shareholder net worth	278	3,317	3,595	-	-	3,595
Operating profit of covered business	5,685	5,918	11,603	2,566	-	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	6,420	8,236	14,656	5,758	-	20,414
Tax thereon			(4,284)	-	-	(4,284)
Profit of covered business after tax			10,372	5,758	-	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			10,372	6,051	(487)	15,936

The analysis of profit/(loss) of covered business before tax for the period ended 30 June 2012 has been restated to reflect the change in methodology for the allocation of holding company expenses to the segments as explained in Note 4(d).

Year ended 31 December 2012						
	CA £000	S&P £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Covered business						
New business contribution	339	(33)	306	2,596	-	2,902
Return from in-force business						
Expected return	2,308	274	2,582	3,290	-	5,872
Experience variances	5,194	3,029	8,223	(7,855)	-	368
Operating assumption changes	(335)	(2,858)	(3,193)	5,176	-	1,983
Return on shareholder net worth	859	7,048	7,907	-	-	7,907
Operating profit of covered business	8,365	7,460	15,825	3,207	-	19,032
Variation from longer-term investment return	8,864	10,967	19,831	8,204	-	28,035
Effect of economic assumption changes	(4,106)	(2,713)	(6,819)	315	-	(6,504)
Profit of covered business before tax	13,123	15,714	28,837	11,726	-	40,563
Tax thereon			(5,990)	-	-	(5,990)
Profit of covered business after tax			22,847	11,726	-	34,573
Results of non-covered business and of other group companies						
Profit/(loss) before tax			-	1,299	(5,745)	(4,446)
Tax			-	(295)	1,423	1,128
Profit/(loss) after tax			22,847	12,730	(4,322)	31,255

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)

7 Sensitivities to alternative assumptions

The following tables show the sensitivity of the embedded value as reported at 30 June 2013, 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 2013 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 2013	138.0	83.2	(19.1)	202.1	108.9	2.8
Changes in embedded value/new business contribution arising from:						
Economic sensitivities						
100 basis point increase in yield curve	(2.8)	13.3	(2.8)	7.7	0.2	(0.1)
100 basis point reduction in yield curve	3.9	(16.3)	0.8	(11.6)	(0.1)	0.1
10% decrease in equity and property values	(2.5)	(7.4)	2.1	(7.8)	(10.2)	0.0
Operating sensitivities						
10% decrease in maintenance expenses	2.9	3.4	(0.7)	5.6	6.4	0.3
10% decrease in lapse rates	2.4	(0.8)	(0.1)	1.5	9.0	0.7
5% decrease in mortality/morbidity rates:						
Assurances	0.9	0.1	(0.1)	0.9	0.2	0.0
Annuities	(1.8)	(0.7)	(0.1)	(2.6)	n/a	n/a
Reduction in the required capital to statutory minimum	0.4	0.8	(0.1)	1.1	0.0	0.0

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% (with a minimum of zero to avoid negative yields where relevant) 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) 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)

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

30 June 2013 (unaudited)					
	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Shareholders' equity on the IFRS basis	65,073	74,770	60,092	24,371	224,306
Reclassifications					
Debt finance	-	(29,747)	-	29,747	-
Other	(255)	-	-	255	-
Adjustments					
Deferred acquisition costs	(4,332)	-	(21,029)	-	(25,361)
Deferred income	7,738	-	-	-	7,738
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(13,145)	-	-	-	(13,145)
Adjustments to provisions on insurance contracts, net of reinsurers' share	394	(4,245)	-	-	(3,851)
Acquired in-force value	(10,472)	(5,276)	(53,712)	-	(69,460)
Acquired value of customer relationships	-	-	(1,282)	-	(1,282)
Software assets	-	-	(5,555)	-	(5,555)
Adjustment to borrowings	-	-	(5,939)	-	(5,939)
Deferred tax	1,491	-	2,160	-	3,651
Shareholder net worth	46,492	35,502	(25,265)	54,373	111,102
Value of in-force business	72,441	17,986	135,842	-	226,269
Shareholders' equity on the EEV basis	118,933	53,488	110,577	54,373	337,371
Shareholder net worth comprises:					
Shareholder net worth in regulated entities	46,492	65,249	(26,959)	-	84,782
Shareholders' net equity in other Group companies	-	-	1,694	54,373	56,067
Debt finance	-	(29,747)	-	-	(29,747)
Total	46,492	35,502	(25,265)	54,373	111,102

30 June 2012 (unaudited) (restated)					
	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	(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	(7,349)	-	-	(7,219)
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

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

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

31 December 2012

	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Shareholders' equity on the IFRS basis	86,498	75,570	58,078	(1,800)	218,346
Reclassifications					
Debt finance	-	(29,662)	-	29,662	-
Other	(253)	-	-	253	-
Adjustments					
Deferred acquisition costs	(4,631)	-	(17,000)	-	(21,631)
Deferred income	8,214	-	-	-	8,214
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(11,451)	-	-	-	(11,451)
Adjustments to provisions on insurance contracts, net of reinsurers' share	(40)	(7,051)	-	-	(7,091)
Acquired in-force value	(11,403)	(5,574)	(54,286)	-	(71,263)
Acquired value of customer relationships	-	-	(1,322)	-	(1,322)
Software assets	-	-	(5,712)	-	(5,712)
Adjustment to borrowings	-	-	(7,049)	-	(7,049)
Deferred tax	(2,437)	-	2,461	-	24
Shareholder net worth	64,497	33,283	(24,830)	28,115	101,065
Value of in-force business	67,040	18,537	124,503	-	210,080
Shareholders' equity on the EEV basis	131,537	51,820	99,673	28,115	311,145
Shareholder net worth comprises:					
Shareholder net worth in regulated entities	64,497	62,945	(26,417)	-	101,025
Shareholders' net equity in other Group companies	-	-	1,587	28,115	29,702
Debt finance	-	(29,662)	-	-	(29,662)
Total	64,647	33,283	(24,830)	28,115	101,065

9 Earnings per share

	Six months ended 30 June		Year ended 31 December
	2013	2012	2012
	P	P	P
Basic earnings per share			
Based on profit/(loss) for the period	31.59	13.88	30.33
Based on profit/(loss) for the period before exceptional item	30.85	13.88	27.21
Diluted earnings per share			
Based on profit/(loss) for the period	31.59	13.88	30.33
Based on profit/(loss) for the period before exceptional item	30.85	13.88	27.21

10 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 SEK10.0302 = £1 ruling in the six months ended 30 June 2013 (six months ended 30 June 2012: SEK10.7983 = £1 and year ended 31 December 2012: SEK10.7326 = £1), while all items in the balance sheet are stated at the closing rates ruling at the reported balance sheet date, being SEK10.2359 = £1 at 30 June 2013 (SEK10.1320 = £1 at 30 June 2012 and SEK10.5247 = £1 at 31 December 2012). 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 2013 been 10% higher at SEK11.2595 = £1, then the reported embedded value of £337.4m as at 30 June 2013 would have been reported as £326.6m.

BOARD OF DIRECTORS

Peter Mason was appointed as Chairman of Chesnara plc and Chairman of the Nomination Committee on 1 January 2009. He was re-appointed as a member of the Remuneration and Audit & Risk Committees with effect from 22 December 2009 and was appointed as Chairman of Movestic Livforsakring AB with effect from 23 July 2009. He is currently 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 Livforsakring AB and as Chairman of Movestic Kapitalforvaltning 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.

David Rimmington is the Group Finance Director of Chesnara plc. He trained as a chartered accountant with KPMG, has more than 17 years' experience in financial management within the life assurance and banking sectors and has had a significant role in a number of major acquisitions and business integrations. Prior to joining Chesnara plc in 2011 as Associate Finance Director David held a number of financial management positions within the Royal London Group including 6 years as Head of Group Management Reporting.

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.

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 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. He is Chairman of the Risk Committee and of the With-profits Committee of Countrywide Assured plc.

Veronica France is an Independent Non-executive Director who was appointed to the Chesnara plc Board on 16 January 2013. She serves on the Nomination, Remuneration and Audit & Risk Committees. She has chaired the Remuneration Committee since Mike Gordon stepped down on 17 May 2013. She also serves on the Countrywide Assured Risk Committee and With-profits Committee. She is currently a Non-executive Director of Family Assurance where she sits on their Risk and Audit and Nominations Committees and chairs their Remuneration Committee. Since 1992 Veronica has run her own financial services consultancy business advising on strategy, business development, product development and related activities. Veronica was Chairman of the trade body, the Investment and Life Assurance Group in 2002/3 and served on its Management Committee for over ten years before stepping down in 2010.

David Brand is an Independent Non-executive Director who was appointed to the Chesnara plc Board and the Board of Movestic Livforsakring AB with effect from 16 January 2013. He serves on the Nomination, Remuneration Committee and Audit & Risk Committees. He is a qualified actuary who, prior to his retirement in June 2012, had worked for the Hannover Re Group in the UK, acting as the Managing Director of the UK life reinsurance subsidiary since 2003. David had been with the company since 1988, and a Director since 1990. During his career David has also held various roles with the Institute of Actuaries, including being a member of Council and he also served on the ABI Health Committee from 2006 to 2012.

Mike Evans is an Independent Non-executive Director who was appointed to the Chesnara plc Board on 4 March 2013. He serves on the Audit & Risk, Nomination and Remuneration Committees. Mike became Senior Independent Director on the retirement of Mike Gordon on 17 May 2013. He is currently Non-executive Chairman of Hargreaves Lansdown plc, a FTSE 100 listed company, a position he has held since 2009. He originally joined the Hargreaves Lansdown Board as a Non-executive Director in 2006 and has served on their Nominations, Remuneration and Audit Committees. Mike is also a Non-executive Director of CBRE Global Investors Group (UK), esure Group plc and a member of the advisory board of Spectrum Corporate Finance. Mike is a qualified actuary and served in a number of director-level positions within Skandia UK between 1991 and 2006.

FINANCIAL CALENDAR

30 August 2013

Interim results for the six months ended 30 June 2013 announced.

11 September 2013

Ex dividend date.

13 September 2013

Dividend record date.

14 October 2013

Dividend payment date.

19 November 2013

Interim Management Statement for the quarter ending 30 September 2013 announced.

31 March 2014

Results for the year ended 31 December 2013 announced.

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