Chesnara

Interim Financial Statements
for the Six Months Ended
30 June 2014

NOTE ON TERMINOLOGY

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

CA	which comprises the original business of Countrywide Assured plc, the Group's original UK operating subsidiary, 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. 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;
PL	which was purchased on 28 November 2013 from Direct Line Insurance Group plc. On acquisition the company was called Direct Line Life Insurance Company, and was subsequently renamed Protection Life Company Limited. PL is included within the Group's UK business; and
Movestic	which was purchased on 23 July 2009 and comprises the Group's Swedish business, Movestic Livförsäkring AB and its subsidiary and associated companies.

In these Interim Financial Statements:

i. The **CA**, **S&P** and **PL** 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 plc**' refers to the legal entity Countrywide Assured plc, which includes the long term business of **CA**, **CWA** and **S&P**;

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 between 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;

vi. **'PL'** refers to Protection Life Company Limited (previously Direct Line Life Insurance Company Limited), which was purchased on 28 November 2013; and

vii. '**Movestic**' may also refer to Movestic Livförsäkring AB, as the context implies.

SECTION A

OVERVIEW

IN THIS SECTION

HIGHLIGHTS – SIX MONTHS ENDED 30 JUNE 2014

(UNAUDITED)

FINANCIAL

26% INCREASE IN IFRS PRE-TAX PROFIT

Increase in IFRS pre-tax profit for six months to 30 June 2014 to £27.4m (six months ended 30 June 2013: £21.8m).

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GROSS CASH GENERATION £16.0M

Gross cash generated for six months ended 30 June 2014 £16.0m (six months ended 30 June 2013: £21.9m).

Cash Generation Page 32

EEV INCREASED TO OVER £400M

Increase in EEV of £23.9m from £376.4m at 31 December 2013 to £400.3m at 30 June 2014 after dividend distributions of £13.4m in the period.

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EEV EARNINGS AFTER TAX OF £47.3M

EEV earnings net of tax increased by £11.9m to £47.3m for the six months ended 30 June 2014 compared with the same period in 2013 of £35.4m (excluding modelling adjustments).

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MOVESTIC NEW BUSINESS CONTRIBUTION OF £5.8M

Movestic has generated a new business contribution of £5.8m on an EEV basis in the six months ended 30 June 2014 (six months ended 30 June 2013: £2.3m).

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GROUP SOLVENCY 192%

Strong Insurance Group Directive solvency cover of 192% (31 December 2013: 194%).

Financial Management Page 23

INTERIM DIVIDEND INCREASED BY 2.7%

Proposed interim dividend increased by 2.7% to 6.42p per share.

OPERATIONAL

PROTECTION LIFE

The integration of Protection Life is being effectively implemented and encouragingly all the value items are emerging slightly ahead of expectations.

GOOD COMPLIANCE RECORD

Good regulatory compliance record continues.

MOVESTIC NEW BUSINESS GROWTH

27.8% increase in like for like new business volumes.

MOVESTIC NEW BUSINESS MARKET SHARE

Share of total unit-linked pensions market continues to be strong in the first half of 2014 at 8.5% (six months ended 30 June 2013: 7.1%).

Notes

1. Throughout the Chairman's Statement, Business Review and Financial Review sections, all results quoted at a business segment level exclude the impact of consolidation adjustments. These consolidation adjustments are analysed by business segment on page 29.

2. Net cash generation in the period is defined as the net amount of the following items:

i. Gross cash generation, defined as:
   a. the change in the excess of actual regulatory capital resources over target capital resources in respect of the CA, S&P and PL operating segments;
   b. less capital contributions made by the Group to the Movestic operating segment; and
   c. less cash utilised by Parent Company operations.

ii. Plus the cash impact of one-off management actions coupled with movements in the restrictions of policyholder funds to shareholder funds.

As such, the cash generation KPIs defined above do not align to the Cash Flow Statement as included in the IFRS Financial Statements.

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 / Total Shareholder Return
- Part VII
- Operational performance
- Compliance
- New business market share
- Acquisitions

Throughout the Interim Financial Statements the following colour themes are used to help distinguish between the five core Group strategic objectives:

- Maximise value from the in-force book
- Enhance value through new business
- Acquire life and pension businesses
- Maintain a strong solvency position
- Adopt good regulatory practice at all times

CHAIRMAN'S STATEMENT

"Continued good performance across all of our stated strategic objectives has resulted in an impressive growth in the embedded value of the Group during the first half of 2014. Value growth has emerged from both strong operational performance and also generally beneficial investment market conditions. A reassessment of a specific product liability has created an additional one off value enhancement. Cash generation has been strong with half year cash representing 78% of the 2013 full year total dividend. The integration of Protection Life is being effectively implemented and, encouragingly, all the value items are slightly ahead of expectations.

Peter Mason
Chairman

CHAIRMAN'S STATEMENT (CONTINUED)

I am pleased to report that Chesnara has performed well across all aspects of the corporate strategy.

	Objective	Headline	Page
1	Maximise value from the in-force books	£16.0m of gross cash generation represents 78% of the 2013 annual dividend	17
2	Enhance value through new business	£5.8m of Swedish new business profit (on an EEV basis)	20
3	Acquire life and pensions businesses	Value emergence from Protection Life is slightly ahead of expectations	22
4	Maintain a strong solvency position	Group solvency of 192%	23
5	Adopt good regulatory practice at all times	Continued good regulatory record	25

The strong performance has enabled the continuation of our attractive dividend policy and this is reflected in the 2.7% increase in our interim dividend. The performance has not however resulted in a corresponding increase in the share price with the share price at 30 June 2014 being broadly in line with the opening value. The implications of this are two fold. Firstly, as at 30 June 2014 we were trading at an increased discount to embedded value and secondly the TSR during the six month period to 30 June 2014 is more modest than during 2013 and includes only the benefits of the dividend yield with no capital growth. The TSR over the medium to long term remains impressive and ahead of comparable indices. My statement considers the more material components of our strategy in a little more detail as follows:

Maximise value from the in-force book

The UK in-force book is the primary source of IFRS surplus and cash generation. I am pleased to report that significant value has emerged from the UK in-force book during the period. As explained in more detail in the Financial Review section of the Management Report, the in-force book can be characterised into two components in terms of value emergence dynamics. The "stable core", consisting of the CA, CWA and PL books, has performed broadly in accordance with the expected dynamics albeit generating surpluses higher than long term expectations. In particular, I am pleased to report that Protection Life has, during our first full period of ownership, generated surplus at levels slightly higher than the levels assumed in our initial valuation of the business. The "variable element", namely S&P, is known to be more sensitive to investment market conditions. During the first six months of 2014 investment market conditions have been beneficial, resulting in a reduction in the expected exposure to policy guarantees. Gross cash generation of £16.0m continues to correlate closely to IFRS surplus and the gross cash generated in the first six months provides 78% coverage of the 2013 full year dividend.

Cash available for distribution

Six months to 30 June 2014: £15.6m

Six months to 30 June 2013: £9.9m

During the period our outsourcer partner performance has remained strong, so it is particularly pleasing that we have signed a revised long-term contract with HCL, who administer our CA, S&P and PL books. The revised deal gives us the on-going operational security and cost run-off certainty our UK business model requires.

Enhance value through new business

> New business profit from Movestic continues to grow. The total profit for the six months to 30 June 2014 of £5.8m (on an EEV basis) is at a level such that our new business operation has become a material component in the value and investment proposition of the Chesnara Group.

There has been significant improvement in the new business profit in Movestic. This is underpinned by a 27.8% increase in APE new business volumes compared with 2013. This growth has been achieved without any discernible increase in the acquisition cost base and hence the results show a significant new business contribution for the period.

Movestic EEV new business contribution for the six months to 30 June 2014

£5.8m

Six months to 30 June 2013: £2.3m

I expect Movestic, now that it has re-established its strong market position, to continue to make a significant contribution to the Embedded Value of the Group from its new business operations in the future.

CHAIRMAN'S STATEMENT (CONTINUED)

Acquiring life and pensions businesses

In my statement within the 2013 Annual Report & Accounts I stated that "The acquisition of Protection Life during 2013 was a good transaction" and that "the business fits well with the existing UK product portfolio and operating model". As such I am encouraged that performance during the first six months of ownership has validated our expectations. The operational integration is running to plan, the Part VII transfer is progressing well and the surplus emergence from the business is slightly ahead of expectations.

> The Protection Life acquisition continued to give momentum to our acquisition strategy and reaffirmed the strength of our proposition. We remain committed to further acquisitions and are optimistic about both the market opportunity and our strategic, operational and financial capability.

There has been a steady flow of acquisition opportunities to assess during the first half of 2014. We will retain our discipline and only progress opportunities where the direct financial benefits of the deal together with any strategic potential are adequate to meet our risk based value assessment criteria.

Maintain strong solvency position

Our 2013 closing Group Solvency position was adversely affected by the acquisition of Protection Life. The impact was as expected based on our assessment of the PL acquisition. The Part VII transfer is progressing well and is planned to complete during 2014. It is expected to bring capital synergies such that some of the adverse effect on a Group solvency basis will be reversed. In advance of the expected positive Part VII impact, the financial performance during the six months to 30 June 2014 has sustained the Group Solvency position which remains strong and significantly higher than the internal governance target.

Group solvency 192%

31 December 2013: 194%

Adopt good regulatory practice at all times

The level of regulatory change during the first half of 2014 has been less marked than in 2013, although the regulatory regime in which the Group operates continues to demand high standards of the Group. Group management continues to operate such that these demands are fulfilled in order to continue to deliver to this core strategic objective, with further detail provided on page 25 of the business review.

Risk Management

Risk Management is not stated as a specific objective. It is ingrained in the culture and decision making in all we do as a business and is seen as an integral and key priority that feeds into all our objectives. We simply do not consider the delivery of any strategic objective as being successful if the appropriate balance between risk and reward has not been retained.

Pension reforms and FCA legacy review

In my statement within the 2013 Annual Report & Accounts I mentioned that the Chancellor of the Exchequer had announced significant changes which would affect the pensions and annuity markets. I stated that we were not expecting any immediate or significant change to our book of business, or the value of it. Performance of the Group during the first half of 2014 supports my initial view. Separately, the FCA has announced its intention to undertake a review of legacy books. I am confident that the areas specifically mentioned, such as inappropriate exit charges and inappropriate cost allocations between open and legacy business, should not be significant risk areas for Chesnara.

Outlook

During 2014 we have built upon our strong 2013 performance, solvency margins are healthy and on-going cash generation provides a reassuring buffer against future potential earnings variability and a good source of funding for future potential acquisitions and dividend payments. Whilst I can report no further specific acquisition developments during the six months to 30 June 2014, I remain optimistic that acquisition opportunities in our target markets exist and that we have the reputation, capability and financial strength to progress any that meet our stringent assessment criteria.

Peter Mason
Chairman
28 August 2014

SECTION B

MANAGEMENT REPORT

IN THIS SECTION

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; and
- 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 responsibilities 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

1 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 from onerous policy options and guarantees, and compensation claims for past misselling of products. The Group's portfolios had, in earlier years, 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 to market performance increased. Furthermore, the Group continues to have exposure to market weakness 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. As such 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) Limited 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 varies in line with the 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 challenge 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.

2 ENHANCE 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.

STRATEGIC OBJECTIVES (CONTINUED)

3 ACQUIRE LIFE AND PENSION 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 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, with the potential impact on dividend sustainability.
- 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.

4 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?

The Board considers comprehensive information covering the actual solvency position, together with projections for expected and stressed 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.

STRATEGIC OBJECTIVES (CONTINUED)

5 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 solely 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 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 Prudential Regulation Authority ('PRA') the Financial Conduct Authority ('FCA'), 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 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 structure which sits at the heart of the Chesnara operating model, supported by 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 reflects the Board's desire to ensure 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, resulting in policyholder detriment.

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

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

The governance framework ensures controls and procedures are in place to protect all stakeholders.

THE CHESNARA BUSINESS

> The history of the development of the Chesnara Group, 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 successive acquisitions made by Chesnara have progressively increased the overall longevity of its run-off portfolio, while diversifying the policy base. At 30 June 2014, the Group had 254,000 (31 December 2013: 255,000) pension policies and 631,000 (31 December 2013: 647,000) life policies in-force.

> Chesnara continues to seek to participate in the consolidation of life assurance and pension businesses in the UK and Western Europe.

We primarily target acquisitions with an acquisition 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 – 2014)

’14 Chesnara signed a new 10 year contract for administration services with HCL, our primary outsource partner. The revised deal gives us the on-going operational security and cost run-off certainty our UK business model requires.

’13 Chesnara acquired Direct Line Life Insurance Company Limited (now renamed Protection Life Company Limited) from Direct Line Group plc for £39.3m, funded by a mixture of bank debt and internal cash resources. PL is closed to new business, with a portfolio containing non-linked products, including mortgage life cover, fixed term life cover (both with and without critical illness cover) and over 50's life cover to UK customers.

’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.

’11 The long-term business funds and part of the shareholder funds of SPI and SPP were transferred to CA plc under the provisions of Part VII of FSMA, thereby realising significant financial and operational synergies.

’10 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.

Movestic acquired the in-force business, personnel, expertise and systems of Aspis Försäkrings Liv AB, a small Swedish life and health insurer, thereby complementing Movestic's existing focus on pensions and savings contracts.

’09 Chesnara acquired Movestic Liv, an open predominantly unit-linked Swedish Life and Pensions business, for £20m, representing 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.

’06 The long-term business of CWA was transferred to CA plc under the provisions of Part VII of the Financial Services and Markets Act 2000 ('FSMA'), thereby realising significant financial and operational synergies.

’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.

’04 Chesnara listed on the London Stock Exchange, following its acquisition of CA plc 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.

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 23 (31 December 2013: 21) full-time equivalent employees in its corporate governance team in the UK. In Sweden, the headcount is 125 (31 December 2013: 123).

UK

- The primary focus of the UK businesses is the efficient run-off of their existing life and pensions portfolios. This gives rise to the emergence of surplus which supports our primary aim of delivering an attractive 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 which is 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, and 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, actuarial 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.

- 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.

BUSINESS REVIEW

Introduction

The Business Review is structured to report on how we have performed against each of our stated strategic objectives. For each objective the review reports separately for our UK and Swedish operations to the extent separate reporting is relevant. For each objective the review focuses on:

- How we have performed generally
- Key developments or challenges
- Key performance indicators
- Risks associated with each objective

The strategic objectives are reassessed on an annual basis as part of the Group business planning process. The continued relevance of the objectives gives consideration to recent performance, emerging risks and future opportunity. They are assessed giving full regard to both internal and external influences e.g. changes to regulatory requirements.

The strategic objectives have not changed during the first six months of 2014 nor is there expected to be any significant change in focus during the remaining six months of 2014.

In addition to the five core objectives there is an over-arching objective to "Deliver value to stakeholders on a responsible and balanced basis". That is, over-arching the fulfilment of strategic objectives is the core value shared by the Board and Management team of recognising responsibilities to all stakeholders on a balanced basis. Often decisions are required that may have conflicting impacts on the different stakeholders. Maintaining a balanced view across the stakeholder groups is critical to ensuring Management continues to make decisions that benefit all stakeholders in the longer term.

The governance framework seeks to ensure that controls and procedures are in place to protect all stakeholders. The control environment has remained effective and robust throughout the period. Further details of the operation of the governance framework are included in Section C – Corporate Governance of the 2013 Annual Report & Accounts.

Our over-arching objective: Deliver value to stakeholders on a responsible and balanced basis

1	2	3	4	5
Maximise value from the in-force book	Enhance value through new business	Acquire Life and Pension businesses	Maintain a strong solvency position	Adopt good regulatory practice at all times

BUSINESS REVIEW

1 MAXIMISE VALUE FROM THE IN-FORCE BOOK | UK

> Significant levels of cash have emerged from the in-force book during first half of the year with gross cash generation equal to 78% of the 2013 total dividend.

Highlights

- £19m of gross cash generation (excluding Chesnara parent company cash).
- Funds under management remain resilient to the impact of book run-off.
- Positive EEV development.
- One-off value enhancement of £17.3m on an EEV basis due to the reassessment of CWA bonus unit policy liabilities.
- Strong fund performance.
- Improved policy attrition levels.

Review of the six months ended 30 June 2014

Operational performance has been strong across the three key areas of focus for the in-force book, namely: 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.

Our administration and asset management outsource partners have all performed well during the period and generally exceeded service level arrangements and relevant benchmarks.

> In light of the strong outsource partner performance, the signing of a revised long-term contract with HCL, who administer our CA, S&P and PL books, is particularly positive. The revised deal gives us the on-going operational security and cost run-off certainty our business model requires.

The estimated financial impact of the new contract terms was included in the 2013 results and given the final terms were in line with expectations, there is no further financial impact during the six months to 30 June 2014.

Cash generation during the half year has been strong. This is primarily due to the core product based surpluses remaining resilient, coupled with the one off emergence of cash arising from a reassessment of policyholder liabilities relating to a book of CWA policies to which bonus units are assigned under certain circumstances. During the period it has become apparent that practice and associated reserving did not recognise the impact of premium discontinuance in line with the policy terms and conditions. Practice and the reserving models have been updated accordingly and this has resulted in incremental cash generation of c£6m during the period. The impact on the Embedded Value is more significant and the changes have resulted in an increase in embedded value of £17.3m.

Unit-linked funds under management

The continuing strong level of unit-linked funds under management supports the on-going 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:

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

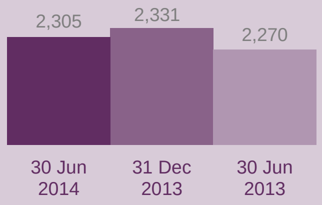
Good performance by our administration and investment management business partners has contributed positively to all three of the above factors.

Risks associated with the strategic objective

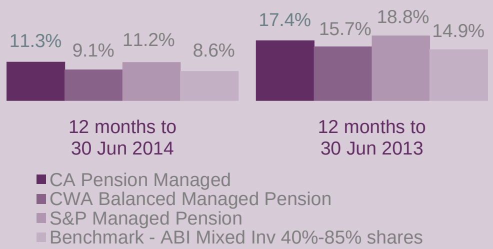
S&P, as signalled at the time of the acquisition, has added an increased level of earnings volatility for the UK business. S&P has a proportion of its product base that provides guaranteed returns. The probability of guarantees being of value to policyholders increases when the value of assets held to 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 negatively affected by falls in equity and property values, which impact assets backing policyholder liabilities and/or falls in bond yields, which impacts the cost of providing the guarantees were they to occur. Conversely, increasing markets and yields will positively affect the results. Close management of the portfolio backing these liabilities continues.

The CA plc Investment Committee has continued its oversight of policyholder funds through regular meetings with the investment managers. Our investment managers have continued to produce good performance which benefits shareholders and policyholders alike.

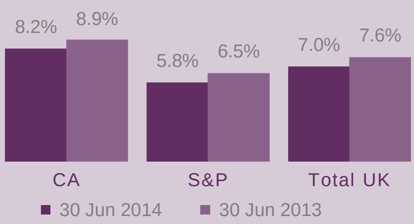
Unit-linked funds under management (£m)



Fund performance



Annualised policy attrition, based on policy count



BUSINESS REVIEW

1 MAXIMISE VALUE FROM THE IN-FORCE BOOK | SWEDEN

> Following a favourable investment market performance and the continued growth in new business flows, Movestic's funds under management have increased by 14% during the six months to 30 June 2014 and stand above SEK 20bn for the first time.

Highlights

- Strong growth in funds under management; increase of 14% during the six months to 30 June 2014.
- Positive EEV development.
- Continued improvement in the ratio of transferred-in business to transferred-out business, such that transfers in have exceeded transfers out for the year to date.
- Whilst the Swedish business has performed well to enhance value from the in-force book, the value has been adversely affected by the strengthening of Sterling against the Swedish Krona.

Review of the period

During the first six months of 2014 Movestic's re-established market strength was evident not only in impressive new sales but also in the large amount of transferred in business and in the stabilised position for transferred out business. The focus to ensure that we continue to provide a high quality service to IFAs and policyholders in terms of administration service levels and investment return continues and independent market surveys show continuously improving ratings.

Within the Life & Health book of business, the portfolio continues to deliver high quality in terms of overall claims development with a gross loss ratio of 52.9% for the six months to 30 June 2014 being broadly in line with the six months to 30 June 2013 of 51.8%.

The scale of the Pension and Savings in-force book in Sweden is such that profits emerging from it are relatively modest in comparison to UK equivalents. As such, the challenge is to increase the value of the funds under management from which we earn income in the form of management charges and fund rebates. The following matrix illustrates the factors that directly influence the growth of the in-force book:

The general performance on all four factors has been positive resulting in strong fund growth. The factors are considered in more detail below:

New business

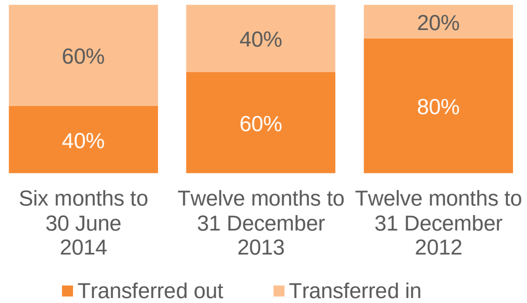
The review of the new business operation is covered in the "Enhance value from new business" objective review on page 21.

Policy attrition (fig 1 & fig 2 on the following page)

The strengthened IFA support so evident in the new business results has had a less marked impact on policy attrition levels. Following a period of gradual improvement during 2013, the position has stabilised during the first half of 2014. We believe this indicates that the current levels of transfers-out experienced are reflective of the broader dynamics of the IFA market and hence are assuming no discernible change in the future. The modest positive persistency experience variance reported during the first half of 2014 confirms the appropriateness of the assumptions. That said, 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. Any positive impact will only be recognised if improvements are seen in actual attrition rates. As can be seen in figure 1 policy attrition rates have historically been seasonal and this trend has continued into Q1 and Q2 of 2014.

Despite transfer out levels having remained broadly stable, the ratio of transferred-in to transferred-out business has improved significantly, with transfers in now exceeding transfers out during the first half of 2014.

Transferred-in business has exceeded transferred-out business in the year to date.

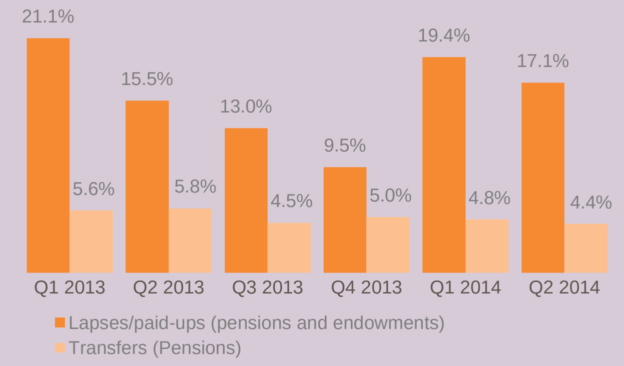


(continued overleaf)

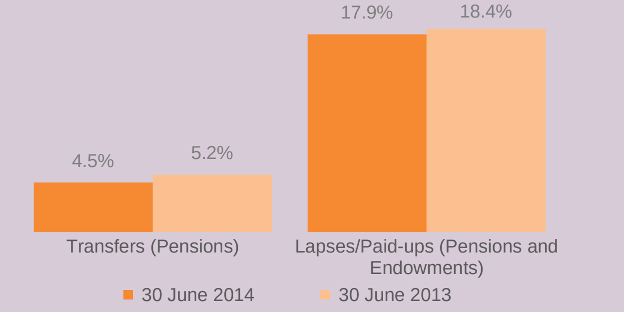
BUSINESS REVIEW

1 MAXIMISE VALUE FROM THE IN-FORCE BOOK | SWEDEN (CONTINUED)

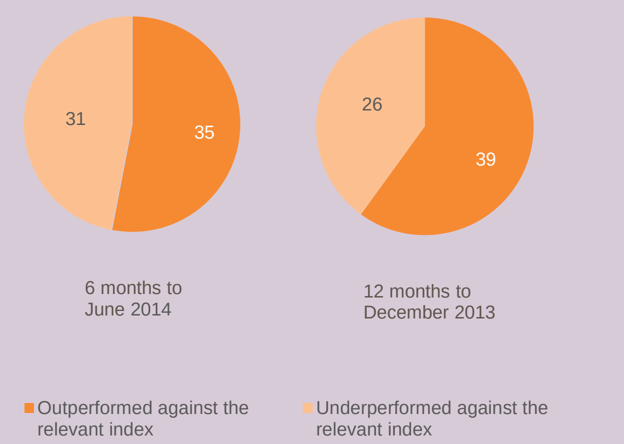
Policy attrition trend analysis (fig 1)



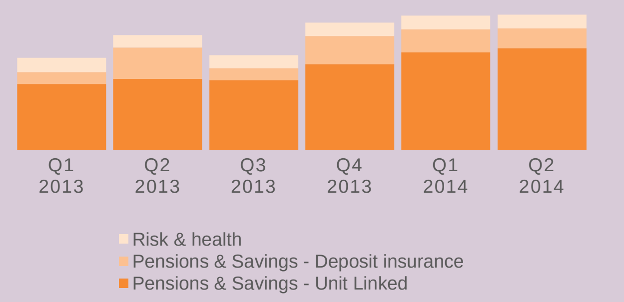
Annualised policy attrition 2014 vs. 2013 (fig 2)



Fund performance (fig 3)



Total premium income (fig 4)



Fund performance (fig 3)

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 with 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.

The relative fund performance measure focuses on the number of funds under or over performing their relevant indices and does not recognise the weighting of investments in each fund. As such it does not necessarily directly reflect the investment performance experienced by the unit linked policyholders. 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 has performed consistently well on this measure and it retains a competitive market position.

Premium income (fig 4)

The increase in premium income is predominantly due to an increase in new business levels. The recurring regular premiums have increased marginally period on period for the Pensions and Savings business which is key to achieving sustained growth. Regular premiums for the Life and Health business have remained broadly flat period on period.

Risks associated with the strategic objective

The risk of high levels for persistency rates has somewhat altered during the period. It has become more evident that there is inherent risk in the Swedish market where customer awareness of the ability to transfer their pension is a feature with increasing influence as a consequence of intensified public discussion. The Movestic product proposition already offers significantly more portability for transferring pensions than the general market. As such, although higher transfer rates would create challenges, an increased right to transfer would be beneficial to Movestic in terms of its market position compared with other more traditional competitors.

BUSINESS REVIEW

2 ENHANCE VALUE THROUGH NEW BUSINESS | SWEDEN

> IFA support of the Movestic proposition has continued to gain momentum as evidenced by a 27.8% increase in APE new business volumes compared with the same period in 2013.

Highlights

- 27.8% increase in new business volumes compared with six months to 30 June 2013.
- IFA support as measured by the number of IFA's that sell Movestic products, shows an increase of 6% compared with the same date in 2013.
- The new business profit during the half year has reached a level that is of material significance to the Chesnara Group value proposition.
- Recovery in average gross margin rate.
- The development of innovative product concepts continues.

Review of the period

In light of the strong recovery of new business levels in 2013 the continued growth during 2014 is particularly pleasing and slightly surpasses management's original expectations. The re-engineered processes have coped well with the sharp increase in new business volumes.

The business continues to benefit from changes to the senior management structure together with the transfer of certain IFA-critical processes to Stockholm to support the acquisition and marketing proposition.

There is a positive management environment which means that 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. The Group Chairman made a statement in the 2013 Annual Report & Accounts that "I expect Movestic, now that it has re-established its strong market position, to continue to make a significant contribution to the Embedded Value of the Group from its new business operations in the future".

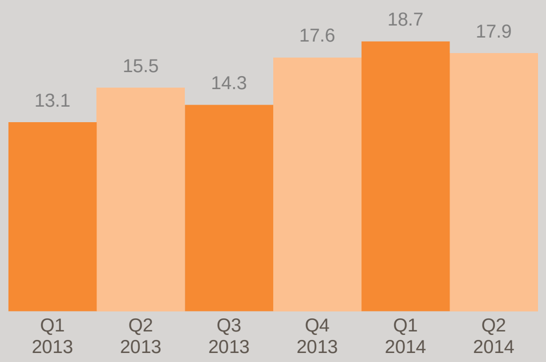
The total new business profit for the six months to 30 June 2014 of £5.8m validates the above explanation, having increased to a level, that on an annualised basis, implies the Movestic new business operation is becoming an increasingly relevant component of the Group's appraisal value.

New business premium income

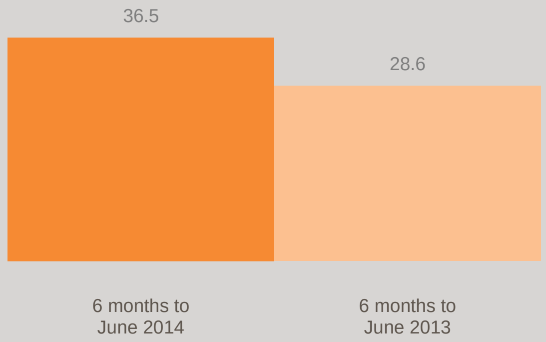
New sales in the unit-linked business have shown substantial growth in six months to 30 June 2014, with a 27.6% increase compared to six months to 30 June 2013. A key driver of this is the recovery in IFA sentiment towards Movestic following the significant improvements in service levels when compared with prior periods. Although the monthly trend is upwards we expect future new business growth to continue at a more modest growth rate following the significant recovery.

New business markets, as ever, remain challenging. Whilst some companies have continued to offer traditional investment products which have a lower risk profile and contain guarantees (which we believe to be unsustainable) we have started to see some movement to equity-linked products as a consequence of strong market performance. Further momentum in this area would have a positive impact on future new business potential.

Trend analysis of new business premium income (£m)



New business premium income (£m)



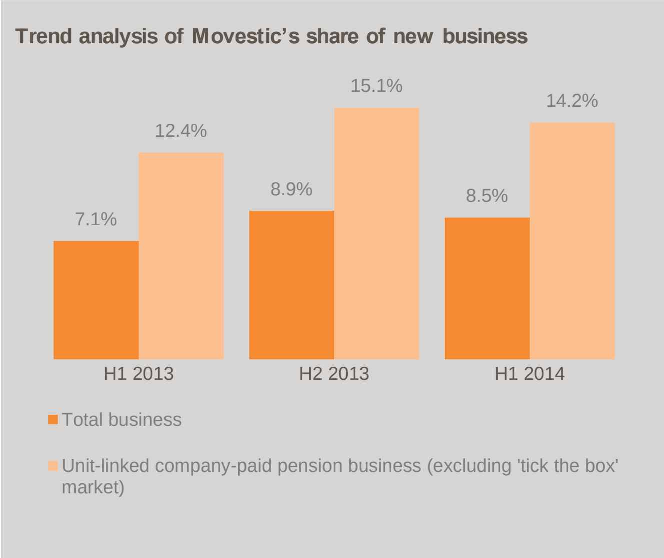
BUSINESS REVIEW

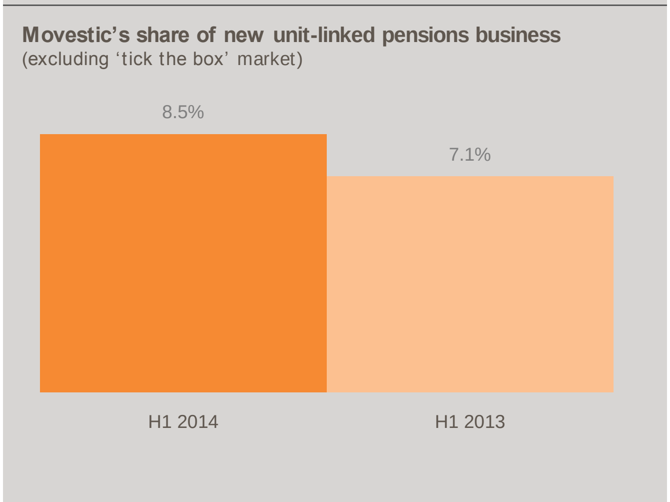
2 ENHANCE VALUE THROUGH NEW BUSINESS | SWEDEN (CONTINUED)

Market share
Movestic operates in a mature market with low levels of overall growth. The new business market share statistics, both for the company-paid business and total business, show that Movestic continues to write a significant portion of new business in this sector, and continues to be within the top five suppliers in the core unit-linked company-paid pension market.

During the first six months Movestic had a 14.2% share of the unit-linked company-paid market and 8.5% of the total market.

As can be seen from the graphs below, Movestic's market share of total business and company-paid business for the first six months of 2014 has exceeded the same period in 2013, although they have reduced slightly when compared with the latter half of 2013. A flattening of Movestic's market share has been expected, with recent increases being attributable to Movestic having resolved historic systems issues.





Development of innovative product concepts
The trend within the company-paid insurance solutions market in Sweden is to look for overall concepts where the pension plan is complemented by risk insurance products to cover the entire need of companies and their employees. Movestic's full range offering within both pension and risk products makes it possible to create such concepts and smaller variations to existing risk products packaged together with competitive pension plans can provide the adapted solutions the market asks for.

A differentiating feature of Movestic is the carefully selected fund range which over time has proven to perform very well compared to similar offerings. The work to further develop and improve the fund range is continually given high priority.

Risks associated with the strategic objective
Economic conditions in Sweden have remained stable and have proved to be relatively immune to economic pressures experienced across the rest of Europe. However, there remains a general sense of uncertainty that has led to consumers preferring more traditional investment products to equity-based unit-linked investments. Recent improvements in confidence and good equity market performance has led to a shift to equities and Movestic remains committed to the unit-linked market. We believe that as equity market confidence continues to recover and that as the traditional investment offerings become less sustainable for providers, there will be a gradual shift back towards unit-linked investments. New business volumes remain sensitive to market preferences and continued IFA support.

New business remains relatively concentrated towards several large IFA's. This is inevitable to some extent, however, the fact that Movestic has extended the breadth of IFA support in the period, has reduced the concentration risk to some extent. The competitive market puts pressure on new sales margins and even though Movestic's margins have held up well, these external pressures have led to management focussing on achieving better terms in the fund operation.

BUSINESS REVIEW

3 ACQUIRE LIFE AND PENSIONS BUSINESSES

> The focus during the first half of 2014 has been on integrating Protection Life into the Chesnara Group to ensure we deliver value in accordance with the assumptions upon which the deal was assessed. Much effort has been spent on the operational migration to HCL and the Part VII transfer both of which are progressing in line with plan and within budget.

Highlights

- PL surplus has emerged at a slightly higher level than expected.
- Part VII transfer progressing in line with plan.
- Operational migration progressing to plan and budget.
- General increase in acquisition market activity in the sector.

Review of the period

There has been a general increase in general market activity in the UK and across Europe. The activity is due to a number of factors including larger financial organisations wishing to re-focus on core activities and the desire to release capital or generate funds from potentially capital intensive Life and Pension businesses. Chesnara continues to be made aware of opportunities and has progressed to various stages dependent on our view of how well the opportunities align to our assessment criteria. It is encouraging that Chesnara continues to be invited to consider many of the known opportunities which reflects well on our presence and credibility in the market. We remain optimistic that our reputation, operational capability and financial strength positions us well to take advantage of the improved market activity in due course.

Acquisition process and approach

Chesnara is an established Life and Pensions consolidator with a proven track record. This together with a good network of contacts in the adviser community, who understand the Chesnara acquisition model and are mindful of our good reputation with the regulator, ensure we are aware of most viable opportunities in the UK and many opportunities in Europe.

We assess the financial impact of potential acquisition opportunities by estimating the impact on three financial measures namely; the cash flow of the Group, the incremental embedded value and the internal rate of return. The financial measures are assessed under best estimate and stress scenarios.

The measures are considered by the Board and Audit & Risk Committee, in the context of other non-financial measures including the level of risk, the degree of strategic fit and the opportunity of alternative acquisitions.

We engage specialists to support stringent due diligence procedures and the actual acquisition process.

Risks associated with the strategic objective

The risk of not effectively delivering this objective is two-fold. Firstly, there is the risk that Chesnara makes no further acquisitions and secondly there is the risk that we make an inappropriate acquisition that adversely impacts the financial strength of the Group. The general increase in market activity together with the momentum created by the Protection Life acquisition suggests that the risk of no further value adding acquisitions has actually somewhat reduced over the past six months.

> The Protection Life deal does not mean that other opportunities cannot be fully progressed should they become available.

During recent years and through the Protection Life assessment process, we have enhanced our financial projection modelling capabilities which improves the quality of financial information available to the Board. This strongly mitigates the risk of inappropriate opportunities being pursued. In addition, the increased financial strength of the Group means that any perceived risk that pressure to do a deal could result in a departure from the stringent assessment criteria will have reduced.

Acquisition outlook

We continue to see a reasonable flow of possible acquisition opportunities and assess them appropriately. The general market background is positive with, in particular, the now firm implementation date for Solvency II, leading portfolio holders and owners to review their strategic options.

BUSINESS REVIEW

4 MAINTAIN STRONG SOLVENCY POSITION | UK AND SWEDEN

> We have continued to deliver to our strategic objective of maintaining a strong solvency position, with Group solvency being 192% at 30 June 2014.

Highlights

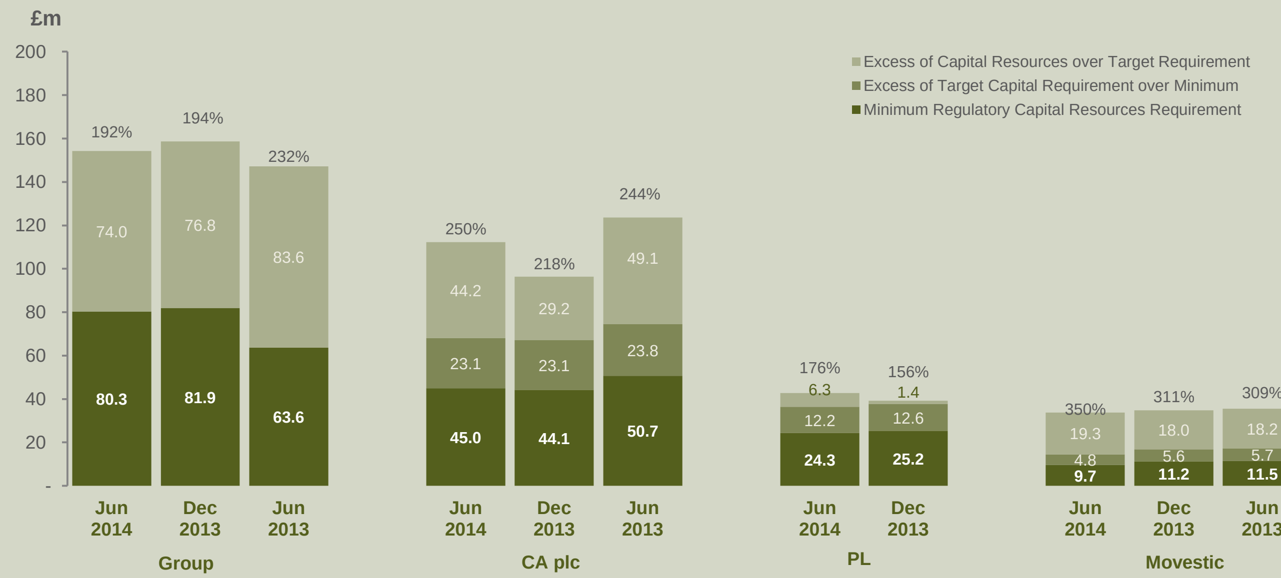
- Group solvency continues to be strong at 192% (31 December 2013: 194%). This is stated after a proposed interim dividend of £7.4m.
- The combined surpluses of the regulated entities in the Group of £19.6m in the period has more than offset the proposed interim dividend of £7.4m, although full recognition of this surplus has not been seen in the Group Solvency due to IGD surplus restriction rules, which had an adverse impact of £14.6m in the period.
- Solvency ratios at a regulated entity level have all improved since 31 December 2013, and remain well in excess of Board- imposed targets.

Objectives

One of the Group's key strategic objectives is to maintain a strong, but not excessive, solvency position. This brings a number of benefits, including supporting:

- one of our key financial management objectives of safeguarding policyholder interests.
- delivering to the dividend expectations of our shareholders.
- potential acquisition opportunities.
- our ability to absorb volatility created by external economic conditions.

Regulatory capital at period end



Notes:

- The percentages in the chart above represent the excess of the capital resources over the minimum regulatory capital resources requirement.
- The target capital requirements stated above are based on the Board's internal minimum targets, and are set as follows:
  - Group – 100% of minimum regulatory capital resources requirement
  - CA plc – 162.5% of the minimum long-term insurance capital requirement plus 100% of the resilience capital requirement
  - PL – 150% of the minimum long-term insurance capital requirement
  - Movestic – 150% of the capital resources requirement

BUSINESS REVIEW

4 MAINTAIN STRONG SOLVENCY POSITION | UK AND SWEDEN (CONTINUED)

Group solvency (IGD)

The IGD represents the solvency of the Group, and is calculated using requirements imposed by the PRA. The IGD ratio at 30 June 2014 is 192% (31 December 2013: 194%) with the surplus having moved from £76.8m at 31 December 2013 to £74.0m at 30 June 2014. IGD is stated after foreseeable dividends of £7.4m (31 December 2013: £13.4m). The movement in IGD since the year end is a function of the following key items:

- **The Group surplus in the six months to 30 June 2014**
  The combined surplus of the regulated entities within the Group has been strong in the first six months of 2014, amounting to £19.6m. This has been offset by an increase in the temporary surplus restriction on CA plc, as required when applying the rules for calculating Group Solvency, amounting to £14.6m in the period. This, coupled with the impact of the 2014 interim dividend of £7.4m, has resulted in a slight reduction in Group regulatory assets compared with 31 December 2013.

- **Reduction in Group capital resources requirement**
  The Group capital resources requirement at 31 December 2013 amounted to £81.9m. This has reduced to £80.3m at 30 June 2014, representing a small positive benefit to the Group IGD at 30 June 2014.

Solo solvency

The Board sets internal solvency targets for each of its regulated subsidiaries, which have remained unchanged when compared with the year end. The graph on the previous page shows that the solvency positions of each regulated subsidiary continue to exceed the internal targets imposed by the Board:

- **CA plc solvency** has moved from 218% at 31 December 2013 to 250% at 30 June 2014. The year end solvency position is stated after proposed dividends of £48.0m that were paid during the first six months of 2014. No further dividends have been proposed in the period, with the increase in the ratio being attributable to the strong regulatory surplus of £16.0m in the period.

- **Protection Life solvency** is 175% at 30 June 2014. The movement when compared to 31 December 2013 is driven by the surplus in the first six months of the year, amounting to £3.2m. The solvency ratio has improved from 156% at 31 December 2013 as a result of the surplus in the period, coupled with a small reduction in the solvency capital requirement. No dividends have been paid by Protection Life during the period.

- **Movestic** had a solvency ratio of 338% at 30 June 2014. Whilst it has a very strong solvency ratio, there are additional asset and liability matching rules that are imposed by the Swedish FI which means that Movestic does not currently pay dividends to Chesnara.

Solvency II

The introduction of Solvency II will change the capital requirements of both the Group and its regulated subsidiaries. The final impact of Solvency II continues to be uncertain although we expect the Group impact to be manageable. Solvency II may also result in the Board re-assessing the internal targets imposed on each regulated entity. Further detail over the status of our Solvency II programme is included on page 45.

BUSINESS REVIEW

5 ADOPT GOOD REGULATORY PRACTICE AT ALL TIMES | UK AND SWEDEN

> Chesnara continues to operate to high regulatory standards in both its day to day operations and its acquisition activity.

UK

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. It is pleasing to report that none of these have given rise to significant issues. The commentary below sets out a list of the key activities during the period.

PRA

The PRA, a subsidiary of the Bank of England, focuses on prudential supervision. To assist its supervisory work we have responded in a timely manner to its regular and one off requests for information, for example on Solvency II.

FCA

The FCA's focus is conduct and consumer protection. To assist its supervisory work we have responded in a timely manner to its various requests for information. It is noted that the FCA has announced that it is to undertake a review of the market's practice in relation to legacy business.

Solvency II

Good progress is being made towards the implementation date of 1 January 2016. Work on all three pillars broadly on track to hit the required interim and full timetable required by the regulator. Further information on our Solvency II project is provided on page 45.

Pension Changes

In his Budget announcement on 19 March, the Chancellor of the Exchequer announced significant changes which will affect pensions and the annuity market. CA plc and Protection Life do not have a significant exposure to annuities (having around 6,000 such arrangements) and has not sought to write such business for a number of years. Although we do have far more pensions policies (around 169,000) we are currently monitoring the regulatory changes in this area and do not expect any immediate and significant change to affect this book or its value.

Treating Customers Fairly (TCF)

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 plc Board. No issues of significance have arisen.

Complaints

There has been a general downward trend in the overall volume of complaints received although we continue to receive a steady number of complaints from Complaint Management Companies in respect of endowment policies surrendered or lapsed many years ago. The Financial Ombudsman Service continues to agree with our decision on the majority of complaints referred to it for adjudication.

Policyholder investment funds

Through the auspices of the CA plc Investment Committee we have continued our oversight of policyholder funds through regular meetings with the investment managers. With them we continue to review the funds to ensure the underlying investment mix is the most appropriate for policyholders.

SWEDEN

Solvency II

Activity during the first half of 2014 has included ensuring full alignment of the Swedish Solvency II project to the wider Group project in terms of approach, governance and timetable. At a local level the project is progressing in line with plan and the work is on track to hit the interim and full timetable requirements of both local and UK group regulations.

Commission

Discussions regarding the payment of commission in the future continue between political parties, the regulators, companies and consumer organisations. Management's expectation is for limited change, possibly the cessation of initial commission, which would not have a significant impact on the Movestic business model.

Pensions portability

The debate on the proposal to increase portability of pensions continues in Sweden. As Movestic offers full right to transfer already, the risk for us can be described as the risk of no change. An increased right to transfer would be beneficial to Movestic as a part of the market that is now closed would become possible to approach.

FINANCIAL REVIEW

The Group's key financial performance indicators as at 30 June 2014 and for the six months ended on that date demonstrate the financial performance and strength of the Group as a whole. A summary of these is shown and further analysis is provided in the following sections:

IFRS pre-tax profit

£27.4m

Six months to 30 June 2013: £21.8m

What is it?
The presentation of the results in accordance with International Financial Reporting Standards (IFRS) aims to recognise the profit arising from written business over the life of insurance and investment contracts.

Why is it important?
For businesses in run-off the reported profit is closely aligned with, and a strong indicator of, the emergence of surplus arising within the long-term insurance funds of those businesses. The emergence of surplus supports the payments of dividends from the regulated insurance businesses to Chesnara plc, which in turn enables the payment of dividends to our shareholders. IFRS pre-tax profit is a strong indicator of how we are performing against our stated strategic objectives to "maximise value from the in-force book" and "maintain a strong solvency position".

Highlights

- IFRS pre-tax profit of £27.4m shows a 25.7% improvement compared with the prior half year of £21.8m.
- The new HCL contract has had a neutral effect on the overall IFRS pre-tax result, due to these costs having already been reflected in the 31 December 2013 valuation.
- The UK businesses have continued to deliver resilient product deductions. In addition to this, investment market conditions in the period have provided a further positive impact both to shareholder net assets and by causing a reduction in the reserves held for products with guarantees.
- The CA result has benefited from a one off reserving gain of £3.4m following a review of the practice associated with awarding bonus units on certain policies.
- There was a £1.1m improvement in the Movestic result when compared with the same period in 2013.

Risks
The IFRS profit can be affected by a number of our principal risks and uncertainties as set out on pages 43 and 44. In particular, equity and property markets and movements in yields on fixed interest securities can contribute significantly to the result, both positively and adversely.

Net cash generation

£15.6m

Six months to 30 June 2013: £9.9m

What is it?
Net cash generation is a measure of how much distributable cash the subsidiaries have generated in the period. 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.

Why is it important?
Cash generation is a key measure, because it is the net cash flows to Chesnara from its Life and Pensions businesses which support Chesnara's dividend capacity. Cash generation can be a strong indicator of how we are performing against our stated objective of "maximising value from the in-force book", although this KPI can also be negatively affected by our stated objective of "maintaining a strong solvency position".

Highlights

- At £14.9m cash generation in CA has been very strong (six months to 30 June 2013: £4.2m).
- S&P has contributed £0.1m of operational cash generation in six months to 30 June 2014 compared with £20.3m for six months to 30 June 2013. The reduction arises from a more muted surplus in the period arising from subdued market conditions. The operational cash generation in the first half of 2013 was, however, not distributable, as this arose in an S&P fund containing transfer restrictions.
- PL has generated cash of £4.0m, driven by the surplus in the period, coupled with the reduction in the capital resources requirement since 31 December 2013. This offsets against the net cash utilised of £11.5m during 2013 following the acquisition of PL. A further cash benefit is expected to arise following the planned Part VII transfer into CA plc during 2014.
- Movestic has required no capital support during the period (2013: £nil).

Risks
The ability of the underlying regulated subsidiaries within the Group to generate cash is affected by a number of our principal risks and uncertainties as set out on pages 43 and 44. Whilst cash generation is a function of the regulatory surplus, as opposed to the IFRS surplus, they are closely aligned, and therefore factors such as yields on fixed interest securities and equity and property performance contribute significantly to the level of cash generation within the Group. In addition to this, regulatory change, such as the introduction of Solvency II can also materially affect the ability of the regulated subsidiaries to generate cash.

FINANCIAL REVIEW (CONTINUED)

EEV earnings, net of tax

£47.3m

Six months to 30 June 2013: £35.4m*

* excluding modelling adjustments of £0.8m in 2013.

What is it?

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.

The principal underlying components of the EEV result are:

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

Why is it important?

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. EEV earnings are an important KPI as they provide a longer-term measure of the value generated during a period.

The EEV earnings of the Group can be a strong indicator of how we have delivered to our strategic objectives, in particular the new business profits generated from "enhancing our value through new business in selected markets", coupled with "maximising our value from the in-force book".

Highlights

- Significant economic profit of £21.2m (six months to 30 June 2013: £33.1m).
- Significant increase in operating profit to £37.2m (six months to 30 June 2013: £4.8m).
- The operating profit of £37.2m includes a one-off benefit of £17.3m arising due to reassessment of certain policyholder liabilities in the CWA book of business.
- Movestic has generated an EEV profit before tax of £17.5m, which compares favourably to the same period in 2013 of £7.3m.
- Movestic has generated a new business contribution of £5.8m in the period (six months to 30 June 2013: £2.3m).

Risks

The EEV earnings of the Group can be affected by a number of factors, including those highlighted within our principal risks and uncertainties as set out on pages 43 and 44. In addition to the factors that affect the IFRS pre-tax profit and cash generation of the Group, the EEV earnings can be more sensitive to other factors such as the expense base and persistency assumptions. This is primarily due to the fact that assumption changes in EEV affect our long-term view of the future cash flows arising from our books of business.

EEV

£400.3m

31 December 2013: £376.4m

What is it?

The European Embedded Value (EEV) of a life insurance company is the present value of future profits, plus adjusted net asset value. It is a construct from the field of actuarial science which allows insurance companies to be valued.

Why is it important?

As the EEV 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.

The EEV development of the Chesnara Group over time can be a strong indicator of how we have delivered to our strategic objectives, in particular the value created from acquiring life and pensions businesses and enhancing our value through new business in selected markets.

Highlights

- Group EEV exceeds £400m for the first time in the Group's history, with the movement since year end being £23.9m.
- The movement in EEV of £23.9m since 31 December 2013 reflects the following:
  - Profit before tax of £47.3m, of which £37.2m has arisen from operating activities.
  - The impact of the 2013 year end dividend of £13.4m that was paid in the period.
  - The impact of a weakening of Swedish Krona against Sterling, which has contributed to a £10.0m decrease in embedded value in the period.
  - There were no model enhancements reported for the period (year ended 31 December 2013: £4.1m).

Risks

The Embedded Value of the Group is affected by economic factors such as equity and property markets and yields on fixed interest securities. In addition to this, whilst the other KPIs (which are all "performance measures") remain relatively insensitive to exchange rate movements (largely due to the proportion of IFRS pre-tax profit generated by Movestic compared with the other UK businesses) the EEV of the Group can also be materially affected by exchange rate fluctuations between Swedish Krona and Sterling. For example a 10% weakening of exchange rates between Swedish Krona and Sterling would reduce the EEV of the Group by 3%, based on the composition of the Group's EEV at 30 June 2014.

FINANCIAL REVIEW

IFRS PRE-TAX PROFIT

£27.4m Six months to 30 June 2013: £21.8m

Executive summary

The IFRS results by business segment reflect the natural dynamics of each line of business. In summary the current financial model has 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

The stable core is comprised of the CA and PL segments, both of which are UK run-off businesses.

The requirements of the CA and PL books are to provide a predictable and stable platform for the financial model and dividend strategy. As closed books, the key is to sustain this income source as effectively as possible. The IFRS results for the six months to 30 June 2014 are underpinned by a core generation of surplus, albeit the results for the period also reflect the impact of a number of one-off positive items, most notably the modelling of the signed HCL contract coupled with the positive impact arising from refined modelling surrounding policies that attract bonus units. Assets under management within the CA segment have moved from £2,331m at 31 December 2013 to £2,305m at 30 June 2014, representing a 1% reduction since year end.

Further detail of the results of the CA and PL segments can be found on pages 29 and 30 respectively.

Variable element

The S&P component has traditionally brought an element of earnings volatility to the Group, with the results being particularly sensitive to investment market movements. The result for the first half of 2014 has not been significantly impacted by the effect of market movements, with the effect of reducing bond yields being broadly offset by corresponding asset growth. In light of this the S&P surplus is significantly lower than the equivalent period in 2013, which did benefit from positive investment market movements in that period.

The S&P result is also lower than the same period in 2013 as a result of the impact of modelling the new HCL contract, which was agreed during the first half of the year, with a corresponding benefit being reported in the CA result, as described above.

Core product based deductions continue to remain strong, and consistent, being £8.3m for the period (2013: £8.3m).

Further detail of the results of the S&P segment can be found on page 30.

Growth operation

Movestic has posted an IFRS profit of £2.1m during the period (2013: £1.0m). The long-term financial model is based on growth, with levels of new business being targeted to more than offset the impact of policy attrition, leading to a general increase in assets under management and, hence management fee income. Funds under management have increased to over SEK 20bn for the first time, representing an increase of 14% (on constant exchange rates) since 31 December 2013.

Further detail of the results of the Movestic segment can be found on page 31.

IFRS results

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

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m	Note
CA	20.2	6.8	25.0	1
S&P	6.8	17.2	36.4	2
PL	4.0	–	0.2	3
Movestic	2.1	1.0	2.6	
Chesnara	(2.7)	(1.2)	(4.9)	4
Consolidation adjustments	(3.0)	(2.0)	(1.5)	5
Total profit before tax and exceptional items	**27.4**	**21.8**	**57.8**	
Profit arising from PL acquisition	–	–	2.8	6
Total profit before tax	**27.4**	**21.8**	**60.6**	
Tax	(4.5)	(4.6)	(11.2)	
Total profit after tax	**22.9**	**17.2**	**49.4**	

Note 1 – The CA result of £20.2m is £13.4m higher than the same period in 2013. Further detail behind the factors influencing the movement in surplus are included on page 29.

Note 2 – The S&P pre tax profit of £6.8m for the first half of 2014 is £10.4m lower than the equivalent period in 2013. Further detail behind the drivers of this are included on page 30.

Note 3 – The Group results include a full six months of the Protection Life business, which was acquired on 28 November 2013. Further detail behind this result is included on page 30.

Note 4 – The Chesnara result primarily represents holding company expenses. The loss is higher than the equivalent period in 2013, driven by higher administrative expenses, primarily in relation to Solvency II and the Part VII transfer of PL into CA plc.

Note 5 – Consolidation adjustments relate to items such as the amortisation of intangible assets that were recognised on previous acquisitions. More detail is provided on page 29.

Note 6 – The Group profit before tax for the year ended 31 December 2013 was stated after recognition of a £2.8m gain arising as a result of the purchase of Protection Life. During the first half of 2014 no areas have been identified that would require adjustment to this gain.

FINANCIAL REVIEW

IFRS PRE-TAX PROFIT (CONTINUED)

Consolidation adjustments

The adjustments arising on consolidation are analysed below:

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m	Note
CA – Amortisation of AVIF	(1.1)	(1.1)	(2.2)	
S&P – Amortisation of AVIF	(0.4)	(0.4)	(0.8)	
PL – Amortisation of AVIF	(1.2)	–	(0.2)	
Movestic:				
Amortisation of AVIF	(2.0)	(2.2)	(4.4)	
Write back of DAC	1.7	1.7	6.1	1
Total	(0.3)	(0.5)	1.7	
Total	**(3.0)**	**(2.0)**	**(1.5)**	

Note 1 – Included within consolidation adjustments for the year ended 31 December 2013 is an item in relation to Movestic that reverses the amortisation charge on DAC relating to policies that were written prior to Chesnara ownership. This adjustment included an additional charge that was booked as a result of some refinements made to the DAC amortisation model. No further refinements have been made during the first six months of 2014.

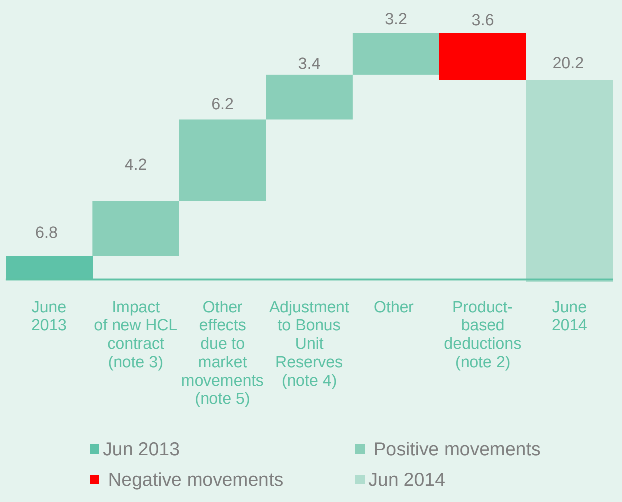
The IFRS results by business segment are analysed in more detail as follows:

CA

The segment has delivered a strong surplus when compared with the same period in 2013. This is primarily driven by items such as the impact of the renegotiation of the HCL contract being lower than the provision made at 31 December 2013 (and equal and opposite item can be seen in the S&P segment) and a one-off reserving benefit arising from a change in practice to capture the behaviour of certain groups of policies that contain bonus unit clauses, offset by a natural volatility in mortality and morbidity surplus period on period.

Profit before tax movement

Six months ended 30 June 2013 to 30 June 2014 (£m)



The key components of the 2014 IFRS result for the period are summarised as follows:

Pre-tax IFRS profit	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m	Note
Product-based deductions	10.8	14.4	28.7	2
Administration expenses	(3.9)	(4.8)	(7.0)	2
Gains and interest on retained surplus	2.4	1.8	3.5	
Operating assumption changes	0.3	–	(1.7)	
Other effects due to investment market movements	2.0	(4.2)	3.3	
Impact of new HCL contract	4.2	-	-	3
Complaint costs	(0.3)	(0.6)	(1.5)	
Other	4.7	0.2	(0.3)	4
Total	**20.2**	**6.8**	**25.0**	

Note 2 – Product-based deductions and returns on retained surplus remain significantly in excess of recurring administration expenses. The total level of product-based deductions has decreased when compared with the same period in 2013, primarily due to reduced mortality and morbidity surplus in the period.

Note 3 – The CA surplus includes the effect of modelling the new HCL contract which, as explained on page 17 of the Business Review, has not had a financial impact on the overall UK results in the period. This has, however, contributed a surplus of £4.2m to the CA result, with an equal and opposite impact being seen in the S&P segment results, which are analysed on page 30.

Note 4 – The CA result in the period includes £4.7m of "other" items. This predominantly relates to a one off item arising from the reserving impact associated with a change in practice associated with policies that can accrue bonus units in certain circumstances.

Note 5 – The result in the period has benefited from the positive impact of investment market conditions, primarily driven by asset growth. This has resulted in a swing compared with the same period in 2013, which witnessed a reduction in asset values.

FINANCIAL REVIEW

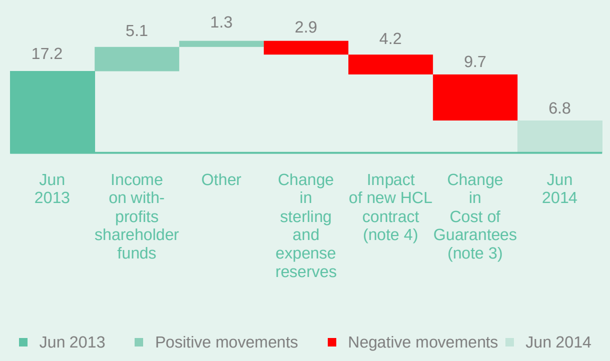
IFRS PRE-TAX PROFIT (CONTINUED)

S&P

The S&P pre-tax profit has moved compared with the equivalent period in 2013 as follows:

Profit before tax movement

Six months ended 30 June 2013 to 30 June 2014 (£m)



S&P posted a pre-tax IFRS profit of £6.8m for first six months of 2014, the key components of the result being:

Pre-tax IFRS profit	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m	Note
Product based deductions	8.3	8.3	17.1	1
Administration expenses	(4.7)	(5.0)	(9.9)	1
Income on with-profits shareholder funds	2.9	(2.2)	(0.4)	2
Change in cost of guarantees in with-profit funds:				3
Asset valuation movements	13.5	4.0	8.6	
Change in yield curve	(8.5)	10.2	19.9	
Lapse experience	(1.7)	(1.7)	(3.7)	
Other	-	0.5	(0.4)	
Total	3.3	13.0	24.4	
Change in sterling and expense reserves	0.5	3.4	5.4	
Impact of new HCL contract	(4.2)	-	-	4
Other	0.7	(0.3)	(0.2)	
Total	**6.8**	**17.2**	**36.4**	

Note 1 – Product-based deductions have held up well as the book runs-off. These are supported by assets under management, which have moved from £1,113m to £1,126m in the first six months of the year. Product deductions exceed administration expenses by £3.6m and £3.3m in the first six months of 2014 and 2013 respectively.

Note 2 – The income on with-profits shareholder funds is driven by investment market performance, and includes the impact of asset valuation movements in the period. During the first half of 2014 the S&P shareholder fund assets have increased in value.

Note 3 – The S&P segment's results are influenced by the impact of changes in the reserves that are held to cover the guarantees that exist within certain S&P products, with these reserves being sensitive to market conditions. During the first half of 2014 the overall impact of the reserve movements on the result is relatively modest, being a £3.3m net surplus, compared with a £13.0m surplus in the same period of 2013. The net movement in the period is net of an adverse impact of £8.5m arising from a reduction on bond yields since the end of 2013, off-set by the positive impact of asset valuation movements, including both bonds and equities.

Note 4 –The £4.2m strain that can be seen during the first half of 2014 is as a result of the effect of modelling the revised HCL contract. Whilst this has not impacted the overall Group results, as described on page 17 of the Business Review, the effect can be seen in the individual segments, with the CA segment reflecting a benefit of the same magnitude in its surplus.

PL

The purchase of PL was completed on 28 November 2013, with the first half of 2014 being the first full six month period that includes its results. The PL segment has delivered a pre-tax IFRS result of £4.0m in the first six months of the year, slightly exceeding plan. The majority of the surplus has arisen from margin release as the book runs off.

FINANCIAL REVIEW

IFRS PRE-TAX PROFIT (CONTINUED)

Movestic

Pre-tax IFRS profit	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m	Note
Pensions and Savings, before impact of DAC model change	0.6	0.8	2.2	1
Risk and Health	0.5	0.8	2.2	2
Other	1.0	(0.6)	1.2	3
Total profit before impact of DAC model change	**2.1**	**1.0**	**5.6**	
Impact of DAC model change	–	–	(3.0)	4
Total profit before tax	**2.1**	**1.0**	**2.6**	

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 when compared with the same period in 2013, resulting in a £1.5m (14.2%) increase in fee and rebate income. This is offset by a £1.8m (19.8%) increase in expenses and brokerage fees, much of which is the consequence of increased levels of new business, leaving the result being broadly flat compared with the same period in 2013.

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. The Risk & Health business is operationally significant due to the size of the book, there being 388,000 short-term policies in-force as at 30 June 2014 (31 December 2013: 395,000), which generated £18.7m of gross premiums in the period (six months to 30 June 2013: £20.1m).

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 key driver of the movement in this component is the financial reinsurance fair value adjustment, which has generated a small loss of £0.2m for the period compared with a £1.2m loss for six months to 30 June 2013. This movement is predominately a consequence of investment market conditions.

Note 4 - During 2013 a review of the amortisation model that was used for spreading the costs of acquiring new policies was performed. As a result of this review the model was updated to provide more granular information and has resulted in the requirement, for certain policies underwritten in certain years, to shorten the period over which these costs are spread. This resulted in a one-off accelerated DAC charge of £3.0m. A large proportion of this DAC amortisation charge related to polices that were in-force when Movestic was purchased by Chesnara, and therefore the Group IFRS result only reflected £0.3m of this charge, this being the element of the charge that relates to policies that were written post acquisition. This is because the DAC at acquisition was written off as part of the acquisition accounting process, having been replaced by an intangible AVIF asset. No such further refinements were required during the six months to 30 June 2014.

FINANCIAL REVIEW

NET CASH GENERATION

£15.6m Six months to 30 June 2013 £9.9m

> 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 gross and net cash generation within the Group continues to be robust. Key aspects underpinning the outcome are:

HIGHLIGHTS

- Gross cash generation of £19.0m in the UK run-off businesses (excluding Chesnara parent company cash utilisation) in the period is broadly comparable with the same period in 2013 of £24.5m.
- Net cash generation has not been impacted by restrictions in the S&P with profit funds to the same extent as the same period in 2013.
- No funding was required for Movestic in the first six months of 2014 (six months to 30 June 2013: £nil).

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 this natural downward pressure cash generation in 2014 has remained broadly in line with the same period in 2013 at a total UK level, although the individual segments within the UK business have displayed variability in 2014 when compared with the same period in 2013.

In particular, CA has generated £14.9m of cash in the period compared with £4.2m in the same period in 2013. This is primarily a function of the variability of the regulatory surplus over the periods, which has broadly followed the IFRS surplus in the same period.

S&P has generated £0.1m of cash in 2014 compared with £20.3m, demonstrating the ongoing short term variability in this segment. As for the CA business, cash generation is largely a function of the level of regulatory surplus generated in a period, and this broadly tracks the IFRS surplus. As referred to on page 30 the S&P surplus is significantly influenced by the impact of changes in reserves for products which contain guaranteed minimum return clauses. This reserve movement was relatively muted in the first six months of 2014, compared with a large release in the same period in 2013, driven by favourable investment markets.

The below table identifies the source of internal net cash generation within the Group, representing the net change in funds available to service debt and equity:

Cash generated from/(utilised by):	**Unaudited Six months ended 30 June 2014 £m**	**Unaudited Six months ended 30 June 2013 £m**	**Year ended 31 December 2013 £m**	**Note**
CA				
Surplus and profits arising in the period	15.9	4.3	20.4	
Change in target capital requirement	(1.0)	(0.1)	3.2	
S&P				
Surplus and profits arising in the period	0.2	20.7	25.1	
Change in target capital requirement	0.1	0.3	4.3	
Decrease in policyholder funds cover for target capital requirement	(0.2)	(0.7)	(0.5)	
PL				
Surplus and profits arising in the period	3.2	–	0.2	
Change in target capital requirement	0.8	–	1.4	
Movestic				
Additional capital contributions	–	–	–	
Chesnara				
Cash utilised by operations	(3.0)	(2.6)	(4.4)	
Total gross cash generation	**16.0**	**21.9**	**49.7**	
Items affecting ability to distribute cash				
PL capital injection	–	–	(13.1)	1
Release of capital from S&P WP fund	–	–	15.5	2
Restricted surplus in S&P WP fund	(0.4)	(12.0)	(15.4)	2
Net cash generation available for distribution	**15.6**	**9.9**	**36.7**	3

Items affecting the cash available for distribution:

Note 1 – PL was acquired at a solvency level lower than the Board's target requirement. An immediate capital injection was made during the year ended 31 December 2013 to resolve this. No such further injection was, or is expected to be required in 2014.

Note 2 – An element of the statutory surplus in the period emerges in the S&P WP fund. In the absence of management action the majority of the surplus is not available for distribution and the net cash generated recognises this restriction. Periodically Chesnara, with regulatory approval, can apply a waiver to release some of the previously restricted surplus within S&P. This process was undertaken during the year ended 31 December 2013 resulting in a £15.5m capital release.

Note 3 – The net cash generation KPI is a useful indicator of the dividend paying capacity of the Group's regulated subsidiaries. This is monitored closely by Management as cash generated by the Group's regulated subsidiaries is used by the Chesnara Parent Company for corporate transactions such as the servicing of debt, payments of dividends and the funding of future acquisitions. It should be noted that this KPI is quite distinct from the Group's Cash Flow Statement as included in the Group's IFRS Financial Statements, which is intended to reflect the movement in cash held by Chesnara and its subsidiaries but does not reflect that most of the subsidiary cash balances are held in regulated insurance funds and are therefore not available for use by the Parent Company.

FINANCIAL REVIEW

EEV EARNINGS

£47.3m Six months to 30 June 2013: £35.4m

EEV result

Summary

There is a strong EEV profit of £47.3m for the first six months of 2014, which is £11.9m higher than the same period in 2013. The principal driver of this increase is from significant positive operating assumption changes that have been recognised in the period, coupled with positive new business results arising from the Movestic segment, both of which have contributed to an operating profit of £37.2m, compared with £4.8m in the same period in 2013. The positive operating assumption changes have principally been recognised in the CA segment, with further detail being provided on page 34. Experience variances also compare favourably with 2013, primarily because the Movestic segment is no longer reporting an experience loss, which amounted to £4.7m in 2013, in part due to continued adverse lapse experience at that time. It is positive news that this experience has not been witnessed during 2014.

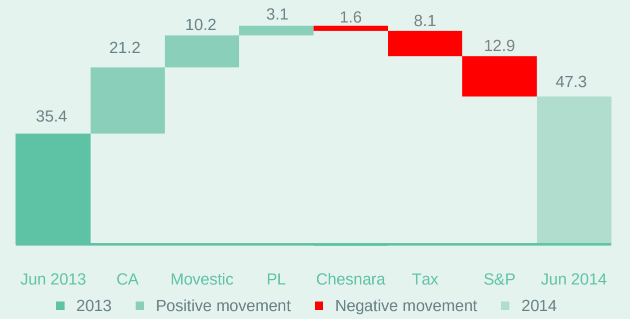
A significant proportion of the operating profit is also directly related to investment market movements. The return on shareholder net worth profit of £4.0m represents a swing of £6.3m compared with the loss of £2.3m reported in the first six months of 2013, primarily due to increasing bond values during the period.

In addition to the strong operating profit, the results have also benefited from noteworthy economic experience and assumption profits in the period, principally driven by asset growth in the period.

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

Profit after tax movement

Six months ended 30 June 2013 to six months ended 30 June 2014



Analysis of the EEV result in the period by business segment

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
CA	33.3	12.1	24.5
S&P	6.6	19.5	42.7
PL	3.1	-	0.1
Movestic	17.5	7.3	15.5
Chesnara	(2.8)	(1.2)	(5.1)
Profit before tax and gain on acquisition	**57.7**	**37.7**	**77.7**
Gain on acquisition of Protection Life	-	-	12.3
Profit before tax	**57.7**	**37.7**	**90.0**
Tax	(10.4)	(2.3)	(7.3)
Profit after tax	**47.3**	**35.4**	**82.7**

Key items affecting the EEV results by segment:

CA – The key drivers of the increase in the EEV result to £33.3m (2013: £12.1m) are the operating assumption changes in the period, namely the £17.3m surplus arising from the modelling impact of the change in practice associated with policies that can accrue bonus units in certain circumstances and the £4.2m surplus arising on the modelling of the new HCL contract.

S&P – The S&P result of £6.6m is £12.9m lower than the same period in 2013. This is primarily due to the loss of £4.2m arising from the modelling of the new HCL contract (included within operating assumption changes) coupled with a lower reduction in the cost of guarantee reserves of circa £9m.

PL – The PL segment was purchased on 28 November 2013 and therefore was not included in the comparative 2013 results.

Movestic – This segment's reported profit of £17.5m is £10.2m higher than the equivalent period in 2013. Circa £3m of this is as a result of broadly comparable equity market conditions applying to a larger book of business than in the same period in 2013. A further £3.5m is as a result of the increase in new business profits, with the remainder relating to more favourable experience variances, largely due to the corresponding period in 2013 including the negative impact of adverse lapse experience.

Chesnara – The Chesnara result primarily represents holding company expenses. The loss is higher than the equivalent period in 2013, driven by higher administrative expenses, primarily in relation to Solvency II and the Part VII transfer of PL into CA plc.

Analysis of the EEV result in the period by earnings source

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
New business contribution	6.2	2.8	7.9
Return from in-force business			
Expected return	3.9	2.6	5.5
Experience variances	6.0	1.5	5.8
Operating assumption changes	17.1	0.2	(10.0)
Return on shareholder net worth	4.0	(2.3)	(0.3)
Operating profit of covered business	**37.2**	**4.8**	**8.9**
Variation from longer term investment return	25.8	20.8	54.7
Effect of economic assumption changes	(4.6)	12.3	16.4
Profit on covered business before tax and gain on acquisition	**58.4**	**37.9**	**80.0**
Tax	(10.3)	(2.5)	(7.6)
Profit on covered business after tax and before gain on acquisition	**48.1**	**35.4**	**72.4**
Gain on acquisition of Protection Life	-	–	12.3
Uncovered business and other group activities	(0.7)	(0.1)	(2.3)
Tax on uncovered business	(0.1)	0.1	0.3
Profit after tax	**47.3**	**35.4**	**82.7**

Analysis by earnings source can be found on the following page.

FINANCIAL REVIEW

EEV EARNINGS (CONTINUED)

Economic conditions

The EEV result is sensitive to economic conditions. Economic experience and assumption changes contributed a profit of £21.2m in the period compared with a profit of £33.1m for 2013. The results are sensitive to both equity markets and bond yields (further sensitivity analysis is provided in Note 7 of EEV Supplementary Information). Since the 2013 year end UK bond yields have fallen, UK equities have remained broadly flat with Swedish equity markets having performed strongly. Further detail by segment has been provided below:

Economic experience and assumption changes	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
CA	6.2	6.5	18.7
S&P	4.6	18.1	33.9
PL	0.2	–	–
Movestic	10.2	8.5	18.5
Total	**21.2**	**33.1**	**71.1**

The S&P, CA and PL segments have all experienced asset growth in the period, primarily in respect of bonds. Off-setting this growth is the adverse economic assumption impact as a result of a fall in the bond yield curve in the period.

The Movestic segment has witnessed more material economic experience gains in the first six months of the year, primarily as a result of the performance of Swedish equities. The EEV results of Movestic are sensitive to such equity movements due to its core income stream being dependent upon management charges levied on funds under management, which are primarily equity-based.

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 therefore does not contribute to the new business result. The Movestic contribution is £5.8m (2013: £2.3m), of which £1.7m (2013: £0.9m) relates to the value of premium increments received on existing policies. Profits on “new contract” business of £4.1m, compared with the six months to 30 June 2013 equivalent of £1.4m, showing that the new business growth strategy continues to trend in the right direction.

Experience variances

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
CA	2.5	3.2	7.6
S&P	1.8	3.0	4.7
PL	1.1	–	–
Movestic	0.6	(4.7)	(6.5)
Total	**6.0**	**1.5**	**5.8**

For the CA, S&P and PL segments there is no one dominating factor driving the experience variances in the period, with the combined positive experience of £5.4m arising from various smaller items such as lapse, mortality and expenses experience.

For Movestic the experience impact in the period is small. This compares with a more prominent adverse experience in the corresponding period in 2013, driven by a combination of adverse lapse experience and expense and commission overruns.

Operating assumption changes

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
CA	22.7	1.2	(4.3)
S&P	(3.1)	0.8	4.5
PL	1.4	–	–
Movestic	(3.9)	(1.8)	(10.2)
Total	**17.1**	**0.2**	**(10.0)**

The CA segment reflects a large operating assumption change item of £22.7m in the period. This is primarily as a result of a one off positive item of £17.3m arising as a result of a change in the way that the embedded value model calculates the expected cash flows arising from policies that accrue bonus units. The EEV impact of this assumption change is higher than IFRS due to the positive impact on the VIF, an asset that is not recognised for IFRS reporting purposes. In addition to this the CA segment has benefited from the positive impact of the new HCL contract, amounting to £4.2m. An equal an opposite effect can be seen in the S&P segment.

The S&P segment has reported a negative operation assumption change in the period. As referred to above, the main item that contributes to this a £4.2m strain arising from the modelling of the new HCL outsource contract.

The PL segment has reported a small economic assumption change in the period, driven by the impact of changes to the valuation interest rate.

Movestic has reported an operating assumption change loss of £3.9m in the period. Of this, the most prominent item amounts to c£2.0m, driven by expected behavioural changes by customers with private pension policies as a result of proposed tax legislation changes in Sweden. The remaining operating assumption loss is made of a number of smaller assumption items such as maintenance expenses and fund rebates.

Uncovered business and other group activities

	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
Chesnara	(2.7)	(1.2)	(5.0)
Movestic	2.1	1.1	2.7
Total	**(0.6)**	**(0.1)**	**(2.3)**

The result includes Chesnara parent company costs relating to corporate governance and business development, not attributable to the covered business. The expenses in the first half of 2014 are higher than the steady state cost base largely as a result of expenditure on items such as the Part VII transfer of PL into CA plc coupled with ongoing Solvency II costs.

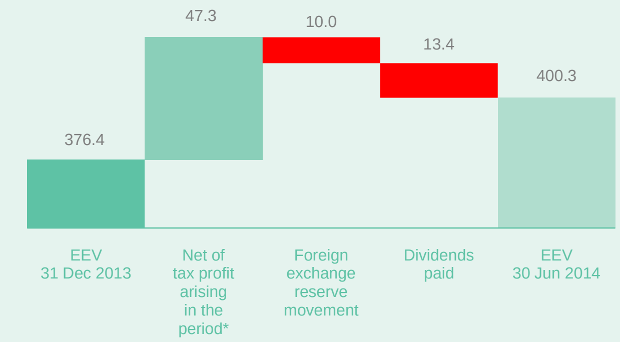
The Movestic result has increased slightly when compared with the same period in 2013, primarily as a result of an increase in the results of Modernac, Movestic’s associated company.

FINANCIAL REVIEW

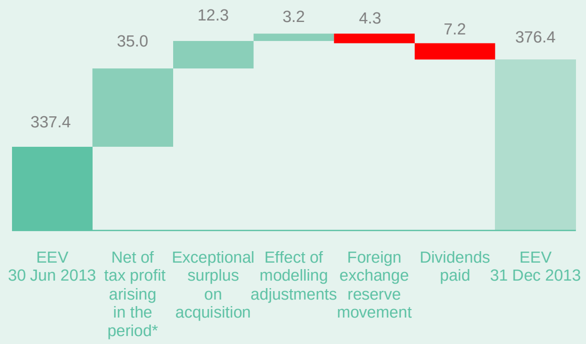
EUROPEAN EMBEDDED VALUE

£400.3m 31 December 2013: £376.4m

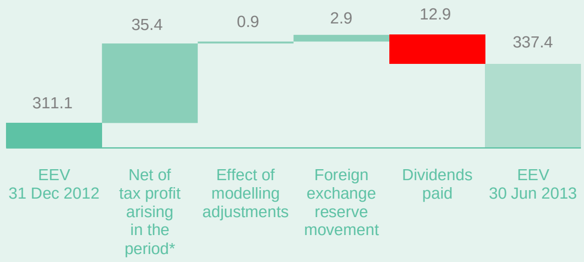
EEV movement 31 December 2013 to 30 June 2014 (£m):



EEV movement 30 June 2013 to 31 December 2013 (£m):



EEV movement 31 December 2012 to 30 June 2013 (£m):



* Stated before exceptional items

Summary

The EEV of the Chesnara Group represents the present value of the estimated future profits of the Group plus an adjusted net asset value. Movements between different periods are a function of the following components:

- Net of tax profit arising in the period, pre exceptional items;
- Exceptional items, such as:
  - the surplus arising on the acquisition of Protection Life; and
  - Modelling adjustments;
- Foreign exchange movements arising from retranslating the EEV of Movestic into Sterling; and
- Dividends that are paid in the period.

More detail behind each of these components has been provided below:

Net of tax profit

The EEV profit of £47.3m arising during the period is analysed in more detail within the preceding section.

Exceptional surplus on acquisition

The purchase of Protection Life resulted in a surplus arising on acquisition of £12.3m during the period from 1 July 2013 to 31 December 2013. The surplus arose because the EEV of Protection Life at the acquisition date amounted to £51.6m, which is £12.3m higher than the purchase price of £39.3m.

Effect of modelling adjustments

Six months ended 30 June 2014

There were no modelling adjustments in the period.

Six months ended 31 December 2013

Modelling adjustments during the period were as follows:

Positive modelling adjustments of £3.2m related entirely to the Movestic business. These arose due to refinements being made to the way in which modelling of commission was performed.

Six months ended 30 June 2013

The modelling adjustments that were reported during the first six months of 2013 were entirely in relation to Movestic following completion of a review by an external consultancy.

Foreign exchange reserve movements

The £10.0m foreign exchange reserve movement during the six months to 30 June 2014 has arisen as a result of a weakening of the Swedish Krona against Sterling by 7.4%.

Dividends paid

Dividends of £13.4m were paid during the first six months of 2014, being the final dividend from 2013.

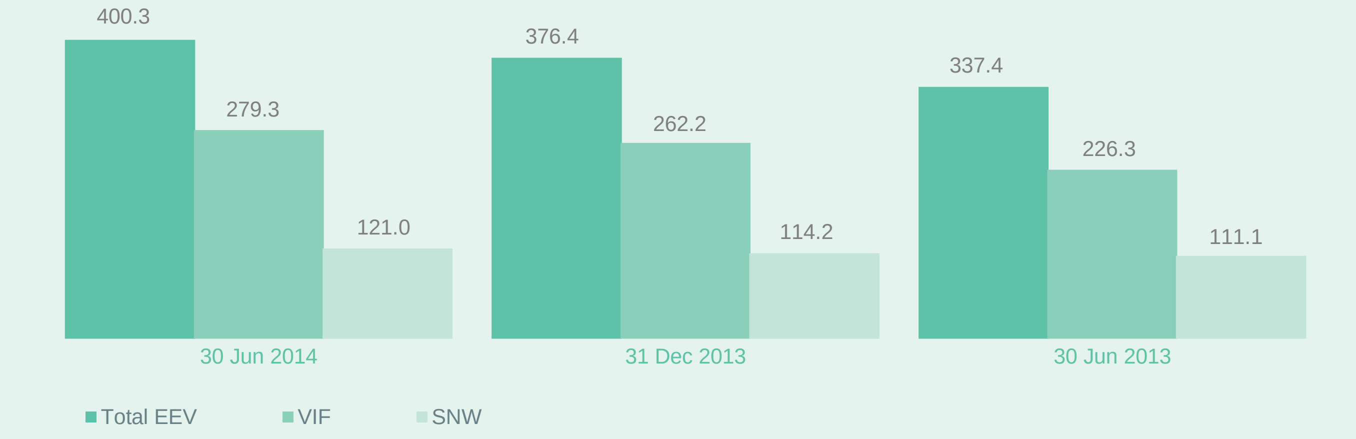
FINANCIAL REVIEW

EUROPEAN EMBEDDED VALUE (CONTINUED)

Analysis of EEV

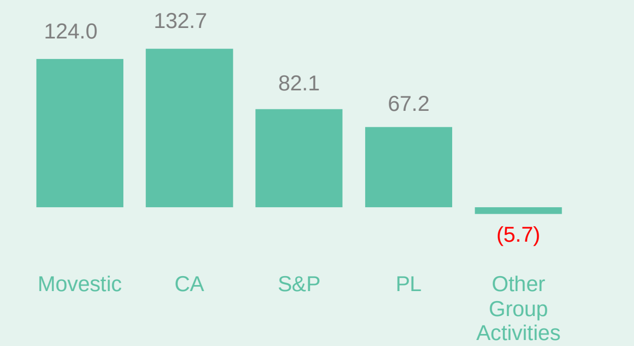
The information on this page provides some further analysis of the EEV of the Group, both in terms of the split between different operating segments and also the split between the adjusted shareholder net worth and the value of the in-force (VIF) business. The adjusted shareholder net worth represents the IFRS net worth of the Group, but adjusted for items that are measured differently under EEV measurement rules and the VIF represents Management's best estimate of the present value of the future profits that will arise out of each book of business.

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



Analysis of VIF at 30 June 2014 £279.3m

Analysis of EEV at 30 June 2014 £400.3m



In the above segmental analysis any outstanding debt in relation to the S&P and PL acquisitions is included in "Other Group Activities".

HIGHLIGHTS

- There is a good balance in EEV across the core business segments, with the UK businesses representing the majority (70.0%) of the total EEV, which includes Protection Life which was purchased during the prior year. The value in-force component is dominated by the Swedish business which represents 51.0% 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, 63.6% of the total product level value in-force relates to pension contracts, 24.0% to protection business and 9.7% to endowments.

FINANCIAL REVIEW

EUROPEAN EMBEDDED VALUE (CONTINUED)

Analysis of VIF by policy type

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 2014 (unaudited)	Number of policies					Value of in-force business				
	CA	S&P	PL	Movestic	Total	CA	S&P	PL	Movestic	Total
	000's	000's	000's	000's	000's	£m	£m	£m	£m	£m
Endowment	31	4	–	11	46	22.2	3.4	–	8.2	33.8
Protection	38	4	141	–	183	44.9	3.5	34.7	–	83.1
Annuities	6	–	–	–	6	5.7	1.0	–	–	6.7
Pensions	43	120	–	85	248	41.5	46.1	–	143.3	230.9
Other	3	11	–	–	14	4.1	5.1	–	–	9.2
Total at product level	**121**	**139**	**141**	**96**	**497**	**118.4**	**59.1**	**34.7**	**151.5**	**363.7**
Valuation adjustments:										
Holding company expenses						(6.4)	(3.2)	–	(8.3)	(17.9)
Other						(15.7)	(16.8)	–	–	(32.5)
Cost of capital/frictional costs						(0.9)	(2.4)	(3.6)	(0.1)	(7.0)
Value in-force pre-tax						**95.4**	**36.7**	**31.1**	**143.1**	**306.3**
Taxation						(20.7)	–	(6.3)	–	(27.0)
Value in-force post-tax						**74.7**	**36.7**	**24.8**	**143.1**	**279.3**

30 June 2013 (unaudited)	Number of policies					Value of in-force business				
	CA	S&P	PL	Movestic	Total	CA	S&P	PL	Movestic	Total
	000's	000's	000's	000's	000's	£m	£m	£m	£m	£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

31 December 2013	Number of policies					Value of in-force business				
	CA	S&P	PL	Movestic	Total	CA	S&P	PL	Movestic	Total
	000's	000's	000's	000's	000's	£m	£m	£m	£m	£m
Endowment	34	4	–	11	49	24.1	2.9	–	8.0	35.0
Protection	40	4	146	–	190	46.2	3.9	36.0	–	86.1
Annuities	6	–	–	–	6	4.0	1.1	–	–	5.1
Pensions	44	123	–	82	249	29.7	44.6	–	140.0	214.3
Other	3	11	–	–	14	3.9	4.9	–	–	8.8
Total at product level	**127**	**142**	**146**	**93**	**508**	**107.9**	**57.4**	**36.0**	**148.0**	**349.3**
Valuation adjustments:										
Holding company expenses						(6.5)	(3.4)	–	(8.9)	(18.8)
Other						(16.5)	(21.2)	–	–	(37.7)
Cost of capital/frictional costs						(1.0)	(2.3)	(4.0)	(0.1)	(7.4)
Value in-force pre-tax						**83.9**	**30.5**	**32.0**	**139.0**	**285.4**
Taxation						(16.7)	–	(6.5)	–	(23.2)
Value in-force post-tax						**67.2**	**30.5**	**25.5**	**139.0**	**262.2**

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

Holding company expenses are apportioned across the segments pro-rata to the total product-based VIF.

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

Taxation in the value-in-force is modelled on a combined CA and S&P basis and, in the analysis above, is attributed wholly to the CA segment.

FINANCIAL MANAGEMENT

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

The following diagram illustrates the aims, approach and outcomes from the financial management framework:

OBJECTIVES

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

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

HOW WE DELIVER TO OUR OBJECTIVES

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

1. Monitor and control risk & solvency
2. Project key financial variables
3. Responsible investment management

OUTCOMES

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

1. SOLVENCY	2. SHAREHOLDER RETURNS	3. CAPITAL STRUCTURE	4. LIQUIDITY AND POLICYHOLDER RETURNS	5. MAINTAIN THE GROUP AS A GOING CONCERN.
Group Solvency Ratio of 192% (31 December 2013: 194%)	**2014 TSR** - Increased interim dividend - Share price remains broadly neutral - Impressive medium term TSR driven by capital value growth and the established attractive dividend yield	**Gearing ratio of 29.1%** (31 December 2013: 29.6%) This does not include the financial reinsurance that is held within the Swedish business.	**Competitive fund performance** **Policyholders' realistic expectations maintained**	**Group remains a going concern**

FINANCIAL MANAGEMENT (CONTINUED)

HOW WE DELIVER OUR FINANCIAL MANAGEMENT OBJECTIVES

1. MONITOR & CONTROL RISK & SOLVENCY

The Board sets internal solvency targets that are based on solvency requirements imposed by our regulators. The targets are set with the intention of balancing the requirements of both our shareholders and policyholders.

- **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 continually.

2. LONGER-TERM PROJECTIONS

Long term projections are performed covering, as a minimum:

- **i)** Segmental earnings and surplus arising in the long-term insurance funds;
- **ii)** Chesnara holding company cash flows;
- **iii)** Regulatory solvency and capital resources and requirements; and
- **iv)** European embedded value.

The projections are prepared for a base case, using latest board-approved assumptions, and for various individual and multiple economic and non-economic sensitivities.

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 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.

3. RESPONSIBLE INVESTMENT MANAGEMENT

Investment management

We aim to promote customer retention by pursuing good relative investment performance across both our UK and Swedish businesses.

We use third party investment managers in both the UK and Sweden. They are charged with operating within pre-determined guidelines which are set 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. In Sweden a larger number of fund managers are used, which are subject to very stringent initial selection and ongoing monitoring criteria.

A conservative approach to the investment of shareholders' funds is also adopted within the Group.

FINANCIAL MANAGEMENT (CONTINUED)

OUTCOMES FROM IMPLEMENTING OUR FINANCIAL MANAGEMENT OBJECTIVES

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

1. Solvency

The solvency and regulatory capital of the Group and its regulated subsidiaries is monitored continually. Further detail of the year end solvency positions has been summarised in the Business Review on pages 23 to 24.

2. Shareholder returns

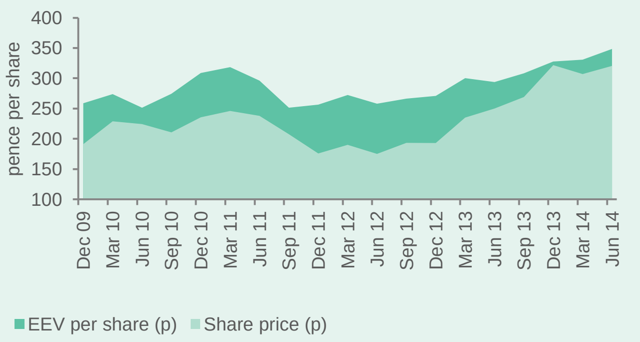
The Board's primary aim is to provide an attractive dividend flow to its shareholders. With Movestic in its growth phase, shareholder dividend flows are currently generated by the UK run-off businesses within CA plc, by way of the emergence of surpluses in, and transfer of surpluses from, its long-term insurance funds to shareholder funds and by the return on shareholder net assets.

Dividend flows from CA plc and Protection Life to Chesnara are utilised in the first instance for the repayment and servicing of debt, coupled with bearing 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.

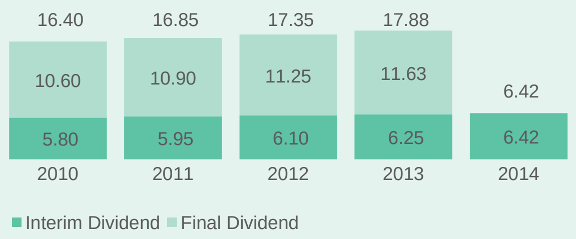
Returns to shareholders can be assessed by reference to many measures including the actual share price, the yields on the shares and the comparison of total market capitalisation to embedded value. The graphs below illustrate:

- how the EEV per share has compared with the share price over recent years, up to 30 June 2014; and
- the dividend growth per share over this same period.

EEV per share versus share price:



Dividends (pence per share)



During the year to date, up to 22 August 2014 the share price has reduced slightly, closing at 318.5p, having moved from 321.8p at the start of the year.

3. Capital structure

The Group's UK operations are financed through a combination of retained earnings and bank debt, with the current emergence of surplus in the UK life businesses.

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.

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.

The acquisition of PL in November 2013 for £39.3m was funded using a combination of debt and existing cash resources. The process for raising the debt to fund the purchase of PL also gave rise to a restructuring of the existing facilities that were initially arranged to fund the purchase of S&P. The result is that, at 30 June 2014 bank borrowings amount to £73.2m, which is being repaid over a five year term.

The purchase of Movestic was financed by internal cash resources. On an ongoing basis the Movestic business 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.

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.

FINANCIAL MANAGEMENT (CONTINUED)

4. Liquidity and policyholder returns

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

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

5. Maintain the Group as a 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 'Maintain strong solvency position' on pages 23 and 24 indicates a strong solvency position as at 30 June 2014 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 reassurers. 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. The Directors therefore confirm that the IFRS Financial Statements have been prepared on the Going Concern basis.

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 have a Risk Committee in CA plc, 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 plc 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. Since its acquisition similar arrangements have been established for Protection Life. 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 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.	– Effective underwriting techniques and reinsurance programmes. – Option on certain contracts to vary premium rates in the light of actual experience. – Partial risk diversification in that the Group has a portfolio of annuity contracts where the benefits cease on death.
Adverse persistency experience	Persistency rates significantly lower than those assumed will lead to reduced Group profitability in the medium to long-term.	– In closed life and pensions books, persistency rates tend to improve over time due to policyholder/investor inertia. – Active investment management to ensure competitive policyholder investment funds. – Outsourcer service levels ensure strong customer service standards. – Proactive customer retention processes.
Expense overruns and unsustainable unit cost growth	For the closed UK life and pensions businesses, the Group is exposed to the impact of fixed and semi-fixed expenses, in conjunction with a diminishing policy base, on profitability. For the Swedish open life and pensions business, the Group is exposed to the impact of expense levels varying adversely from those assumed in product pricing.	– For the UK businesses, the Group pursues a strategy of outsourcing functions with charging structures such that the cost is sensitive to book run off to the fullest extent possible. – The Swedish operations assume growth through new business such that the general unit cost trend is positive. – For both the UK and Swedish businesses, the Group maintains a strict regime of budgetary control.
Significant and prolonged equity and property market falls	A significant part of the Group's income and, therefore, overall profitability derives from fees received in respect of the management of policyholder and investor funds. Fee levels are generally related to the value of funds under management and, as the managed investment funds overall comprise a significant equity and property content, the Group is particularly exposed to the impact of significant and prolonged equity market falls, which may lead to policyholders switching to lower-margin, fixed-interest funds.	– 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.	– The Group monitors exchange rate movements and the cost of hedging the currency risk on cash flows when appropriate.

RISK MANAGEMENT (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES (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.	– 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: – its fixed interest security portfolio; – cash deposits; and – amounts due from reinsurers.	– Operation of guidelines which limit the level of exposure to any one counterparty and which impose limits on exposure to credit ratings. – In respect of exposure to one major reinsurer, Guardian Assurance Limited ('Guardian'), the Group has a floating charge over the reinsurer's related investment assets, which ranks the Group equally with Guardian's policyholders.
Failure of outsourced service providers to fulfil contractual obligations	The Group's UK life and pensions businesses are heavily dependent on outsourced service providers to fulfil a significant number of their core functions. In the event of failure by either or both service providers to fulfil their contractual obligations, in whole or in part, to the requisite standards specified in the contracts, the Group may suffer loss as its functions degrade.	– Rigorous service level measures and management information flows under its contractual arrangements. – Continuing and close oversight of the performance of both service providers. – The supplier relationship management approach is conducive to ensuring the outsource arrangements deliver to their 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.	– 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: i) the implementation of Solvency II requirements; and ii) potential change in the regulatory environment in Sweden. iii) FCA review of legacy business.	The current opinion is that the implementation of Solvency II will strengthen the long-term risk management environment of Chesnara (as is its intention). The Solvency II programme is covered in more detail on the next page. The key risks are mitigated as follows: – Proposed appointment of external specialist Quality Assurance partner; – Dedicated internal resource; and – Robust programme governance framework. Management continually reviews the potential impact of any prospective regulatory changes.

SOLVENCY II

> Our Solvency II programme remains well on track to ensure we are ready for the planned implementation date.

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 planned implementation date is 01 January 2016 and interim measures have been agreed by the PRA which require us to develop and implement various aspects of Solvency II in the lead up to the revised implementation date.

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

Following a strategic decision to switch one of our suppliers of actuarial services, some re-work is required on the UK Pillar 1 elements but we remain within our overall target to complete the Pillar 1 development and carry out a further dry run on the year-end 2014 data during Q2 2015.

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

The format and structure of the Forward-Looking Assessment of Own Risk (FLAOR) has been agreed by the board and work remains on target for us to produce our initial FLAOR for board review and sign-off during December 2014. This will enable submission to the regulators in accordance with their timescales. Work to develop, enhance and further document the systems of governance is ongoing and in-line with 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), a Regular Supervisory Report (RSR) and a set of defined Quantitative Reporting Templates (QRT's). 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

The analysis phase for the Quantitative Reporting Templates (QRT's) is complete save for the work on the Protection Life business which is scheduled for Q4 2014. This will align it with the migration project which will transfer administration of the Protection Life business from Direct Line Group to our outsourcers HCL. The work to develop core systems for QRT reporting with our outsourcers in the UK and within Movestic is underway and on track. Plan remains to carry out dry run work in Q2 and Q3 2015.

SECTION C

IFRS FINANCIAL STATEMENTS

IN THIS SECTION

DIRECTORS' RESPONSIBILITIES 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	Graham Kettleborough
Chairman	Chief Executive Officer
28 August 2014	28 August 2014

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF CHESNARA PLC

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 2014 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 7. 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 2014 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
28 August 2014

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

	Note	Unaudited Six months ended 30 June 2014 £000	Unaudited Six months ended 30 June 2013 £000	Year ended 31 December 2013 £000
Insurance premium revenue		66,512	55,084	109,938
Insurance premium ceded to reinsurers		(26,507)	(17,115)	(35,469)
Net insurance premium revenue		**40,005**	**37,969**	**74,469**
Fee and commission income		34,873	34,867	69,990
Net investment return		199,312	239,013	567,463
Total revenue net of reinsurance payable		**274,190**	**311,849**	**711,922**
Other operating income		12,467	11,048	22,270
Total income net of investment return		**286,657**	**322,897**	**734,192**
Insurance contract claims and benefits incurred				
Claims and benefits paid to insurance contract holders		(152,612)	(166,471)	(281,800)
Net decrease/(increase) in insurance contract provisions		67,148	(23,459)	(62,249)
Reinsurers' share of claims and benefits		15,412	48,362	57,004
Net insurance contract claims and benefits		(70,052)	(141,568)	(287,045)
Change in investment contract liabilities		(146,117)	(123,174)	(320,132)
Reinsurers' share of investment contract liabilities		647	2,508	5,568
Net change in investment contract liabilities		(145,470)	(120,666)	(314,564)
Fees, commission and other acquisition costs		(11,126)	(9,374)	(19,450)
Administrative expenses		(19,981)	(18,718)	(38,761)
Other operating expenses				
Charge for amortisation of acquired value of in-force business		(4,721)	(3,724)	(7,530)
Charge for amortisation of acquired value of customer relationships		(136)	(153)	(301)
Other		(6,487)	(4,863)	(6,483)
Total expenses net of change in insurance contract provisions and investment contract liabilities		**(257,973)**	**(299,066)**	**(674,134)**
Total income less expenses		**28,684**	**23,831**	**60,058**
Share of profit of associate		608	417	1,252
Profit recognised on business combination		–	–	2,807
Financing costs		(1,914)	(2,438)	(3,527)
Profit before income taxes	4	**27,378**	**21,810**	**60,590**
Income tax expense		(4,558)	(4,567)	(11,227)
Profit for the period	3,4	**22,820**	**17,243**	**49,363**
Foreign exchange translation differences arising on the revaluation of foreign operations		(4,645)	1,632	(516)
Total comprehensive income for the period		**18,175**	**18,875**	**48,847**
Basic earnings per share (based on profit for the period)	2	19.87p	15.01p	42.98p
Diluted earnings per share (based on profit for the period)	2	19.87p	15.01p	42.98p

The notes and information on pages 54 to 61 form part of these financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

(UNAUDITED)

	Note	Unaudited 30 June 2014 £000	Unaudited 30 June 2013 £000	31 December 2013 £000
Assets				
Intangible assets				
Deferred acquisition costs		29,539	26,565	28,162
Acquired value of in-force business		80,313	73,968	88,615
Acquired value of customer relationships		1,336	1,788	1,583
Software assets		4,348	5,555	5,004
Property and equipment		610	576	673
Investment in associates		4,367	3,392	4,088
Investment properties		5,173	71,303	20,387
Deferred tax assets		–	388	–
Reinsurers' share of insurance contract provisions		356,432	285,288	379,894
Amounts deposited with reinsurers		34,224	31,998	34,293
Financial assets				
Equity securities at fair value through income		475,344	451,639	479,617
Holdings in collective investment schemes at fair value through income		3,463,411	3,205,255	3,440,992
Debt securities at fair value through income		344,115	349,525	370,666
Policyholders' funds held by the Group		158,461	95,499	130,237
Insurance and other receivables		47,201	34,849	46,382
Prepayments		5,155	3,663	4,889
Derivative financial instruments		2,424	2,032	2,956
Total financial assets		4,496,111	4,142,462	4,475,739
Reinsurers' share of accrued policyholder claims		12,457	8,017	11,399
Income taxes		1,917	2,413	2,608
Cash and cash equivalents		219,290	200,891	184,263
Total assets	4	**5,246,117**	**4,854,604**	**5,236,708**
Liabilities				
Insurance contract provisions		2,290,815	2,226,729	2,362,063
Other provisions		4,052	4,669	5,348
Financial liabilities				
Investment contracts at fair value through income		2,337,862	2,152,673	2,283,403
Liabilities relating to policyholders' funds held by the Group		158,461	95,499	130,237
Borrowings	5	95,220	50,100	94,377
Derivative financial instruments		525	601	387
Total financial liabilities		2,592,068	2,298,873	2,508,404
Deferred tax liabilities		9,392	7,754	11,007
Reinsurance payables		9,978	15,254	11,539
Payables related to direct insurance and investment contracts		47,425	38,692	47,137
Deferred income		7,377	8,372	7,865
Income taxes		10,756	2,482	8,012
Other payables		20,631	25,838	27,104
Bank overdrafts		1,703	1,635	1,127
Total liabilities	4	**4,994,197**	**4,630,298**	**4,989,606**
Net assets		**251,920**	**224,306**	**247,102**
Shareholders' equity				
Share capital		42,024	42,024	42,024
Share premium		42,526	42,525	42,526
Treasury shares		(212)	(213)	(212)
Other reserves		2,558	9,351	7,203
Retained earnings	3	165,024	130,619	155,561
Total shareholders' equity		**251,920**	**224,306**	**247,102**

The notes and information on pages 54 to 61 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	Unaudited Six months ended 30 June		Year ended 31 December
	2014	**2013**	**2013**
	£000	**£000**	**£000**
Profit for the period	22,820	17,243	49,363
Adjustments for:			
Depreciation of property and equipment	109	84	177
Amortisation of deferred acquisition costs	5,063	4,119	9,386
Amortisation of acquired value of in-force business	4,720	3,725	7,530
Amortisation of acquired value of customer relationships	136	153	301
Amortisation of software assets	982	2,341	2,580
Tax paid	4,558	4,567	11,227
Interest receivable	(13,270)	(8,562)	(19,256)
Dividends receivable	(13,152)	(6,340)	(19,049)
Interest expense	1,914	2,438	3,527
Change in fair value of investment properties	(2,265)	6,916	6,197
Fair value gains on financial assets	(170,200)	(225,392)	(523,938)
Profits on sale of property and equipment	–	–	(10)
Profit arising on business combination	–	–	(2,807)
Share of profit of associate	(608)	(417)	(1,252)
Interest received	13,333	8,529	18,701
Dividends received	5,859	5,875	19,252
Increase in intangible assets related to insurance and investment contracts	(8,354)	(7,712)	(19,397)
Changes in operating assets and liabilities:			
Decrease in financial assets	34,128	44,217	46,539
Decrease/(increase) in reinsurers share of insurance contract provisions	18,885	(8,852)	(14,596)
Decrease/(increase) in amounts deposited with reinsurers	69	(1,753)	(4,048)
Decrease/(increase) in insurance and other receivables	4,245	(10,282)	(5,267)
Increase in prepayments	(482)	(462)	(1,792)
(Decrease)/increase in insurance contract provisions	(65,929)	17,760	51,570
Increase in investment contract liabilities	216,853	128,717	351,630
Decrease in provisions	(1,290)	(516)	(1,829)
Decrease in reinsurance payables	(847)	(1,819)	(5,182)
Increase/(decrease) in payables related to direct insurance and investment contracts	639	(368)	2,110
(Decrease)/increase in other payables	(4,928)	8,810	3,690
Cash generated from/(utilised by) operations	**52,988**	**(16,981)**	**(34,643)**
Income tax (paid)received	(2,471)	3,614	1,405
Net cash generated from/(utilised by) operating activities	**50,517**	**(13,367)**	**(33,238)**
Cash flows from investing activities			
Business combinations	–	(2,017)	(31,924)
Development of software	(680)	–	(1,882)
Purchases of property and equipment	(81)	(293)	(485)
Net cash utilised by investing activities	**(761)**	**(2,310)**	**(34,291)**
Cash flows from financing activities			
Proceeds from issue of share capital	–	2	3
Proceeds from borrowings	2,375	1,213	46,728
Sale of treasury shares	–	4	5
Dividends paid	(13,357)	(12,921)	(20,099)
Interest paid	(1,764)	(2,379)	(3,975)
Net cash (utilised by)/generated from financing activities	**(12,746)**	**(14,081)**	**22,662**
Net increase/(decrease) in cash and cash equivalents	**37,010**	**(29,758)**	**(44,867)**
Cash and cash equivalents at beginning of period	183,136	228,074	228,074
Effect of exchange rate changes on cash and cash equivalents	(2,559)	940	(71)
Cash and cash equivalents at end of the period	**217,587**	**199,256**	**183,136**

The notes and information on pages 54 to 61 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(UNAUDITED)

Unaudited six months ended 30 June 2014	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2014	**42,024**	**42,526**	**7,203**	**(212)**	**155,561**	**247,102**
Profit for the period	–	–	–	–	22,820	22,820
Dividends paid	–	–	–	–	(13,357)	(13,357)
Foreign exchange translation differences	–	–	(4,645)	–	–	(4,645)
Equity shareholders' funds at 30 June 2014	**42,024**	**42,526**	**2,558**	**(212)**	**165,024**	**251,920**

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**

Year ended 31 December 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 year	–	–	–	–	49,363	49,363
Dividends paid	–	–	–	–	(20,099)	(20,099)
Foreign exchange translation differences	–	–	(516)	–	–	(516)
Sale of treasury shares	–	3	–	5	–	8
Equity shareholders' funds at 31 December 2013	**42,024**	**42,526**	**7,203**	**(212)**	**155,561**	**247,102**

The notes and information on pages 54 to 61 form part of these financial statements.

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 2013 except for the application of the following additional accounting policies, which were not applicable for reporting periods up to and including 31 December 2013:

IAS 1 'Presentation of Items of Other Comprehensive Income'; and
IAS 19 (revised 2011) 'Employee Benefits'.

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 6.

The Group's published consolidated financial statements for the year ended 31 December 2013 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 2013.

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 2013 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statements under section 498(2) or (3) of the Companies Act 2006.

2 Earnings per share

Earnings per share are based on the following:

	Unaudited Six months ended 30 June		**Year ended 31 December**
	2014	**2013**	**2013**
Profit for the period attributable to shareholders (£000)	22,820	17,243	49,363
Weighted average number of ordinary shares	114,851,282	114,849,115	114,851,282
Basic earnings per share	19.87p	15.01p	42.98p
Diluted earnings per share	19.87p	15.01p	42.98p

The weighted average number of ordinary shares in respect of the six months ended 30 June 2014 is based upon 115,047,662 shares in issue, less 196,380 own shares held in treasury at the beginning of the period, and 115,047,662 shares in issue less 196,380 own shares held in treasury at the end of the period.

The six months ended 30 June 2013 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.

The weighted average number of ordinary shares in respect of the year ended 31 December 2013 is based upon 115,047,662 shares in issue, less 196,380 own shares held in treasury.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

3 Retained earnings

	Unaudited Six months ended 30 June 2014 £000	2013 £000	Year ended 31 December 2013 £000
Retained earnings attributable to equity holders of the parent company comprise:			
Balance at 1 January	**155,561**	**126,297**	**126,297**
Profit for the period	22,820	17,243	49,363
Dividends			
Final approved and paid for 2012	–	(12,921)	(12,921)
Interim approved and paid for 2013	–	–	(7,178)
Final approved and paid for 2013	(13,357)	–	–
Balance at 31 December	**165,024**	**130,619**	**155,561**

The interim dividend in respect of 2013, approved and paid in 2013 was paid at the rate of 6.25p per share.

The final dividend in respect of 2013, approved and paid in 2014, was paid at the rate of 11.63p per share so that the total dividend paid to the equity shareholders of the Parent Company in respect of the year ended 31 December 2013 was made at the rate of 17.88p per share.

An interim dividend of 6.42p per share in respect of the year ended 31 December 2014 payable on 15 October 2014 to equity shareholders of the Parent Company registered at the close of business on 12 September 2014, the dividend record date, was approved by the Directors after the balance sheet date. The resulting total final dividend of £7.4m has not been provided for in these financial statements and there are no income tax consequences.

The following table summarises dividends per share in respect of the six month period ended 30 June 2014 and the year ended 31 December 2013:

Year ended 31 December	**2014** p	**2013** p
Interim - approved and paid	6.42	6.25
Final - proposed/paid	–	11.63
Total	**6.42**	**17.88**

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 2014 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, 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, as described in Note 6 'Management of financial 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.

PL: This segment represents the business of Protection Life, which was purchased on 28 November 2013. PL is included within the Group's UK business.

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 2014.

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 2014.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

4 Operating segments (continued)

(i) Segmental income statement for the six months ended 30 June 2014

	CA £000	S&P £000	PL £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Net insurance premium revenue	21,463	3,411	7,164	32,038	7,967	–	40,005
Fee and commission income	15,968	1,152	–	17,120	17,753	–	34,873
Net investment return	35,664	28,975	343	64,982	134,106	224	199,312
Total revenue (net of reinsurance payable)	**73,095**	**33,538**	**7,507**	**114,140**	**159,826**	**224**	**274,190**
Other operating income	1,542	5,779	–	7,321	5,146	–	12,467
Segmental income	**74,637**	**39,317**	**7,507**	**121,461**	**164,972**	**224**	**286,657**
Net insurance contract claims and benefits incurred	(38,893)	(26,498)	(1,048)	(66,439)	(3,613)	–	(70,052)
Net change in investment contract liabilities	(10,851)	(802)	–	(11,653)	(133,817)	–	(145,470)
Fees, commission and other acquisition costs	(331)	(16)	(603)	(950)	(10,176)	–	(11,126)
Administrative expenses							
Amortisation charge on software assets	–	–	–	–	(2,188)	–	(2,188)
Depreciation charge on property and equipment	(22)	–	–	(22)	(187)	–	(209)
Other	(4,155)	(4,721)	(983)	(9,859)	(5,921)	(1,804)	(17,584)
Other operating expenses							
Charge for amortisation of acquired value of in-force business	(1,181)	(350)	(1,216)	(2,747)	(1,974)	–	(4,721)
Charge for amortisation of acquired value of customer relationships	–	–	–	–	(136)	–	(136)
Other	(84)	(467)	(844)	(1,395)	(5,092)	–	(6,487)
Segmental expenses	**(55,517)**	**(32,854)**	**(4,694)**	**(93,065)**	**(163,104)**	**(1,804)**	**(257,973)**
Segmental income less expenses	**19,120**	**6,463**	**2,813**	**28,396**	**1,868**	**(1,580)**	**28,684**
Share of profit from associates	–	–	–	–	608	–	608
Profit arising on business combinations	–	–	–	–	–	–	–
Financing costs	–	–	–	(3)	(724)	(1,187)	(1,914)
Profit/(loss) before tax	**19,120**	**6,463**	**2,813**	**28,393**	**1,752**	**(2,767)**	**27,378**
Income tax credit/(expense)				(6,021)	868	595	(4,558)
Profit/(loss) after tax				**22,372**	**2,620**	**(2,172)**	**22,820**

(ii) Segmental balance sheet as at 30 June 2014

	CA £000	S&P £000	PL £000	Movestic £000	Other Group Activities £000	Total £000
Total assets	1,840,292	1,212,296	177,339	1,945,101	71,089	5,246,117
Total liabilities	(1,768,580)	(1,142,965)	(119,876)	(1,885,696)	(77,080)	(4,994,197)
Net assets/(liabilities)	**71,712**	**69,331**	**57,463**	**59,405**	**(5,991)**	**251,920**
Investment in associates	–	–	–	4,367	–	4,367
Additions to non-current assets	–	–	–	8,691	–	8,691

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

4 Operating segments (continued)

(iii) 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
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**

(iv) 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)

(v) Segmental income statement for the year ended 31 December 2013

	CA	S&P	PL	UK Total	Movestic	Other Group Activities	Total
	£000	£000	£000	£000	£000	£000	£000
Net insurance premium revenue	49,331	7,325	1,183	57,839	16,630	–	74,469
Fee and commission income	31,893	2,499	–	34,392	35,598	–	69,990
Net investment return	198,807	152,413	(143)	351,077	216,182	204	567,463
Total revenue (net of reinsurance payable)	**280,031**	**162,237**	**1,040**	**443,308**	**268,410**	204	**711,922**
Other operating income	6,484	11,761	–	18,245	4,025	–	22,270
Segmental income	**286,515**	**173,998**	**1,040**	**461,553**	**272,435**	**204**	**734,192**
Net insurance contract claims and benefits incurred	(159,179)	(120,333)	(249)	(279,761)	(7,284)	–	(287,045)
Net change in investment contract liabilities	(92,878)	(6,163)	–	(99,041)	(215,523)	–	(314,564)
Fees, commission and other acquisition costs	(738)	(32)	(92)	(862)	(18,588)	–	(19,450)
Administrative expenses						–	
Amortisation charge on software assets	–	–	–	–	(2,188)	–	(2,188)
Depreciation charge on property and equipment	(22)	–	–	(22)	(187)	–	(209)
Other	(7,663)	(9,878)	(114)	(17,655)	(14,870)	(3,839)	(36,364)
Other operating expenses							
Charge for amortisation of acquired value of in-force business	(2,358)	(774)	(169)	(3,301)	(4,229)	–	(7,530)
Charge for amortisation of acquired value of customer relationships	–	–	–	–	(301)	–	(301)
Other	(924)	(1,143)	(391)	(2,458)	(4,085)	60	(6,483)
Segmental expenses	**(263,762)**	**(138,323)**	**(1,015)**	**(403,100)**	**(267,255)**	**(3,779)**	**(674,134)**
Segmental income less expenses	**22,753**	**35,675**	**25**	**58,453**	**5,180**	**(3,575)**	**60,058**
Share of profit from associates	–	–	–	–	1,252	–	1,252
Profit arising on business combinations	–	–	–	–	–	2,807	2,807
Financing costs	–	(4)	–	(4)	(2,140)	(1,383)	(3,527)
Profit/(loss) before tax	**22,753**	**35,671**	**25**	**58,449**	**4,292**	**(2,151)**	**60,590**
Income tax credit/(expense)				(11,604)	(423)	800	(11,227)
Profit/(loss) after tax				**46,845**	**3,869**	**(1,351)**	**49,363**

(vi) Segmental balance sheet as at 31 December 2013

	CA	S&P	PL	Movestic	Other Group Activities	Total
	£000	£000	£000	£000	£000	£000
Total assets	1,898,687	1,263,269	181,059	1,853,374	40,319	5,236,708
Total liabilities	(1,823,693)	(1,169,406)	(125,783)	(1,791,943)	(78,781)	(4,989,606)
Net assets/(liabilities)	**74,994**	**93,863**	**55,276**	**61,431**	**(38,462)**	**247,102**
Investment in associates	–	–	–	4,088	–	4,088
Additions to non-current assets	–	–	20,211	17,787	–	37,998

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

5 Borrowings

	Unaudited 30 June 2014 £000	2013 £000	31 December 2013 £000
Bank loan	73,190	29,747	73,040
Amount due in relation to financial reinsurance	22,030	20,353	21,337
Total	**95,220**	**50,100**	**94,377**

The bank loan subsisting at 30 June 2014 comprises the following:

- on 7 October 2013 tranche one of a new facility was drawn down, amounting to £30.0m. This facility is unsecured and is repayable in five increasing annual instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.25 percentage points above the London Inter-Bank Offer Rate and is repayable over a period which varies between one and six months at the option of the borrower.
- on 27 November 2013 tranche two of the new loan facility was drawn down, amounting to £31.0m. As with tranche one, this facility is unsecured and is repayable in five increasing annual instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.25 percentage points above the London Inter-Bank Offer Rate and is repayable over a period which varies between one and six months at the option of the borrower.
- on 27 November 2013 a short-term loan of £12.8m was drawn down. This is repayable in full on 27 May 2015. The outstanding principal on the loan bears interest at a rate of 2.75 percentage points above the London Inter-Bank Offer Rate.

The fair value of the bank loan at 30 June 2014 was £73,800,000 (31 December 2013: £73,800,000).

The fair value of amounts due in relation to financial reinsurance was £22,209,430 (31 December 2013: £21,657,269). The fair value of other borrowings is not materially different from their carrying value.

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

6 Financial instruments fair value disclosures

The table below 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 2014. 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.

Fair value measurement at 30 June 2014 using	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities				
Listed	475,344	-	-	475,344
Holdings in collective investment schemes	3,462,938	473	-	3,463,411
Debt securities - fixed rate				
Government Bonds	283,542	-	-	283,542
Listed	54,236	-	-	54,236
Debt securities - floating rate Listed	6,337	-	-	6,337
Total debt securities	344,115	-	-	344,115
Policyholders' funds held by the group	158,461	-	-	158,461
Derivative financial instruments	152	2,272	-	2,424
Total	**4,441,010**	**2,745**	**-**	**4,443,755**
Current				1,886,788
Non-current				2,556,967
Total				**4,443,755**
Financial liabilities				
Investment contracts at fair value through income	2,333,609	4,253	-	2,337,862
Liabilities related to policyholders' funds held by the group	158,461	-	-	158,461
Derivative financial instruments	4	521	-	525
Total	**2,492,074**	**4,774**	**-**	**2,496,848**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

6 Financial instruments fair value disclosures (continued)

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 2014 £000	30 June 2013 £000	31 December 2013 £000	30 June 2014 £000	30 June 2013 £000	31 December 2013 £000
Financial liabilities:						
Borrowings	95,220	50,100	94,377	96,009	50,788	95,457

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

The fair value of the bank loans are 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.

There were no transfers between levels 1, 2 and 3 during the period.

7 Approval of consolidated report for the six months ended 30 June 2014

This condensed consolidated report was approved by the Board of Directors on 28 August 2014. 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 SUPPLEMENTARY INFORMATION

IN THIS SECTION

DIRECTORS' RESPONSIBILITIES 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	Graham Kettleborough
Chairman	Chief Executive Officer
28 August 2014	28 August 2014

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 2014 which comprises the summarised EEV Consolidated Income Statement, the Summarised EEV Consolidated Balance Sheet and the related notes 1 to 11. 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 2014. 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 2014 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 2014 has not been properly prepared in accordance with the EEV principles using the methodology and assumptions set out on pages 68 to 73.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester,
United Kingdom

28 August 2014

SUMMARISED EEV CONSOLIDATED INCOME STATEMENT (UNAUDITED)

	Note	Unaudited Six months ended 30 June 2014 £000	Unaudited Six months ended 30 June 2013 £000	Year ended 31 December 2013 £000
Operating profit of covered business	**6(b)**	37,168	4,754	8,901
Other operational result	**6(b)**	(673)	(140)	(2,276)
Operating profit		**36,495**	**4,614**	**6,625**
Variation from longer-term investment return	**6(b)**	25,845	20,813	54,646
Effect of economic assumption changes	**6(b)**	(4,612)	12,317	16,447
Profit before tax and before exceptional item		**57,728**	**37,744**	**77,178**
Exceptional items				
Profit recognised on business combination	**9**	–	–	12,283
Effect of modelling adjustments	**6(a)**	–	848	4,073
Profit before tax		**57,728**	**38,592**	**94,074**
Tax	**6(b)**	(10,441)	(2,315)	(7,307)
Profit for the period attributable to the equity holders of the parent company		**47,287**	**36,277**	**86,767**
Earnings per share				
Based on profit for the period		41.17p	31.59p	75.55p
Diluted profit per share				
Based on profit for the period		41.17p	31.59p	75.55p

The notes and information on pages 68 to 81 form part of this supplementary information.

SUMMARISED EEV CONSOLIDATED BALANCE SHEET (UNAUDITED)

Assets	Note	Unaudited 30 June 2014 £000	Unaudited 30 June 2013 £000	31 December 2013 £000
Value of in-force business	5, 8	279,305	226,269	262,161
Deferred acquisition costs arising on unmodelled business		447	800	487
Acquired value of customer relationships		323	506	419
Property and equipment		610	576	673
Investment in associate		4,367	3,392	4,088
Deferred tax asset		1,466	793	509
Reinsurers' share of insurance contract provisions		314,501	238,490	328,810
Amounts deposited with reinsurers		33,049	30,788	33,102
Investment properties		5,173	71,303	20,387
Financial assets				
Equity securities at fair value through income		475,344	451,639	479,617
Holdings in collective investment schemes at fair value through income		3,463,411	3,205,255	3,440,992
Debt securities at fair value through income		344,115	349,525	370,666
Insurance and other receivables		47,201	34,849	46,382
Prepayments		5,155	3,663	4,889
Policyholders' funds held by the Group		158,461	95,499	130,237
Derivative financial instruments		2,424	2,032	2,956
Total financial assets		4,496,111	4,142,462	4,475,739
Reinsurers' share of accrued policy claims		12,457	8,017	11,399
Income taxes		1,917	2,413	2,608
Cash and cash equivalents		219,290	200,891	184,263
Total assets		**5,369,016**	**4,926,700**	**5,324,645**
Liabilities				
Insurance contract provisions		2,267,960	2,183,782	2,323,643
Other provisions		4,052	4,669	5,348
Financial liabilities				
Investment contracts at fair value through income		2,346,550	2,165,242	2,293,836
Borrowings		101,084	56,039	100,290
Derivative financial instruments		525	601	387
Liabilities relating to policyholders' funds held by the Group		158,461	95,499	130,237
Total financial liabilities		2,606,620	2,317,381	2,524,750
Reinsurance payables		9,613	14,850	11,154
Payables related to direct insurance and investment contracts		47,425	38,692	47,137
Income taxes		10,756	2,482	8,012
Other payables		20,631	25,838	27,104
Bank overdraft		1,703	1,635	1,127
Total liabilities		**4,968,760**	**4,589,329**	**4,948,275**
Net assets		**400,256**	**337,371**	**376,370**
Equity				
Share capital		42,024	42,024	42,024
Share premium		42,526	42,525	42,526
Treasury shares		(212)	(213)	(212)
Foreign exchange reserve		3,884	18,242	13,927
Other reserves		50	50	50
Retained earnings		311,984	234,743	278,055
Total shareholders' equity	5, 8	**400,256**	**337,371**	**376,370**

The notes and information on pages 68 to 81 form part of this supplementary information.

Approved by the Board of Directors on 28 August 2014 and signed on its behalf by:

David Rimmington
Finance Director

Graham Kettleborough
Chief Executive Officer

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 International Financial Reporting Standards ('IFRS'), 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 ,the covered business of CA and S&P comprises the business's long-term business being those individual life insurance, pensions and annuity contracts falling under the definition of long-term insurance business for UK regulatory purposes. The covered business for the PL segment comprises the business's long-term protection business and Payment Protection Insurance business.

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

(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, S&P and PL

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 "Enhance value through new business" on pages 20 to 21 are not consistent with this definition, as they include non-covered business.

New business premium volumes for the period are as follows:

Pensions and savings covered business	Unaudited Six months ended 30 June 2014 £m	Unaudited Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
New business premium income	31.2	19.9	46.0
Regular premium increments	10.0	8.1	16.0
Total new business premium income*	**41.2**	**28.0**	**62.0**

* Basis: annualised premium plus 1/10 single premium translated into sterling at the 2014 average rate of SEK 10.9034= £1 (2013: SEK 10.1901) = £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)

(a) Embedded Value (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 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.

PL

There are no material financial options and guarantees within PL.

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

3 Methodology (continued)

(a) Embedded Value (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 CA plc (comprising the CA and S&P segments), 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;

(ii) for PL, 150% of the long-term insurance capital requirement ('LTICR'), as determined by the regulations of the Prudential Regulatory Authority; and

(iii) 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, S&P and PL (as at 30 June 2013 and 31 December 2013: 50 basis points), and 100 basis points for Movestic (30 June 2013: 70 basis points and 31 December 2013: 100 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 last reviewed in December 2013.

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 2013 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.

The rates presented below are indicative spot rates:

	CA			S&P			PL*			Movestic		
	Unaudited 30 June		31 Dec	Unaudited 30 June		31 Dec	Unaudited 30 June		31 Dec	Unaudited 30 June		31 Dec
	2014	2013	2013	2014	2013	2013	2014	2013	2013	2014	2013	2013
Investment Return							2.60%		2.80%			
5 year	2.21%	1.57%	2.18%	2.21%	1.57%	2.18%	–	–	–	1.35%	2.19%	2.18%
10 year	2.86%	2.66%	3.11%	2.86%	2.66%	3.11%	–	–	–	2.07%	2.73%	2.87%
15 year	3.19%	3.17%	3.48%	3.19%	3.17%	3.48%	–	–	–	2.40%	2.93%	3.12%
20 year	3.34%	3.41%	3.58%	3.34%	3.41%	3.58%	–	–	–	2.55%	3.02%	3.20%
25 year	3.38%	3.52%	3.59%	3.38%	3.52%	3.59%	–	–	–	2.55%	3.02%	3.20%
30 year	3.38%	3.56%	3.56%	3.38%	3.56%	3.56%	–	–	–	2.55%	3.02%	3.20%
Inflation – RPI	2.90%	2.60%	3.00%	2.90%	2.60%	3.00%	2.90%	–	3.00%	1.65%	1.67%	1.82%

***** For PL a single rate is applied for all durations.

(b) Actuarial Assumptions

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

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, S&P and PL, 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 on a basis that reflects each segment's economic consumption of such costs.

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, S&P and PL (as at 30 June 2013 and 31 December 2013: 50 basis points) and 100 basis points for Movestic (as at 30 June 2013: 70 basis points and 31 December 2013: 100 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 and PL:

(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 2014 (unaudited)	CA £000	S&P £000	PL £000	Movestic £000	Other Group Activities £000	Total £000
Regulated entities						
Capital required	24,730	43,328	37,050	14,514	–	119,622
Free surplus	30,310	13,899	5,352	19,320	–	68,881
Regulatory capital resource of regulated entities	**55,040**	**57,227**	**42,402**	**33,834**	–	**188,503**
Adjustments to shareholder net worth:						
Deferred acquisition costs	–	–	–	(52,254)	–	(52,254)
Financial reinsurance liability	–	–	–	(4,322)	–	(4,322)
Software asset adjustment	–	–	–	(4,348)	–	(4,348)
Adjustment to provisions on insurance contracts	–	3,120	–	–	–	3,120
Deferred tax	2,240	–	–	–	–	2,240
Policyholder funds	–	(14,628)	–	–	–	(14,628)
Other asset / liability adjustments	681	(325)	–	5,989	–	6,345
Adjusted shareholder net worth	**57,961**	**45,394**	**42,402**	**(21,101)**	–	**124,656**
In-force value of covered business	74,707	36,731	24,753	143,114	–	279,305
Embedded value of regulated entities	**132,668**	**82,125**	**67,155**	**122,013**	–	**403,961**
Less: amount financed by borrowings	–	(29,747)	(43,443)	–	–	(73,190)
Embedded value of regulated entities attributable to shareholders	**132,668**	**52,378**	**23,712**	**122,013**	–	**330,771**
Net equity of other Group companies	–	–	–	2,032	67,453	69,485
Total shareholders' equity	**132,668**	**52,378**	**23,712**	**124,045**	**67,453**	**400,256**

30 June 2013 (unaudited)	CA £000	S&P £000	PL £000	Movestic £000	Other Group Activities £000	Total £000
Regulated entities						
Capital required	27,099	47,385	–	17,222	–	91,706
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**

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

5 Analysis of shareholders' equity (continued)

31 December 2013	CA £000	S&P £000	PL £000	Movestic £000	Other Group Activities £000	Total £000
Regulated entities						
Capital required	23,776	43,447	37,845	16,863	–	121,931
Free surplus	32,386	44,750	1,397	17,969	–	96,502
Regulatory capital resource of regulated entities	**56,162**	**88,197**	**39,242**	**34,832**	–	**218,433**
Adjustments to shareholder net worth:						
Deferred acquisition costs	–	–	–	(54,498)	–	(54,498)
Financial reinsurance liability	–	–	–	(4,358)	–	(4,358)
Software asset adjustment	–	–	–	(5,004)	–	(5,004)
Adjustment to provisions on insurance contracts	–	2,602	–	–	–	2,602
Deferred tax	2,372	–	–	–	–	2,372
Policyholder funds	–	(14,807)	–	–	–	(14,807)
Other asset / liability adjustments	322	2	–	5,455	–	5,779
Adjusted shareholder net worth	**58,856**	**75,994**	**39,242**	**(23,573)**	–	**150,519**
In-force value of covered business	67,171	30,482	25,507	139,001	–	262,161
Embedded value of regulated entities	**126,027**	**106,476**	**64,749**	**115,428**	–	**412,680**
Less: amount financed by borrowings	–	(29,699)	(43,341)	–	–	(73,040)
Embedded value of regulated entities attributable to shareholders	**126,027**	**76,777**	**21,408**	**115,428**	–	**339,640**
Net equity of other Group companies	–	–	–	1,894	34,836	36,730
Total shareholders' equity	**126,027**	**76,777**	**21,408**	**117,322**	**34,836**	**376,370**

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 2014 (unaudited)	CA £000	S&P £000	PL £000	Movestic £000	Total £000
Free surplus at beginning of the period	**32,386**	**44,750**	**1,397**	**17,969**	**96,502**
Dividend paid to parent	(17,000)	(31,000)	–	–	(48,000)
Surplus arising in the period	15,878	209	3,160	(998)	18,249
Adjustments to required capital	(276)	1,366	795	2,349	4,234
Increase in policyholder funds cover for capital requirement	–	(179)	–	–	(179)
Free surplus at end of the period	**30,988**	**15,146**	**5,352**	**19,320**	**70,806**

Six months ended 30 June 2013 (unaudited)	CA £000	S&P £000	PL £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**

Year ended 31 December 2013	CA £000	S&P £000	PL £000	Movestic £000	Total £000
Free surplus at beginning of the year	**37,142**	**27,513**	–	**15,127**	**79,782**
Dividend paid to parent	(22,250)	(17,750)	–	–	(40,000)
Surplus arising in the year	14,303	31,246	191	2,350	48,090
Adjustments to required capital	3,191	4,284	1,206	492	9,173
Decrease in policyholder funds cover for capital requirement	–	(543)	–	–	(543)
Free surplus at end of the year	**32,386**	**44,750**	**1,397**	**17,969**	**96,502**

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

5 Analysis of shareholders' equity (continued)

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

Six months ended 30 June 2014	CA £000	S&P £000	PL £000	Movestic £000	Total £000
Value at beginning of period	**67,171**	**30,482**	**25,507**	**139,001**	**262,161**
Amount charged to foreign exchange reserve	–	–	–	(11,591)	(11,591)
Amount credited/(charged) to operating profit	7,536	6,249	(754)	15,704	28,735
Value at end of period	**74,707**	**36,731**	**24,753**	**143,114**	**279,305**

Six months ended 30 June 2013	CA £000	S&P £000	PL £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**

Year ended 31 December 2013	CA £000	S&P £000	PL £000	Movestic £000	Total £000
Value at beginning of year	**67,040**	**18,537**	–	**124,503**	**210,080**
Amount arising on acquisition	–	–	25,646	–	25,646
Amount charged to foreign exchange reserve	–	–	–	(1,491)	(1,491)
Amount credited/(charged) to operating profit	131	11,945	(139)	15,989	27,926
Value at end of year	**67,171**	**30,482**	**25,507**	**139,001**	**262,161**

S&P and PL

EEV shareholders equity for the S&P and PL segments is presented net of the borrowings that were used to fund their respective acquisitions.

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	Six months ended 30 June (unaudited) 2014 £000		2013 £000		Year ended 31 December 2013 £000	
Shareholders' equity at beginning of the period		**376,370**		**311,145**		**311,145**
Profit for the period attributable to shareholders before modelling adjustments	47,287		35,429		82,694	
Effect of modelling adjustments	–		848		4,073	
Profit for the period		**47,287**		**36,277**		**86,767**
Issue of new shares						
Share premium		–		2		3
Sale of treasury shares		–		4		5
Foreign exchange reserve movement		(10,044)		2,864		(1,451)
Dividends paid		(13,357)		(12,921)		(20,099)
Shareholders' equity at end of the period		**400,256**		**337,371**		**376,370**

Effect of modelling adjustments

Year ended 31 December 2013

Positive modelling adjustments this period of £4.1m relate entirely to the Movestic business. These have arisen due to refinements being made to the way in which modelling of commission is performed, which is now performed at a more granular level.

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 4(a) of the Supplementary Information within the Interim Financial Statements for the six months ended 30 June 2013.

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 2014 (unaudited)	CA £000	S&P £000	PL £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Covered business							
New business contribution	378	6	–	384	5,787	–	6,171
Return from in-force business							
Expected return	745	129	470	1,344	2,582	–	3,926
Experience variances	2,422	1,842	1,065	5,329	601	–	5,930
Operating assumption changes	22,719	(3,095)	1,383	21,007	(3,885)	–	17,122
Return on shareholder net worth	804	3,215	–	4,019	–	–	4,019
Operating profit of covered business	**27,068**	**2,097**	**2,918**	**32,083**	**5,085**	–	**37,168**
Variation from longer-term investment return	7,467	7,600	206	15,273	10,572	–	25,845
Effect of economic assumption changes	(1,311)	(3,048)	–	(4,359)	(253)	–	(4,612)
Profit of covered business before tax	**33,224**	**6,649**	**3,124**	**42,997**	**15,404**	–	**58,401**
Tax thereon				(10,306)	–	–	(10,306)
Profit of covered business after tax				**32,691**	**15,404**	–	**48,095**
Results of non-covered business and of other group companies							
Profit/(loss) before tax				–	2,092	(2,765)	(673)
Tax				–	(730)	595	(135)
Profit after tax				**32,691**	**16,766**	**(2,170)**	**47,287**

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 2013 (unaudited)	CA £000	S&P £000	PL £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)
Exceptional profit arising on purchase of Protection Life							
Tax				–	(142)	277	135
Profit after tax				**29,148**	**7,190**	**(909)**	**35,429**

Six months ended 31 December 2013	CA £000	S&P £000	PL £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Covered business							
New business contribution	704	13	–	717	7,196	–	7,913
Return from in-force business							
Expected return	1,389	151	61	1,601	3,929	–	5,530
Experience variances	7,590	4,695	–	12,285	(6,490)	–	5,795
Operating assumption changes	(4,295)	4,458	–	163	(10,233)	–	(10,070)
Return on shareholder net worth	185	(452)	–	(267)	–	–	(267)
Operating profit of covered business	**5,573**	**8,865**	**61**	**14,499**	**(5,598)**	–	**8,901**
Variation from longer-term investment return	22,394	11,414	–	33,808	20,838	–	54,646
Effect of economic assumption changes	(3,596)	22,463	–	18,867	(2,420)	–	16,447
Profit of covered business before tax	**24,371**	**42,742**	**61**	**67,174**	**12,820**	–	**79,994**
Tax thereon				(7,639)	–	–	(7,639)
Profit of covered business after tax				**59,535**	**12,820**	–	**72,355**
Results of non-covered business and of other group companies							
Profit/(loss) before tax				–	2,677	(4,953)	(2,276)
Exceptional profit arising on purchase of Protection Life				–	–	12,283	12,283
Tax				–	(468)	800	332
Profit after tax				**59,535**	**15,029**	**8,130**	**82,694**

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 2014 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 months ended 30 June 2014 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	PL Pre-tax £m	Tax £m	UK Post-tax £m	Post-tax £m	£m
Published value as at 30 June 2014	**158.7**	**82.1**	**67.2**	**26.0**	**282.0**	**122.0**	**2.3**
Changes in embedded value/new business contribution arising from:							
Economic sensitivities							
100 basis point increase in yield curve	(4.0)	11.7	(3.1)	(0.4)	4.1	0.1	(0.1)
100 basis point reduction in yield curve	4.3	(13.4)	3.4	0.3	(5.4)	(0.4)	0.1
10% decrease in equity and property values	(13.5)	(11.6)	-	2.6	(22.4)	(12.5)	(0.1)
Operating sensitivities							
10% decrease in maintenance expenses	2.5	4.7	1.2	(0.7)	7.7	6.6	0.4
10% decrease in lapse rates	2.2	(0.7)	0.4	(0.3)	1.6	8.8	0.9
5% decrease in mortality/morbidity rates:							
Assurances	0.8	0.6	1.5	(0.4)	2.6	0.1	-
Annuities	(1.4)	(0.3)	n/a	(0.3)	(1.9)	n/a	n/a
Reduction in the required capital to statutory minimum	0.4	0.8	1.2	(0.2)	2.1	-	-

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

Economic sensitivities

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

(ii) 100 basis point reduction in the yield curve: The reference rate is reduced by 1% (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 2014 (unaudited)	CA £000	S&P £000	PL £000	Movestic £000	Other Group Activities £000	Total £000
Shareholders' equity on the IFRS basis	**71,712**	**69,331**	**57,463**	**59,405**	**(5,991)**	**251,920**
Reclassifications						
Debt finance	–	(29,747)	(43,443)	–	73,190	–
Other	(254)	–	–	–	254	–
Adjustments						
Deferred acquisition costs	(3,763)	–	–	(24,964)	–	(28,727)
Deferred income	6,804	–	–	–	–	6,804
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(9,290)	–	–	–	–	(9,290)
Adjustments to provisions on insurance contracts, net of reinsurers' share	31	(19,107)	–	–	–	(19,076)
Acquired in-force value	(8,812)	(4,830)	(15,061)	(44,317)	–	(73,020)
Acquired value of customer relationships	–	–	–	(1,013)	–	(1,013)
Software assets	–	–	–	(4,348)	–	(4,348)
Adjustment to borrowings	–	–	–	(5,864)	–	(5,864)
Deferred tax	1,533	–	–	2,032	–	3,565
Shareholder net worth	**57,961**	**15,647**	**(1,041)**	**(19,069)**	**67,453**	**120,951**
Value of in-force business	74,707	36,731	24,753	143,114	–	279,305
Shareholders' equity on the EEV basis	**132,668**	**52,378**	**23,712**	**124,045**	**67,453**	**400,256**
Shareholder net worth comprises:						
Shareholder net worth in regulated entities	57,961	45,394	42,402	(21,101)	–	124,656
Shareholders' net equity in other Group companies	–	–	–	2,032	67,453	69,485
Debt finance	–	(29,747)	(43,443)	–	–	(73,190)
Total	**57,961**	**15,647**	**(1,041)**	**(19,069)**	**67,453**	**120,951**

30 June 2013 (unaudited)	CA £000	S&P £000	PL £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**

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 2013	CA £000	S&P £000	PL £000	Movestic £000	Other Group Activities £000	Total £000
Shareholders' equity on the IFRS basis	**74,994**	**93,863**	**55,276**	**61,431**	**(38,462)**	**247,102**
Reclassifications						
Debt finance	–	(29,699)	(43,341)	–	73,040	–
Other	(258)	–	–	–	258	–
Adjustments						
Deferred acquisition costs	(4,026)	–	–	(23,264)	–	(27,290)
Deferred income	7,261	–	–	–	–	7,261
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(11,020)	–	–	–	–	(11,020)
Adjustments to provisions on insurance contracts, net of reinsurers' share	33	(12,697)	–	–	–	(12,664)
Acquired in-force value	(9,751)	(5,172)	(16,034)	(49,873)	–	(80,830)
Acquired value of customer relationships	–	–	–	(1,164)	–	(1,164)
Software assets	–	–	–	(5,004)	–	(5,004)
Adjustment to borrowings	–	–	–	(5,913)	–	(5,913)
Deferred tax	1,623	–	–	2,108	–	3,731
Shareholder net worth	**58,856**	**46,295**	**(4,099)**	**(21,679)**	**34,836**	**114,209**
Value of in-force business	67,171	30,482	25,507	139,001	–	262,161
Shareholders' equity on the EEV basis	**126,027**	**76,777**	**21,408**	**117,322**	**34,836**	**376,370**
Shareholder net worth comprises:						
Shareholder net worth in regulated entities	58,856	75,994	39,242	(23,573)	–	150,519
Shareholders' net equity in other Group companies	–	–	–	1,894	34,836	36,730
Debt finance	–	(29,699)	(43,341)	–	–	(73,040)
Total	**58,856**	**46,295**	**(4,099)**	**(21,679)**	**34,836**	**114,209**

9 Profit recognised on business combination

During the year ended 31 December 2013 an EEV profit arose as a result of the purchase of 100% of the share capital of Protection Life Company Limited on 28 November 2013. The profit was measured as the difference between the purchase consideration of £39,300,000 and the European Embedded Value of Protection Life at the purchase date, being £51,583,000, which was established in accordance with the methodology set out in Notes 2 to 4 of the EEV supplementary financial information.

10 Earnings per share

	Six months ended 30 June 2014 p	Six months ended 30 June 2013 p	Year ended 31 December 2013 p
Basic earnings per share			
Based on profit for the period	41.17	31.59	75.55
Based on profit for the period before exceptional item	41.17	30.85	72.00
Diluted earnings per share			
Based on profit for the period	41.17	31.59	75.55
Based on profit for the period before exceptional item	41.17	30.85	72.00

11 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 SEK 10.9034 = £1 ruling in the six months ended 30 June 2014 (year ended 31 December 2013: SEK 10.1901 = £1), while all items in the balance sheet are stated at the closing rates ruling at the reported balance sheet date, being SEK 11.4339 = £1 at 30 June 2014 (SEK 10.5919 = £1 at 31 December 2013). 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 2014 been 10% higher at SEK 12.5773 = £1, then the reported embedded value of £400.3m as at 30 June 2014 would have been reported as £388.2m.

SECTION E

ADDITIONAL INFORMATION

IN THIS SECTION

BOARD OF DIRECTORS

Peter Mason was appointed as Chairman of Chesnara plc and Chairman of the Nomination Committee on 1 January 2009 and was appointed as Chairman of Movestic Livförsäkring AB with effect from 23 July 2009. He is also a member of the Remuneration Committee. He was the Investment Director and Actuary of Neville James Group, an investment management company and was admitted as a Fellow of the Institute of Actuaries in 1979. He has over 40 years' experience in financial services and held several non-executive posts within the industry.

Graham Kettleborough is the Chief Executive of Chesnara plc. He joined Countrywide Assured plc in July 2000 with responsibility for marketing and business development and was appointed as Managing Director and to the Board in July 2002. He was appointed as a Non-executive Director of Movestic Livförsäkring AB and as Chairman of Movestic Kapitalförvaltning AB with effect from 23 July 2009. He has lifetime experience in the financial services industry, primarily in customer service, marketing and product and business development, gained with Scottish Provident, Prolific Life, City of Westminster Assurance and Target Life.

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. 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 and Audit & Risk Committees and took over the role of Chairman of the Remuneration Committee when Mike Gordon stepped down on 17 May 2013. She is currently a Non-executive Director of Family Assurance where she is a member of their Risk & Audit and Nominations Committees and chairs their Remuneration Committee. Having held a number of positions within life companies, including Marketing Director, in 1992, Veronica set up 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 Livförsäkring AB on 16 January 2013. He serves on the Nomination, and Audit & Risk Committees. He was appointed as a Non-executive Director at Exeter Friendly Society in January 2014, where he sits on the Audit, Risk and Compliance Committee and the Investment Committee. 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 currently non-executive Chairman of Hargreaves Lansdown plc, a FTSE 100 listed company, a position he has held since 2009. He chairs their Nomination Committee and sits on their Remuneration Committee. He originally joined the Hargreaves Lansdown Board as a Non Executive Director in 2006. Mike is also non-executive Chairman of Zoopla Property Group plc and a Non Executive Director of esure Group plc. In addition he is a member of the advisory board of Spectrum Corporate Finance and he is a Trustees of Wessex Heartbeat, a charity associated with cardiac care in Southampton. Mike is a qualified Actuary and served in a number of Director level positions within Skandia UK between 1991 and 2006.

David Rimmington was appointed as Group Finance Director with effect from 17 May 2013. 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.

FINANCIAL CALENDER

29 August 2014
Interim results for the six months ending 30 June 2014 announced.

10 September 2014
Ex dividend date.

12 September 2014
Dividend record date.

15 October 2014
Interim dividend payment date.

19 November 2014
Interim Management Statement for the quarter ending 30 September 2014 announced.

31 March 2015
Results for the year ending 31 December 2014 announced.

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GLOSSARY

ABI	Association of British Insurers – Represents the collective interests of the UK's insurance industry
AGM	Annual General Meeting.
ALM	Asset Liability Management – management of risks that arise due to mismatches between assets and liabilities.
APE	Annual Premium Equivalent – an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.
ASB	Accounting Standards Board
CA	Original business of Countrywide Assured plc
CWA	Original business of City of Westminster Assurance Company Limited
CAplc	Countrywide Assured plc;
CALH	Countrywide Assured Life Holdings Limited and its subsidiary companies.
Directors or Board	the directors of the Company as at the date of this document whose names are set out on page 53 of this document.
DPF	Discretionary Participation Feature – A contractual right under an insurance contract to receive, as a supplement to guaranteed benefits, additional benefits whose amount or timing is contractually at the discretion of the issuer.
EEV	European Embedded Value.
FCA	the Financial Conduct Authority
FI	Finansinspektionen, being the Swedish Financial Supervisory Authority.
Form of Proxy	the form of proxy relating to the General Meeting being sent to Shareholders with this document.
FRS	Financial Reporting Standards
FSA	the Financial Services Authority
FSMA	the Financial Services and Markets Act 2000 of England and Wales, as amended.
GCR	Group Capital Resources – in accordance with the UK's regulatory regime for insurers it is the sum of the individual capital resources for each of the regulated related undertakings less the book-value of investments by the Group in those capital resources.
GCRR	Group Capital Resource Requirement – in accordance with the UK's regulatory regime for insurers it is the sum of individual capital resource requirements for the insurer and each of its regulated undertakings.
Group	the Company and its existing subsidiary undertakings.
Guardian	Guardian Assurance plc.
HCL	HCL Insurance BPO Services Limited.
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards.
IFA	Independent Financial Adviser
IGD	Insurance Groups Directive – The European directive setting out the current capital adequacy regime for insurance groups.
KPI	Key performance indicator
IFA	Independent Financial Advisor

London Stock Exchange	London Stock Exchange plc.
LTICR	Long-Term Insurance Capital Requirement – Capital required to be held for regulatory purposes in respect of investment, expense and insurance risks.
LTI	Long-Term Incentive Scheme – A reward system designed to incentivise employees' long-term performance.
MCEV	Market Consistent Embedded Value.
MECR	Mortgage Endownment Complaints Reserve
Movestic	Movestic Livförsäkring AB.
Modernac	Modernac SA , an associated company which is 49% owned by Movestic.
Official List	the Official List of the Financial Conduct Authority.
Ordinary Shares	ordinary shares of five pence each in the capital of the Company.
ORSA	Own Risk and Solvency Assessment
PRA	the Prudential Regulation Authority.
PL	Protection Life Company Limited
RCR	Risk Capital Requirement – additional amounts of capital required to be held for regulatory purposes as a result of two stress tests.
Resolution	the resolution set out in the notice of General Meeting set out in this document.
Shareholder(s)	holder(s) of Ordinary Shares.
Solvency II	A fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a set of EU-wide capital requirements and risk management standards that will replace the current Solvency I requirements.
STI	Short-Term Incentive Scheme – A reward system designed to incentivise employees' short-term performance.
Swedish Business	Movestic and its subsidiaries and associated companies.
S&P	Save & Prosper Insurance Limited and Save & Prosper Pensions Limited.
SPI	Original business of Save & Prosper Insurance Limited
SPP	Original business of Save & Prosper Pensions Limited
TCF	Treating Customers Fairly – a central PRA principle that aims to ensure an efficient and effective market and thereby help policyholders achieve a fair deal.
TSR	Total Shareholder Return , measured with reference to both dividends and capital growth.
UK or United Kingdom	the United Kingdom of Great Britain and Northern Ireland.
UK Business	CA, S&P, CALH and PL.
VIF	Value of In-force business

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