



Chesnara

Interim Financial Statements
For the Six Months Ended
30 June 2015

Cautionary statement

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

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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; City of Westminster Assurance Company Limited, which was acquired by the Group in 2005, the long-term business of which was transferred to Countrywide Assured plc during 2006; and Protection Life Company Limited which was acquired by the Group in 2013, the long-term business of which was transferred into Countrywide Assured plc in 2014;
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;
Movestic	which was purchased on 23 July 2009 and comprises the Group's Swedish business, Movestic Livförsäkring AB and its subsidiary and associated companies; and
The Waard Group	which was acquired on 19 May 2015 and comprises three insurance companies; Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V.; and a service company, Tadas Verzekering.

Following the Part VII transfer on 31 December 2014 of the long-term business of Protection Life Company Limited into Countrywide Assured plc, the business of Protection Life (PL) is now reported within the CA segment, effective from 1 January 2015. Previously PL was reported as a separate segment. Comparative information has been restated to reflect this change.

In these Interim Financial Statements

- i. The **CA & S&P** segments may also be collectively referred to as the '**UK Business**';
- ii. The **Movestic** segment may also be referred to as the '**Swedish Business**';
- iii. The '**Waard Group**' segment may also be referred to as the '**Dutch Business**';
- iv. '**CA plc**' refers to the legal entity Countrywide Assured plc, which includes the long term business of **CA**, **CWA**, **S&P** and **PL**;
- v. '**CWA**' refers to City of Westminster Assurance Company Limited or to its long-term business funds transferred to Countrywide Assured plc;
- vi. '**S&P**' may also refer collectively to Save & Prosper Insurance Limited and Save & Prosper Pensions Limited, as the context implies. Where it is necessary to distinguish reference to Save & Prosper Insurance Limited and Save & Prosper Pensions Limited, or to the businesses subsisting in those companies prior to the transfer referred to above, they are designated '**SPI**' and '**SPP**' respectively;
- vii. '**PL**' refers to the long-term business that was, prior to the Part VII transfer into CA plc on 31 December 2014, reported within Protection Life Company Limited and was reported as a separate segment for IFRS reporting purposes;
- viii. '**PL Ltd**' refers to the legal entity Protection Life Company Limited;
- ix. '**Movestic**' may also refer to Movestic Livförsäkring AB, as the context implies; and
- x. '**Acquisition of Waard Group**' refers to the purchase of the Waard Group, based in the Netherlands, on 19 May 2015.

SECTION A

OVERVIEW

IN THIS SECTION

- 4 Highlights
- 5 Chairman's Statement

HIGHLIGHTS – SIX MONTHS ENDED 30 JUNE 2015

(UNAUDITED)

FINANCIAL

 **£30.4M**

IFRS PRE-TAX PROFIT

IFRS pre-tax profit for six months to 30 June 2015 of £30.4m (six months to 30 June 2014: £27.4m). This is stated after a gain on acquisition of £16.2m and a foreign currency exchange loss of £3.5m.

Financial Review page 24

 **£56.7M**

NET CASH GENERATION

Net cash generated for six months to 30 June 2015 of £56.7m (six months to 30 June 2014: £15.6m). This is stated after a one-off benefit of £39.9m arising on the acquisition of the Waard Group.

Financial Review page 28

 **£441.2M**

EEV INCREASE OF £24.0M TO £441.2M

£24.0m increase in EEV from £417.2m at 31 December 2014 to £441.2m at 30 June 2015, stated after dividend distributions of £15.1m.

Financial Review page 31

 **£44.9M***

EEV EARNINGS AFTER TAX

EEV earnings net of tax of £44.9m* for six months to 30 June 2015 (six months to 30 June 2014: £47.3m). This is stated after a gain on acquisition of £21.6m and a foreign currency exchange loss of £3.5m.

*this excludes positive modelling adjustments of £5.9m.

Financial Review page 29

 **£2.4M**

MOVESTIC EEV NEW BUSINESS CONTRIBUTION

Movestic has generated a new business contribution of £2.4m in the six months to 30 June 2015 (six months to 30 June 2014: £5.8m).

Financial Review page 30

 **271%**

GROUP SOLVENCY

Strong Insurance Group Directive solvency cover of 271% (31 December 2014: 284%).

Business Review pages 18 and 19

 **DELIVERY OF GROUP WIDE SOLVENCY II “DRY-RUN”**

As planned we have delivered our first full Group-wide “dry-run” of the Solvency II position of the Group’s insurance subsidiaries. The results reaffirm our previous view that we do not expect Solvency II to impact adversely our overall solvency position. In applying Solvency II across the Group:

- We are using the “standard formula” in calculating our Solvency Capital Requirements; and
- The “dry-run” has been performed without applying any transitional measures.

 **3.0%**

INTERIM DIVIDEND INCREASE

Proposed interim dividend increase by 3.0% to 6.61p per share.

OPERATIONAL AND STRATEGIC

 **COMPLETION OF WAARD GROUP ACQUISITION**












The Waard Group acquisition, announced in December 2014, received regulatory approval in the period and was completed on 19 May 2015.

Business Review page 17

 **DEVELOPMENT OF CORPORATE GOVERNANCE MAPS TO BE IMPLEMENTED ACROSS THE GROUP**

Solvency II and the PRA’s Senior Insurance Managers Regime recognise that central to good governance is the appropriate and transparent allocation of oversight and management responsibilities. This is captured by the Chesnara Governance Maps for the Group and each of its divisions. These maps will be completed in the second half of 2015.

Throughout these 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

CHAIRMAN'S STATEMENT



I am pleased to report a further period of positive financial performance. In particular, the Group has generated cash during the period at levels that support our dividend strategy and the embedded value of the Group has continued to increase.

We have made significant progress on governance matters which has laid down the foundations for the ongoing development of the Group.

We have also invested significant effort in ensuring that we are prepared for Solvency II. Our ongoing focus on Solvency II gives me confidence regarding the implementation of this programme of change. In addition, initial “dry-run” results, which do not use transitional measures, reaffirm our previous view that we do not expect Solvency II to impact adversely our overall solvency position.

We completed the acquisition of the Waard Group during the period and developed a revised acquisition process which underpins Chesnara's successful acquisition strategy.

Peter Mason
Chairman

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 27.
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, Movestic and Waard Group operating segments;
 - b. less any capital contributions made by the Group to its operating segments;
 - 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 KPI defined above do not align to the Cash Flow Statement as included in the IFRS Financial Statements.

CHAIRMAN'S STATEMENT (CONTINUED)

I start my Chairman's statement by reviewing how Chesnara has delivered against its three core strategic objectives and how it has done so remaining true to its well established culture and values of treating customers fairly and adopting a robust approach to regulatory compliance.

<p>1 Maximise value from the in-force book</p> <p>£15.3m of gross cash generation supports the dividend strategy.</p> <p>Reference & page number: Business review page 28</p>	<p>2 Enhance value through new business</p> <p>Ongoing new business profits in Sweden continue to provide EEV growth, albeit at lower levels than in the prior year.</p> <p>Reference & page number: Business review pages 15 to 16</p>	<p>3 Acquire Life and Pension businesses</p> <p>Completion of the Waard Group acquisition in the Netherlands has generated an EEV uplift of £21.6m and added £39.9m of cash distribution potential.</p> <p>Reference & page number: Business review page 17</p>
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Chesnara culture and values

Group solvency of 271% (31 December 2014: 284%). The 2014 year end solvency position benefited from the impact of £34.5m of new equity raised in that year. The reduction in solvency during 2015 is as expected following the completion of the Waard Group acquisition. Solvency II is a key priority for 2015 as its successful implementation will further embed Chesnara's culture and values which align closely to the principles underpinning Solvency II.

Reference & page number: Business review page 18 to 19

Maximise value from the in-force book

The Life and Pensions industry is going through a period of change with the preparation for Solvency II which will take effect from 1 January 2016 and with a number of regulatory developments including the FCA Legacy Review and changes which offer increased Pension Freedoms. Against this backdrop I report:

- The closed books continue to generate financial returns in line with expectations and at levels sufficient to support the Chesnara dividend strategy.
- Solvency II readiness: Preparations are developing well and we remain firmly on course to meet all deadlines and requirements.
- Solvency II impact: Provisional "dry-run" results from across the Chesnara Group reaffirm the previously stated view that the implementation of Solvency II is not expected to have any adverse impact on the solvency and cash generating potential of the Group.
- FCA Legacy Review: There has been no formal conclusion on the FCA legacy review during the period and the statement I made in the 2014 Report & accounts that *"Our early assessment of the potential impact of these two issues was that Chesnara would not be materially affected"* remains unchanged. However, the fact is that until the FCA concludes on the scope of the legacy review a degree of uncertainty of impact remains and this will be managed through the Group's usual risk management process.
- Pensions Freedoms and a subsequent HM Treasury review on exit charges (see page 21 for further detail): In July 2015 HM Treasury opened a consultation on "Pension transfers and early exit charges", which focuses on fees and charges that policyholders might incur when leaving their scheme early. The consultation focuses on the reasonableness of such charges and at this stage the outcome is not known. As a result of this consultation being open there remains uncertainty as to its impact. This will be managed through the Group's usual risk management process.

Investment market conditions have been modestly positive during the first six months of 2015. Equities in the UK have been broadly flat whilst there has been a slight increase in bond yields. These conditions together with continued good operational performance have resulted in continued value growth and cash emergence from the UK in force books. In Sweden, interest rates have continued to fall to a uniquely low position whereas the local equity markets have increased by 6.5% over the six month period. The financial results

in Sweden are in fact more dominated by equity performance than interest rates. As such, despite the low bond yields, the effect of investment conditions, together with improvements to fund performance rebates, have resulted in a marked increase in profits emerging from the Swedish in-force book. Whilst the UK books will continue to be the primary source for the funding of the dividend strategy, it is positive to see the strong development of the profitability and cash generation potential from the Movestic business.

The embedded value of Movestic has increased during the first six months of the year. However, this increase has been dampened by the depreciation of the Swedish Krona against Sterling, which has closed 7.5% lower than at the start of the period.

Gross cash generated from business as usual operations:

Six months to 30 June 2015: £15.3m*

Six months to June 2014: £16.0m

*figure excludes any cash generated by the Waard acquisition

The Waard Group was acquired with significant cash reserves and a strong regulatory surplus which will, in the fullness of time, be distributed or used to fund future acquisitions. On an ongoing basis the Waard Group is expected to generate only modest levels of cash. That said, I am pleased to report that the profits emerging from the Waard closed book during the first half of 2015 are in line with expectations.

During the six months to 30 June 2015 the value of both the Euro and the Swedish Krona fell against Sterling. This results in a reduction in the sterling embedded values of our Swedish and Dutch subsidiaries of €11.7m and €7.1m respectively. There is no direct cash impact in that none of the exchange rate value movement has been crystallised. We did however purchase Euros in December 2014, following the fund raising, to match the acquisition price of the Waard Group and a £3.5m exchange loss on that balance has had a direct non-reversing adverse impact on cash generation in the period.

Enhance value through new business

New business profits in Movestic have fallen when compared with the same period in 2014 and, whilst they have remained positive, they are deemed to be just below the bottom end of our target range. That said, there has been down-turn in new business volumes compared to recent periods. This is due to the attractiveness of traditional saving contracts in Sweden which offer beneficial guaranteed returns given the low interest rate environment. Movestic will not deviate from its focus on unit-linked business, nor will it chase new business volumes at the expense of compromising profit margins. Our view is that the market for the guaranteed return contracts is not sustainable in the long term. In the meantime we will therefore accept a temporary dip in new business profit expectations and instead focus on other more effective ways to enhance embedded value such as the renegotiation of fund management performance rebates.

Movestic new business contribution in for the six months to 30 June 2015

£2.4m

Six months to June 2014: £5.8m

Acquiring Life and Pension Businesses

During December 2014 we announced our intention to acquire the Waard Group in the Netherlands. The move into a third geographical market received strong investor support. The positive equity raising process was consistent with the level of potential we see in the acquisition in its own right but also the strategic opportunity arising from entering a new territory in which closed book consolidation has yet to reach levels historically seen in the UK. I am pleased to report the successful completion of the acquisition during May 2015.

The acquisition has generated significant cash distribution potential together with an increase to the Group's Embedded Value. Perhaps as importantly our market intelligence suggests significant market consolidation potential in the Netherlands and we are pleased to be in a position to apply our acquisition and consolidation expertise, together with Waard Group management's local knowledge, in the Dutch market.

Chesnara culture and values

Delivery of our objectives is underpinned by our well established culture and values which are based on an ethos of responsible management. Whilst there are elements of the Solvency II regime that undoubtedly result in specific changes (e.g. Pillar 3 reporting requirements and revised Pillar 1 standard formula rules), I believe the principles at the heart of the Solvency II development align very closely to Chesnara's own ethos of responsible management. Therefore, whilst the implementation of Solvency II will require an inevitable degree of process change, I do not expect the advent of Solvency II to change the fundamental culture and values we apply when governing the Chesnara Group. Good governance always benefits from a sensible level of formality and documentation and to this end during his first six months as CEO, John Deane and his team have invested significant effort in defining Governance Maps at both Group and Divisional levels. The Maps have been through

Board review and they will be implemented as part of our Solvency II programme. Chesnara has always made decisions giving full consideration to the risks associated with those decisions, and to further embed a sound risk-based culture we have appointed a Chief Risk Officer who will join us in September. More information about the Group's culture and values is included within the Management Report on pages 18 to 21.

Investment proposition

The strong performance referred to on the previous page has resulted in continued strong returns to shareholders. The results to date in 2015 would adequately fund the established dividend strategy.

Outlook

The acquisition of the Waard Group creates a three territory business model. This gives Chesnara wider reach, optionality and flexibility thereby improving the outlook for the continuation of our successful acquisition strategy. In addition to the benefits of a wider target market, my confidence in our acquisition strategy is underpinned by three key factors:

- i) **Strong financial foundations**
We have the financial strength to fund future acquisitions. In particular we are modestly geared, have healthy solvency margins and have own cash available. We also continue to receive strong support from shareholders and lending institutions.
- ii) **Good regulatory track record**
We continue our good regulatory track record in the UK and Sweden and have built a good relationship with regulators in the Netherlands. Strong regulatory focus will mean regulators see Chesnara as a responsible buyer who will ensure the interests of policyholders are protected.
- iii) **Expertise and experience**
Our recent track record demonstrates that the management team has the required drive and capabilities to deliver all aspects of successful acquisitions. The management team of the Waard Group will further enhance this capability into the Dutch market. We demonstrate diligent assessment of the risks and benefits of any opportunity, we have the commercial experience to price effectively for risk and importantly we have the technical and operational expertise to integrate acquired businesses into the Chesnara Group, thereby ensuring risks are managed and the benefits emerge as required.

In addition to my positive assessment of the acquisition strategy, the robustness of the UK in-force business and the continued growth in the Movestic embedded value both contribute to my overall conclusion that the Chesnara Group is well positioned to continue to provide value to our shareholders and policyholders.

Peter Mason
Chairman
27 August 2015

SECTION B

MANAGEMENT REPORT

IN THIS SECTION

10	Business Review
22	Financial Review
34	Financial Management
38	Risk Management
41	Solvency II

BUSINESS REVIEW

Introduction

The Business Review is structured to report on how we have performed against each of our three stated strategic objectives and our culture and values. Where relevant the review reports separately for our UK, Swedish and Dutch operations. The review focuses on:

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

Our strategic objectives, culture and values are reassessed on an annual basis as part of the Group business planning process. Their continued relevance 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 three core strategic objectives, which are underpinned by the Group's culture and values, are consistent with what was reported in the 2014 Annual Report & Accounts. No significant change in focus is expected during the latter half of 2015.

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, and its future development, are included in Section C – Corporate Governance, of the 2014 Annual Report & Accounts.

1 Maximise value from the in-force book

2 Enhance value through new business

3 Acquire Life and Pension businesses

Chesnara culture and values

General business conduct

Treatment of customers

Treatment of employees

Treatment of investors

Relationship with regulators

1 MAXIMISE VALUE FROM THE IN-FORCE BOOK | UK

The UK books continue to generate cash in line with expectations. Despite relatively flat investment market conditions the level of cash generated is sufficient to fund the Chesnara dividend strategy.

Highlights

- £18.9m of gross cash generation.
- Funds under management resilient to book run off.
- Positive EEV development.
- Increase in pension policy attrition in Q2 following “Pension Freedom” changes has not materially impacted the total attrition profile nor materially impacted funds under management.

Review of the six months ended 30 June 2015

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 management.

Our administration and asset management outsource partners have all performed well during the period and generally exceeded service level arrangements and relevant benchmarks. Towards the end of last year we transferred a portion of our actuarial services to Towers Watson. To date the transfer, although complex, has worked well, although processes and routines are expected to continue to evolve throughout the remainder of the year. We remain of the view that as a specialist actuarial service consultancy, Towers Watson are better placed to support the business in responding to any changes imposed by business development and regulatory change.

With the exception of the CWA Balanced Managed Pension fund, all our primary managed funds have outperformed benchmarks during 2015.

£18.9m (Six months to 30 June 2014: £19.0m)
of gross cash generated from business as usual operations

Gross cash generation during the period has remained solid, assisted only marginally by the modestly favourable investment market conditions.

During the period management has closely monitored regulatory developments (see page 21). We are fully supportive of these reviews and will take appropriate actions to ensure we will comply with any recommendations. Also, our risk management framework requires us to take a view of the potential impact of the changes. Given the lack of clarity of certain aspects at this point, there remains an inevitable level of uncertainty of impact. That said, our current assessment remains that any adverse impact on the profitability of the business will be suitably manageable so as not to fundamentally impact the cash generating capacity of the UK business. We do however expect “Pensions Freedoms” to increase the level of pension policies lapsing ahead of state pension age and the embedded value results during the six months to 30 June 2015 incorporate an estimated adjustment to recognise the impact of this.

During the period a primary focus has been on Solvency II. An initial “dry-run” of the Solvency II balance sheet and standard formula capital requirements has been performed. The results of the “dry-run” continue to support our expectation that the transition to Solvency II will not adversely impact the solvency position and hence cash generating capacity of the UK business.

Unit-linked funds under management

The levels of unit-linked funds under management continue to support the on-going level of profitability of the UK business, as fund-related charges are an important component of profit.

The movement in the value of unit-linked funds under management is a function of:

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

Good performance by our administration and investment management business partners has contributed positively to all three of the above factors although generally flat equity market performance has contributed to a small reduction in funds under management during the six months to 30 June 2015.

Unit-linked funds under management of £2.2bn
(31 December 2014: £2.3bn)

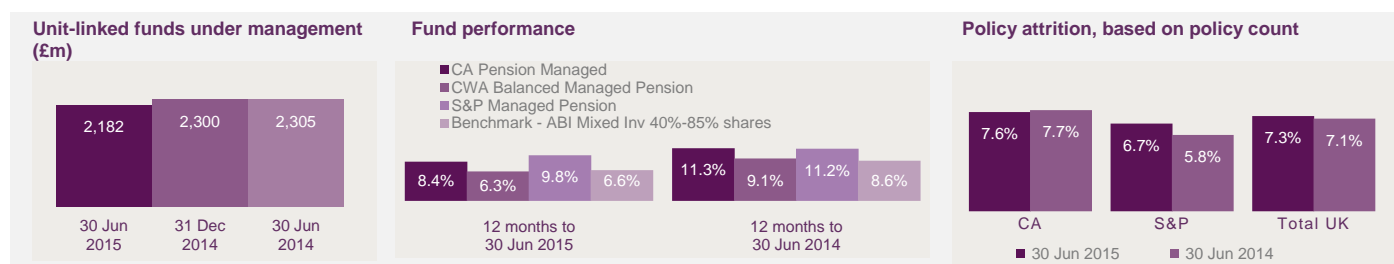
Risks associated with the strategic objective

S&P has a proportion of its product base that provides guaranteed returns. The provision required to cover the cost of these guarantees increases if equities or bond yields decline.

Increased lapses on cash generative products are also a risk to the delivery of this strategic objective. We manage this risk through:

- Close monitoring of persistency levels.
- Active investment management to aim to deliver competitive policyholder investment returns.
- Outsourcer service levels that ensure strong customer service standards.
- Customer retention processes.

Regulatory developments are not in themselves a risk to the value emergence from the UK book and indeed Chesnara recognises the long term benefits of robust governance. Regulatory change can impact the cash potential if it directly impacts the cash flows from the products or increases the likelihood of increased book attrition. Strong and effective regulatory compliance can also have an impact on the cost base.



1 MAXIMISE VALUE FROM THE IN-FORCE BOOK | SWEDEN



Continued growth in funds under management together with a general improvement in fees and rebates levels from those funds has resulted in a significant increase in value emerging from the in-force book.

Highlights

- Continued growth in funds under management; increase of 10.5% during 2015.
- £3.3m of cash generation in the period.
- Positive EEV development.
- Stable policy attrition levels.
- Competitive fund performance.
- The transfer-in to transfer-out ratio has deteriorated such that it has reverted to being in a net outflow position albeit the level is significantly improved from levels reported in 2012 and 2013.
- Krona depreciation against Sterling in the period reduces reported results.

Review of the six months ended 30 June 2015

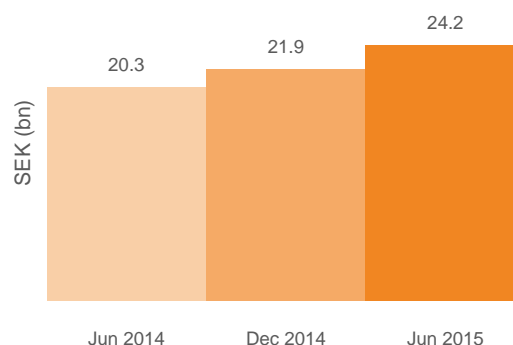
During 2015 continued IFA support, good service and support and strong investment performance led to significant growth in funds under management. New sales volumes together with regular premiums and investment growth significantly outweigh the impact of any policy attrition. The focus to ensure that 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 continuing positive ratings. This has resulted in the further growth in the Pensions and Savings business on all key measures including funds under management, embedded value, profitability and policy numbers.

The Life & Health book of business remains stable and the portfolio continues to deliver high quality in terms of claims development with a gross loss ratio of 60.9% for the six months to 30 June 2015 (2014: 56.5%).

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 continue 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, as illustrated by the chart below:



The combined impact of the growth in funds under management together with a continued improvement in the fees and rebates earned from those funds, has resulted in a marked increase in the profit and cash emerging from the Movestic book (see financial review, pages 22 to 33). Whilst relatively modest in comparison to cash emergence from the UK book, the Movestic business has generated a meaningful level of cash during the first half of 2015 of £3.3m. Such cash levels reduce the likelihood of Movestic requiring future Chesnara capital support.

Each growth factor has been considered in more detail below:

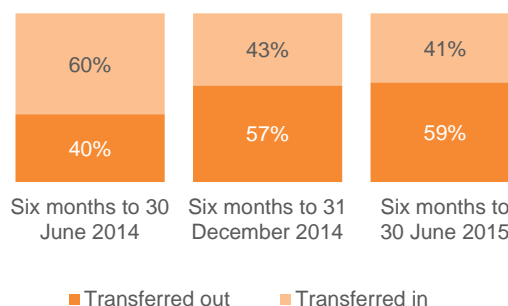
New business

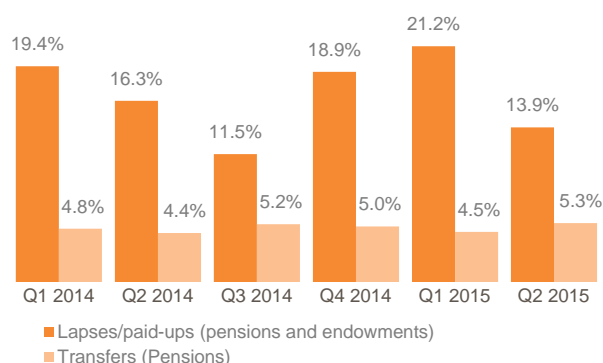
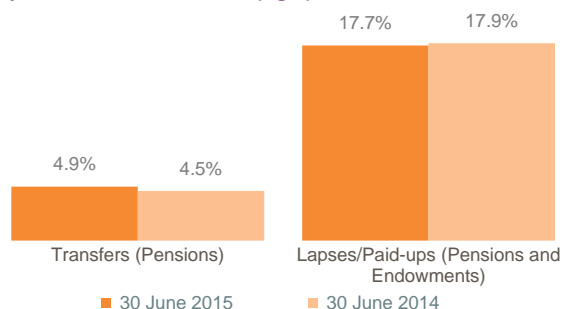
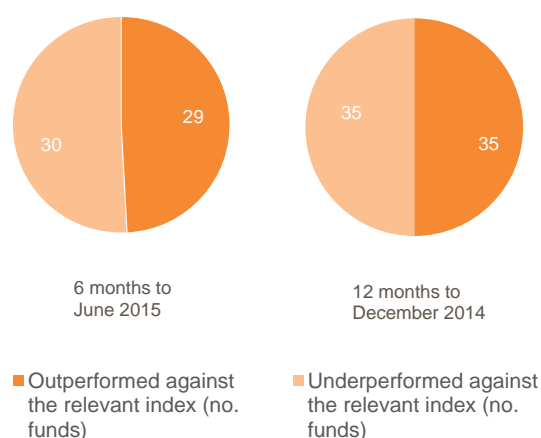
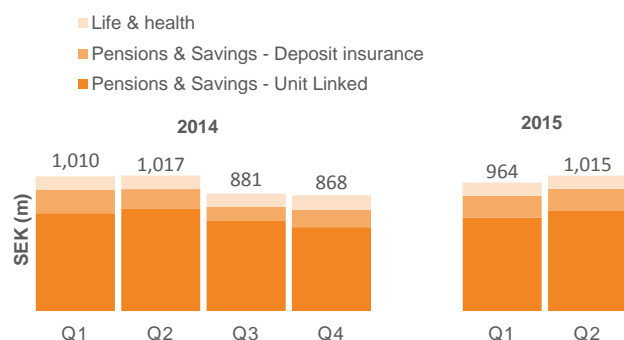
The review of the new business operation is covered in the "Enhance value from new business" objective review on page 15.

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

Policy attrition levels during 2015 have been relatively stable. The most significant measure is the level of pension transfers. The levels experienced are deemed to be an inherent feature of the broader dynamics of the IFA market, rather than being a direct reflection of any Movestic specific issues. In light of this, the embedded value assumes no material improvement in persistency levels in the future. Management continually seeks to improve service levels, with a view to impacting positively the longer term persistency levels. Any positive impact will only be recognised if improvements are seen in actual attrition rates.

Despite absolute transfer-out levels remaining broadly consistent over recent years, the ratio of transferred-in business to transferred-out had improved significantly from 2012 to 2014. During 2015 this trend has reversed, with transfers out exceeding transfers in. The ratio remains much improved from the position in 2012 and the net outflow level is not overly damaging to the ongoing growth of the Movestic book. That said, returning the transfer balance to a net positive position remains a key management objective and strategic plans are being developed to target the transfer market.



Policy attrition trend analysis (fig 1)**Policy attrition 2015 vs. 2014 (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. Activity during Q1 and Q2 2015 included the replacement of an Eastern European Equity fund and the launch of a "new white-labelled" Movestic Global fund, managed by the US manager Massachusetts Financial Services. Movestic has also introduced five Premium funds, which are funds that are exclusive for clients with higher capital or premiums.

The relative fund performance measure (fig. 3) focuses on the number of funds under or over performing their relevant indices. It does not recognise the level of over or under performance nor does it reflect the relative size of each fund. 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. According to that measure, Movestic's fund range performed competitively, based on the most recent survey produced during 2014, when compared with our peer group, which maintains our strong market position.

Premium income (fig 4)

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

Risks associated with the strategic objective

There remains a risk from high levels of lapses. It is 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 ongoing 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 customers and to Movestic in terms of its market position with other more traditional competitors.

Profit emerging from the in-force book is dependent upon the size of the funds under management. Adverse investment market conditions would therefore adversely impact this strategic objective.

Regulatory change can potentially impact the cash flows arising from the in-force book. For example, there remains ongoing debate in Sweden regarding possible changes to up-front fees and rebate commissions.

From a Group perspective we are exposed to foreign currency fluctuations which impacts the Sterling value emerging from the Swedish operations.

1 MAXIMISE VALUE FROM THE IN-FORCE BOOK | NETHERLANDS



The newly acquired Waard Group adds a new, albeit small, source of in-force book value. Whilst the Waard Group acquisition was primarily based upon the value of existing net worth rather than future cash generation expectations, it remains important that cash emerges in line with the cash flow projections.

Highlights

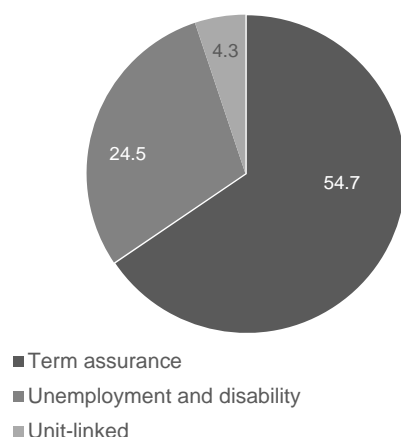
- £1.6m of IFRS pre-tax profit has emerged during the six months to 30 June 2015 ^{Note 1}.
- The total recurring profit of £3.2m on an annualised basis is in line with expectations within the deal valuation assessment and subject to book run-off provides a useful estimate of future in force book profit expectations.
- The EEV of the acquired Waard business is £73.3m at 30 June 2015, of which only £10.9m relates to futures profit cash flows.

^{Note 1} – Only the proportion of this total profit relating to the post acquisition period (19 May 2015 to 30 June 2015) will consolidate into the Chesnara Group income statement.

Summary of the in-force book acquired

The Waard Group book consists of c84,000 policies, the majority of which are term assurance contracts, with the balance relating to unemployment and disability cover and unit-linked savings contracts.

Policy numbers ('000)



In addition to the insured contracts, the Waard Group is, through the Tadas subsidiary, responsible for the administration of c91,000 policies for third party insurers.

There are 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.

The business is administered and governed by an established and high quality team. Operational performance has remained strong throughout the acquisition process. The business operates to high governance standards and there is a sound relationship with the Dutch regulator.

Since the acquisition completed on 19 May 2015, the Waard Group business has been integrated into Chesnara governance processes including the financial reporting routines.

Profits emerge primarily as a result of positive mortality experience on the term assurance contracts. The third party administration contributes only modest additional profit.



The Waard Group book relates primarily to simple term assurance contracts, backed by relatively low yield but non-volatile assets. As such, whilst the future cash generation expectations are modest they are deemed to be relatively robust and insensitive to economic conditions.

Risks associated with the strategic objective

The primary risk to the profit and cash emergence is that mortality experience increases significantly and exceeds the assumed rates.

Increased lapses on cash generative products are also a risk to the delivery of this strategic objective. We manage this risk through:

- Close monitoring of persistency levels.
- Service levels that ensure strong customer service standards.

There is also a risk that expenditure levels exceed those assumed in reserves and provisions. Expense assumptions are deemed to be realistic and the cost base is well controlled, predictable and within direct management influence.

Regulatory developments are not in themselves a risk to the value emergence and indeed management recognises the long term benefits of robust governance. Regulatory change can impact the cash potential if it directly impacts the cash flows from the products or increases the likelihood of increased book attrition. Product specific compensation arrangements would also have an adverse value, although the thorough due diligence process pre-acquisition highlighted no specific issues other than those relating to the unit linked savings contracts for which Chesnara is fully indemnified.

2 ENHANCE VALUE THROUGH NEW BUSINESS | SWEDEN



New business profit of £2.4m shows a marked decline compared to the first half of 2014 due to a 10.4% reduction in new business volumes.

Highlights

- 10.4% reduction in new business volumes compared with the first half of 2014.
- Average profit margins have held up in increasingly competitive market conditions.
- The unit-linked market remains challenging compared to alternative traditional contract which offer significant guarantees.

Review of six months ended 30 June 2015

Following a period of consistent growth in new business, Movestic sales have fallen back during the first half of 2015. The general market shift from unit-linked products to more traditional products offering guaranteed returns that became evident towards the end of 2014 has continued into 2015. Whilst Movestic management expected that in the short term the preference for the benefits of more traditional contracts would put an inevitable strain on Movestic's sales, the impact has been more marked due in part to the continued reduction in interest rates in Sweden. Movestic management remains of the view that unit-linked investments will become increasingly attractive over time as the sustainability of the returns being offered on traditional contracts becomes unviable. This view is supported by evidence of guarantee reductions and efforts by the traditional providers to encourage internal policy transfers to unit-linked contracts.

Movestic continues to focus on profitability and sustainability and as such has not been drawn into chasing volumes through unsustainable pricing changes. The medium term objective will be to recover sales and profitability to the 2014 levels rather than having an inappropriate expectation of volume growth beyond a sensible natural level for the size of the business and the market competition. This is very much in accordance with the Chesnara Group strategy regarding writing new business. That is, new business in Sweden is a useful source of embedded value growth but not the sole source and as such during the difficult market conditions, modest positive new business contribution is an acceptable outcome and greater embedded value returns can be gained from a focus on the in force book.

New business premium income

Previous quarterly trend analysis showed a more marked reduction in the second half of 2014 than the seasonality profiles would explain, due to the aforementioned competition from traditional products with guarantees. As such there was a realistic expectation that the recent new business growth would begin to plateau during 2015. That said, despite our realistic expectations, the decline in 2015 remains disappointing. Movestic has recently strengthened the sales team and has focused plans including the targeting of transfer business. Therefore whilst the full year result is unlikely to recover to meet the 2014 level, we are optimistic that the second half of 2015 will improve and be more comparable to the second half of 2014.

Trend analysis of new business premium income (£m)

33.8		23.7		30.3	
Q2, 17.1		Q4, 12.4		Q2, 15.5	
Q1, 16.7		Q3, 11.3		Q1, 14.8	
H1 2014		H2 2014		H1 2015	

BUSINESS REVIEW

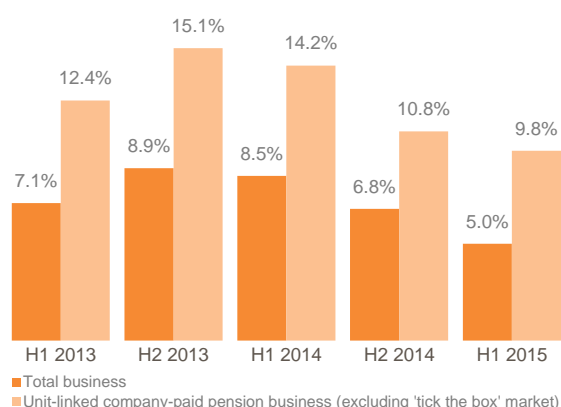
2 ENHANCE VALUE THROUGH NEW BUSINESS | SWEDEN (CONTINUED)

Market share

The market share of our specific target market, namely the company paid unit linked market was 9.8% during the first half of 2015. This has dipped towards the bottom end of our internal benchmark expectation range for a company of Movestic's scale in relation to the scale of the market competition.

The downturn over the second half of 2014 and into the first half of 2015 is not reflective of any systematic concerns or deficiencies in the product offering. In addition, we believe the 2015 market shares figures are adversely distorted by the impact of competitor figures including internal transfers.

Management has focused plans which aim to recover market shares back to our target range.

Trend analysis of Movestic's share of new business**Development of innovative product concepts and margin enhancement**

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 highest priority. During Q1 and Q2 2015 the work with "white-labelled" Movestic funds has continued and intensified. The benefits of the new "white-labelled" funds, enabled through the set-up of a new Movestic SICAV (fund structure) in 2014, in addition to being well matched to policyholder requirements, is that Movestic receives a higher proportion of the product value chain thereby improving new business margins. Two new Movestic funds will be launched during the early autumn, and four to five new Movestic funds are planned to be launched later in the year or in the beginning of 2016.

Risks associated with the strategic objective

Economic conditions in Sweden have been mixed during 2015. The Swedish OMX all-share index has increased by 6.5% during the year to date whilst interest rates have continued to decline during the period, moving to negative territory. As a result, there remains a general sense of uncertainty that has led to some consumers preferring more traditional investment products to equity-based unit-linked investments. Whilst recent improvements in confidence and good equity market performance has ensured the unit-linked market has remained attractive to many investors, there is a risk that returns being offered on traditional products will adversely impact the relative attractiveness of Movestic's unit-linked proposition. We continue to 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 volumes are also sensitive to the quality of service provided to IFAs and the end customer. Movestic continues to score highly in internal and external service level assessments.

New business remains relatively concentrated towards several large IFAs. This is inevitable to some extent but the fact that Movestic has extended the breadth of IFA support in the period has reduced this concentration risk. Whilst Movestic has further broadened its coverage of the broker market, the fact remains that a large proportion of new business comes from two large brokers thereby creating a level of concentration risk. In light of this risk, Movestic takes comfort from the fact they are assessed very favourably on an internal product provider assessment scorecard maintained by one of the major brokers. The second large broker has a proven strong level of support for the Movestic proposition as demonstrated by its continued support of Movestic during and subsequent to the servicing difficulties experienced historically.

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 focusing on achieving better terms in the fund operation.

3 ACQUIRE LIFE AND PENSIONS BUSINESSES



We completed the acquisition of the Waard Group during May 2015 and therefore the results for the six months to 30 June 2015 incorporate the impact of the acquisition. The embedded value has increased by £21.6m and the net cash generation has increased by £39.9m as a direct consequence of the acquisition. Over and above the direct and immediate financial benefits the acquisition creates opportunity to progress further value adding deals in the Dutch market.

Highlights

- Completion of the acquisition of the Waard Group in the Netherlands for €69.9m.
- £21.6m increase in Group Embedded Value.
- £39.9m of additional cash distribution potential created.
- Entry to a third market assessed as having significant further market consolidation potential.

Review six months to 30 June 2015

There has been a general lull in closed block market activity in the UK driven in part by uncertainty resulting from Solvency II and regulatory developments. Despite the short term hiatus we believe the factors which will drive market consolidation persist, namely 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. In the short term we have increased our focus on Western Europe, in particular investigating opportunities in the Dutch market following the acquisition of the Waard Group.

Acquisition of the Waard group

On 19 May 2015 we completed the acquisition of the Waard Group in the Netherlands for €69.9m. To finance the deal we raised £34.5m of equity through a well supported share placing exercise. The acquisition creates a great opportunity to enter a new market within which consolidation is in its early stages. The deal was originally assessed positively on all four elements of our assessment scorecard. The table below illustrates how these actual benefits arose on acquisition:

CASH GENERATION

The Solvency position on acquisition confirms that significant surplus (c£39.9m) is available for distribution in an orderly fashion over a three year period.

EMBEDDED VALUE

The actual discount to embedded value of 29.7% has resulted in an embedded value increment of £21.6m.

STRATEGIC OPPORTUNITY

Initial evidence of potential deal opportunities reaffirms our view that Chesnara can benefit from closed book market consolidation.

RISK CONSIDERATIONS

Business, market and regulatory developments during the period support our initial positive assessment of the risk profile of the business.

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 track record and good reputation with our regulators, ensures we are aware of most viable opportunities in the UK and Western Europe. To support our proven market presence, we have recently implemented a revised acquisition process framework in order to ensure we continue to identify and assess all potential value adding deals across our widening geographical markets. Importantly we have rolled the acquisition process out into the Dutch management team, who have begun to implement the process in the Dutch market. This ensures we get the benefits of local market knowledge complemented by closed book consolidation experience and expertise provided by the Chesnara management team.

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, in the context of other non-financial measures including the level of risk and the degree of strategic fit and opportunity.

Risks associated with this 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 acquisition of the Waard Group opens a new territory and hence increases our options thereby reducing the risk that no further value adding deals are done. Also, the broader target market will also reduce the risk of inappropriate opportunities being progressed on the grounds that better optionality will enable us to identify better fit deals at a more competitive price. As our acquisition strategy focuses more on non-UK markets we become increasingly exposed to currency risk. Flexibility over the timing of subsequent capital extractions and dividend flows provide an element of management control over the Sterling value of cash inflows. We accept the short-term fluctuations in the reporting of embedded value that can arise.

During recent years we have enhanced our financial deal assessment 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

Despite some short term challenges in the UK due to the uncertainty created by Solvency II and regulatory review programmes, we remain confident that all the commercial and economic drivers for consolidation remain positive and hence the market will become more active in due course. In the meantime, the acquisition of the Waard Group will provide significant potential in the Dutch market. We are well positioned to take advantage of any value adding opportunities that may arise. Our financial foundations are strong and we continue to have strong support from shareholders and lending institutions to progress our acquisition strategy. In addition our operating model which consists of well established outsource arrangements plus efficient, modern in house solutions, means we have the flexibility to accommodate a wide range of potential target books. With all the above in mind, we are confident that we are well positioned to continue the successful acquisition track record in the future.

BUSINESS REVIEW

CHESNARA CULTURE AND VALUES

General business conduct

The principles of the Group's general business conduct are illustrated below:

Conduct business with professionalism and integrity

Conduct business with due care, skill and attention

Responsible management, with adequate risk management systems

Maintain adequate financial resources

Good business conduct is in many ways a matter of behavioural or cultural practice and principles. Chesnara has always maintained high standards with regards to ensuring the business is managed on a risk-based, fair and responsible basis. To further reinforce and embed this culture of responsibility revised Governance procedures and processes ("Governance Map") have been developed which are due for implementation during the latter half 2015. The Governance Map will ensure Chesnara's cultural values and good business conduct are effectively applied across the recently enlarged Group. It will also create consistency of approach and transparency of policy, both of which are fundamental requirements of the Solvency II regime.

Maintain adequate financial resources

A critical element of good business conduct in a regulated financial services business is the need to maintain adequate financial resources which in turn is managed by governing our solvency position. In recognition of this, as part of the day to day conduct of our business we regularly monitor the solvency position of the Group. This demonstrates our commitment to maintaining a strong, but not excessive, solvency position.

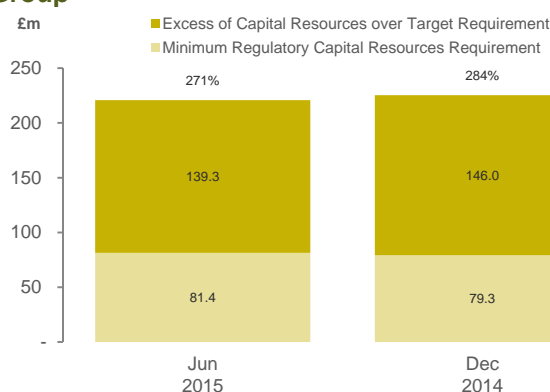
This brings a number of benefits, including supporting:

- 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.

Highlights

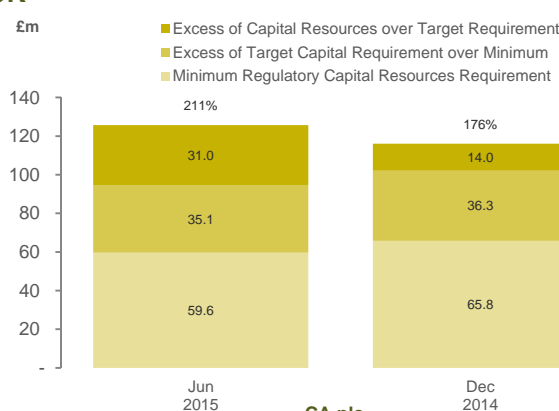
- The Group shows it continues to be well capitalised, with Group solvency being 271% at 30 June 2015 (284% at 31 December 2014).
- The Waard Group acquisition has had a slightly dilutive effect on the Group solvency position, as expected.
- As expected the Waard Group companies are well capitalised and this will support the orderly transfer of cash to Chesnara over a three year period.

Group



Group

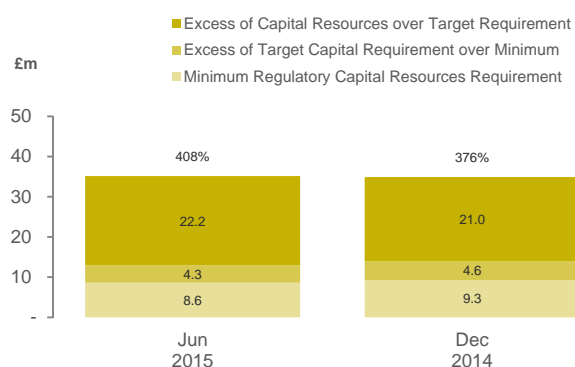
UK



CA plc

- The Board approved target is for Group capital resources to be at least equal to 100% of the capital required by the Insurance Group Directive (IGD).
- The IGD ratio at 30 June 2015 is 271% (31 December 2014: 284%)
- This represents a surplus of £139.3m (31 December 2014: £146.0m)
- IGD is stated after foreseeable dividends of £8.4m, this being the interim dividend to be paid on 15 October 2015 (31 December 2014: £15.1m, being the final dividend that was paid on 22 May 2015).
- **The movement in IGD since 31 December 2014 is a function of the following key items:**
 - **Acquisition of the Waard Group:** This has resulted in the equity proceeds from the capital raised in December 2014, coupled with Chesnara cash resources, being utilised to fund the acquisition. As expected, the IGD has consequently reduced due to the inclusion of the Waard Group's capital requirements in the IGD calculation.
 - **The Group regulatory surplus in the period.** The Group Regulatory surplus in the first half of 2015 amounted to £6.7m, before foreign exchange retranslation differences.
 - **Foreign exchange losses on retranslation.** The Group Regulatory Resources have reduced by £3.0m in the period as a result of the weakening of the Swedish Krona.
 - **The interim dividend:** The Group Regulatory surplus reduces as a result of the proposed interim dividend of £8.4m.
- CA plc is the primary operating subsidiary within the UK.
- The Board approved target for CA plc is to hold capital resources that are at least equal to 162.5% of Long Term Insurance Capital Requirement (LTICR) plus 100% of the Resilience Capital Requirement (RCR).
- CA plc is reporting a solvency ratio of 211% at 30 June 2015 (31 December 2014: 176%), representing a surplus of £66.1m (31 December 2014: £50.3m) over the regulatory capital requirement. The movement since 31 December 2014 is as a result of the following factors:
 - **Regulatory earnings in the period:** The regulatory surplus emerging from CA plc amounts to £9.5m. This is broadly in line with the IFRS post-tax surplus of £15.0m, as reported on page 53. The key difference arises from the way in which products with guarantees are accounted for between an IFRS and Solvency I basis.
 - **Reduction in capital requirement:** The capital requirement of CA plc is estimated to have reduced by £6.2m in the period.
- PL Ltd also sits within the UK division. This company being managed such that its capital resources equal its capital resources requirement. This is following the transfer of its long term business into CA plc on 31 December 2014. Subsequent to 30 June 2015 PL Ltd was deauthorised. This will release £3.5m of capital that was required to be held at 30 June 2015 due to it still being a regulated company at that date.

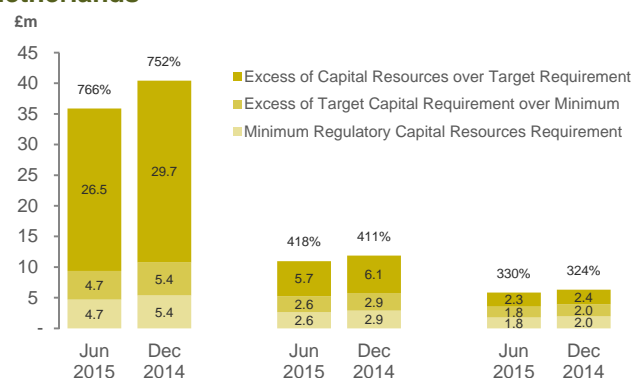
Sweden



Movestic Liv

- Movestic Liv is the principal operation subsidiary in Sweden.
- The Board approved target for Movestic Liv is to hold capital resources that are at least 150% of its capital resources requirement.
- Movestic Liv has a solvency ratio of 408% at 30 June 2015 (31 December 2014: 376%), representing a surplus of £22.2m (31 December 2014: £21.0m) over the regulatory capital requirement. The movement since 31 December 2014 is as a result of the following factors:
 - **Regulatory earnings in the period:** The regulatory surplus emerging from Movestic Liv amounts to SEK 37.5m. In GBP terms the overall capital resources of Movestic Liv have only marginally increased due to the weakening of Krona in the period.
 - **Reduction in capital requirement:** The capital requirement of Movestic Liv is estimated to have increased in the period as a result of the general growth in the business.

Netherlands



Waard Leven

Hollands Welvaren

Waard Schade

- The Board approved target for the regulated insurance companies within the Waard Group is for each company to hold capital resources that are at least equal to 200% of the regulatory imposed capital resources requirement.
- Waard Leven is the largest company within the Waard Group, and owns Hollands Welvaren.
- As reported prior to the acquisition, the Waard Group is well capitalised, with Waard Leven reporting a solvency ratio of 766% at 30 June 2015, compared with 752% at 31 December 2014.
- Whilst the solvency ratio has improved, the solvency margin of Waard Leven, in GBP terms, has reduced from £29.7m at the start of the year to £26.5m at 30 June 2015 due to a depreciation of the Euro against GBP in this period.
- When stated in Euro, Waard Leven has generated a regulatory surplus of €1.8m since the start of the year.

Solvency II

The “dry-run” suggests total Group surplus capital over and above the Solvency Capital Requirement is broadly comparable to the equivalent surplus in a Solvency I regime. The move to Solvency II is expected to remove an additional local Swedish solvency requirement, at least in its current form, such that the Solvency II surplus may be more accessible in the future than under the current regime in Sweden.

The “dry-run” results include certain assumptions where the final interpretations of the rules are not confirmed, for example how much deferred tax is recognised in the determination of our capital requirements.

The results are based on all Group companies applying the standard formula and assume no transitional arrangements are utilised, but do assume the availability of further data regarding assets and reinsurer solvency in the UK together with certain management actions, mainly in Sweden. The management actions relate primarily to the optionality and intent to adjust certain charges under stress conditions.

Based on the above and assuming the regulators require no increase in any additional buffer surplus, we continue to expect a “neutral to marginally positive” Solvency II impact. In the case of the PRA the “no increase in additional surplus” working assumption is based upon recent public statements by the PRA that they do not consider the Insurance Sector to be inherently under-capitalised and that Solvency II is not positioned as having a capital strengthening agenda.

BUSINESS REVIEW

CHESNARA CULTURE AND VALUES

Treatment of customers

UK

Treating customers fairly

We have embedded the principle that we aim to treat all customers fairly within all our people, processes and procedures. This aim has been shared with and adopted by, all our outsourcing partners. The principle goes beyond the way we answer telephone calls and deal with the regular service that we provide to our customers. It is also considered when we deal with complaints from our customers or where we identify an error within our systems that affects customer outcomes.

Complaints

The general low level of complaints received has continued although we continue to receive a 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 them for adjudication.

Policyholder investment funds

The CA plc Investment Committee provides 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. A critical factor that has a bearing on the customer experience is the level of investment return on their assets. Whilst unit linked customers are naturally directly exposed to the volatility of investment markets outside of Chesnara's direct influence, it is important that we ensure the investment performance of our policyholder funds is competitive against market benchmarks. In light of this we are pleased to confirm that our main managed funds have all out-performed their benchmarks during the 12 months ended 30 June 2015, with the exception of the CWA Balanced Managed Pension fund, which slightly underperformed against benchmark during this 12 month period.

Sweden

An external survey measuring the brokers' and broker assistants' view of Movestic was conducted during the first half of 2015 and the results confirm the conclusions from 2014. With regards to the treatment of customers, Movestic's complaints function receives very few customer complaints and cases brought to the Public Complaints Board are very rare.

Netherlands

The Dutch operations implemented a new complaints registration system, in accordance with regulatory requirements. This resulted in a more accurate registration and more efficient processing of complaints. The number of complaints remains low. The operations run a Court approved "Customer Compensation Schema", introduced and predominantly paid by the Trustees of the former shareholder, which proceeds as expected.

Treatment of employees

We recognise that management and staff are at the heart of Chesnara's success. Our continued flexible and supportive approach has contributed to another period of low staff turnover throughout the Group.

The Movestic approach is characterised by the focus on team efforts. The work environment provides a motivating ground for developing the business to meet future challenges.

Regarding the recent acquisition of the Waard Group, this has been through a period of significant uncertainty over recent years following the bankruptcy of its parent company. Throughout this period the staff and management have remained focussed, professional and loyal. The Waard Group is moving offices in early September, which will contribute to maintaining good employee satisfaction.

Treatment of investors

As a listed company, clearly one of our core responsibilities is to continue to provide a competitive return to our shareholders. We are aware that for many of our shareholders continuity of our historically strong dividend performance is a core requirement. In light of this we are pleased that the financial performance of the Group during the first half of 2015 enables us to increase our interim dividend by 3.0% compared with 2014.

In addition to providing financial returns to our investors we also recognise the importance of engaging with our investors in an effective way so as to ensure they are appropriately informed about the performance of the company. To this end, we produce external reports that aim to be as open and informative as is reasonable. We also ensure we are available to meet with investors and hold ad hoc presentations as appropriate.

BUSINESS REVIEW

CHESNARA CULTURE AND VALUES

Relationship with regulators

UK

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. The commentary below sets out a list of the key activities during the period.

Senior Insurance Managers Regime

As part of the changes required to meet the requirements of Solvency II, the PRA and FCA are making changes to how they regulate the people who effectively run an insurance company. This change will require changes to governance arrangements for the company and with individuals taking more personal responsibility. The Company is currently making good progress in its preparations for these changes.

Legacy review UK

During 2014 CA plc participated in a review by the FCA that looked at legacy investment linked business. This review has looked at a number of areas including company governance, customer correspondence and policyholder charges. A report on the findings of this review was expected in the second quarter of 2015, but is now expected during the third quarter.

Independent Governance Committees (IGCs) on pensions

The new governance requirements for Workplace Personal Pension schemes and Occupational Pension schemes has now been introduced. The company has appointed Pitmans Trustees Limited as its external Governance Advisory Arrangement to oversee the Workplace Personal Pensions and report on their value for money. The Trustee arrangements for the occupational schemes are being updated and they will also report on value for money.

Pension changes

The company has updated its processes to comply with the pension changes introduced in April 2015. The company saw an initial increase in pension enquiries which has now returned to normal levels. Following the changes, the company has experienced an increase in the number of policyholders electing to take their benefits as a lump sum at retirement.

Pension transfers and early exit charges

In July 2015 HM Treasury issued a consultation on "Pension transfers and early exit charges". In this paper the Government has stated that it wants to ensure that individuals can access the new flexibilities for pensions "easily, and at reasonable cost". This consultation includes consideration of any fees and charges that policyholders might incur when leaving their scheme early, and views are being sought on three options which may be recommended if there is clear evidence of excessive early exit fees and charges.

PRA visit

As part of its regular monitoring of CA plc the PRA carried out its annual Periodic Summary Meeting. This meeting helps it understand the business and identify its monitoring requirements over the year.

Sweden

Movestic has a good relationship with the regulator and has an active dialogue with them on business as usual matters in conjunction with interactions on any specific regulatory affairs. During the first half of 2015 a key focus of the Swedish FSA has been concerning industry preparations around SII.

Netherlands

During the past few years, the Waard companies maintained intensive contact with the regulators, DNB (Dutch Central Bank) and AFM (Financial Market Authority). The relationship with the regulators is good. No significant issues were reported or are outstanding.

Matters emphasised in the first half of 2015 include the post-acquisition governance structure, further implementation of Solvency II, ORSA and the regulator's survey of unit-linked portfolios.

FINANCIAL REVIEW

The key performance indicators illustrate how effectively we have performed against our three strategic objectives. The strong net cash generation of £56.7m, together with the significant Embedded Value earnings in the period, is a function of delivering against both our “Maximising value from the in-force book” and “Acquire Life and Pensions Businesses” objectives. In addition to this, within the embedded value earnings there is £2.6m of new business profits which, despite being at a more modest level than previously, reflects our continued commitment to “Enhancing value through new business”.

IFRS PRE-TAX PROFIT



£30.4M

Six months ended 30 June 2014: £27.4M

What is it?

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

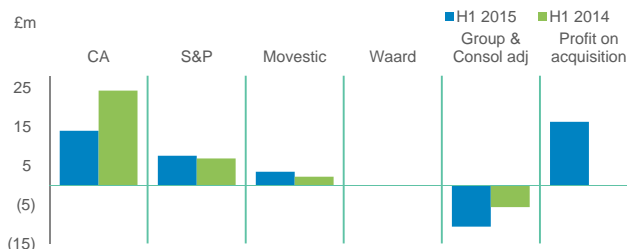
Why is it important?

IFRS pre-tax profit is an indicator of the value that has been generated within the long-term insurance funds of the divisions within the Group, and is a key measure used both internally and by our external stakeholders in assessing the performance of the business. IFRS pre-tax profit is an indicator of how we are performing against our stated strategic objective of “maximising value from the in-force book”.

Risks

The IFRS pre-tax profit can be affected by a number of our principal risks and uncertainties as set out on pages 39 to 40. In particular, volatility in equity markets and bond yields can result in volatility in the IFRS pre-tax profit.

Highlights



- A day one gain of £16.2m has been recognised on the acquisition of the Waard Group in the Netherlands, representing the difference between the purchase price and the net assets acquired.
- Linked to the Waard Group acquisition, the Group segment includes a £3.5m foreign exchange translation loss arising from holding Euros to fund the acquisition.
- Waard Group profit contribution to the half year results is immaterial given proximity of the acquisition to 30 June 2015.
- The CA result is less than the same period in 2014 largely due to 2014 including some one off items, such as the positive impact of the revised HCL contract and a reserve reduction driven by a change in practice associated with certain products that can accrue bonus units.

NET CASH GENERATION



£56.7M

Six months ended 30 June 2014: £15.6M

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.

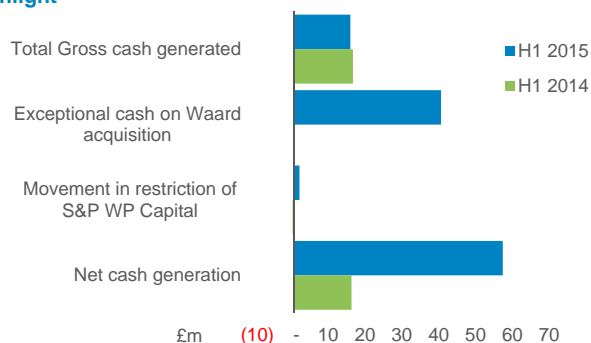
Why is it important?

Cash generation is a key measure, because it is the net cash flows to Chesnara from its Life and Pensions businesses which supports Chesnara's dividend-paying capacity and acquisition strategy. Cash generation can be a strong indicator of how we are performing against our stated objective of “maximising value from the in-force book”. However, our cash generation is always managed in the context of our stated value of maintaining strong solvency positions within the regulated entities of the Group.

Risks

The ability of the underlying regulated subsidiaries within the Group to generate cash is affected by a number of our principal risks and uncertainties as set out on pages 39 to 40. 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 levels of cash generated by our regulated subsidiaries, both positively or adversely.

Highlight



- Gross cash generation across the Group continues to support our current attractive dividend strategy.
- Net cash generation in 2015 is dominated by the cash surpluses arising from the acquisition of the Waard Group, which can be used to both support our future dividends and potential acquisitions in the Netherlands.

EEV EARNINGS NET OF TAX

£44.9M*

Six months ended 30 June 2014: £47.3M

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.

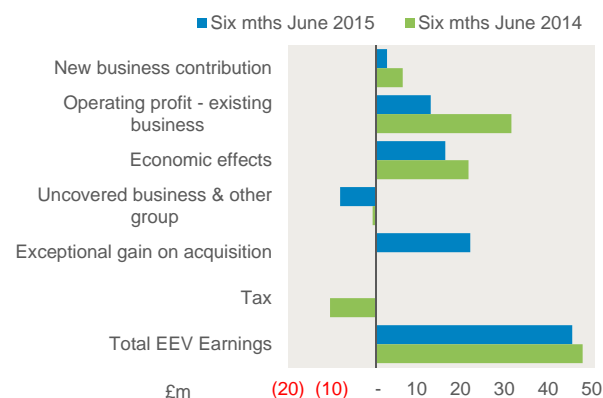
Why is it important?

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".

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 39 to 40. 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.

*excluding the positive impact of modelling adjustments of £5.9m

Highlights

- Strong EEV earnings in the period supported by:
 - £21.6m gain on acquisition of the Waard Group, offset by the Euro holding foreign exchange loss of £3.5m.
 - Continued emergence of economic profits.
 - Operating profits that are in line with the same period in 2014, after adjustment for the large positive one off items reported in 2014.
- New business profits from Movestic continue to be delivered, albeit at lower levels than 2014 due to a challenging market which has witnessed aggressive pricing strategies from competitors.

EEV

£441.2M

31 December 2014: £417.2M

What is it?

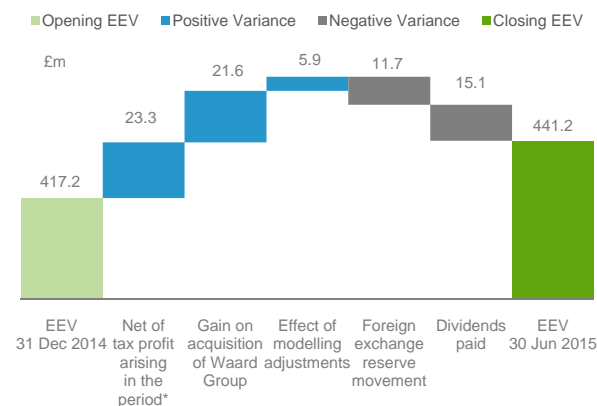
The European Embedded Value (EEV) of a life insurance company is the present value of future profits, plus adjusted net asset value. It is a construct from the field of actuarial science which allows insurance companies to be valued.

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 intrinsic value. 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. It ignores the potential of new business to be written in the future (the franchise value of our Swedish business) and the value of the Company's ability to acquire further businesses.

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. For example a 10.0% weakening of exchange rates between Swedish Krona / Euro and Sterling would reduce the EEV of the Group by 3.0% and 1.5% respectively, based on the composition of the Group's EEV at 30 June 2015.

Highlights

*stated before gain on acquisition of the Waard Group

- Growth in EEV of £24.0m during the period.
- Post-tax EEV earnings have contributed £23.3m, excluding the acquisition profit of the Waard Group.
- Profit of £21.6m arising on acquisition of the Waard Group enhances EEV in the period.
- Foreign exchange losses arising on retranslation of the Movestic business have continued, driven by a further weakening of the Swedish Krona.
- Dividends paid of £15.1m in the period, being the settlement of the year end 2014 final dividend, reduces the closing Embedded Value.



Executive summary

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

Stable core

At the heart of the surplus, and hence cash generation, are the CA and recently added Waard Group segments. The requirements of these 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 during the year to date continue to support this objective, with an IFRS pre-tax surplus of £13.9m for CA (six months to 30 June 2014: £24.2m). The recently acquired Waard Group has not contributed materially to the IFRS pre-tax profit as a result of being acquired on 19 May 2015.

Further detail of the results of the CA and Waard Group segments can be found on pages 25 and 27 respectively.

Variable element

The S&P component generally brings an element of earnings volatility to the Group, with the results being particularly sensitive to investment market movements, which can lead to large movements in the reserves that are held for products that contain guaranteed returns. Despite this potential variability, the results for the first half of 2015 are comparable with the same period of 2014, with product deductions remaining stable.

Further detail of the results of the S&P segment can be found on page 26.

Growth operation

The long-term financial model of Movestic is based on growth, with levels of new business and transfers 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. The first half of 2015 has seen this growth continue, with funds under management having increased by 10.5% (on constant exchange rates) since the start of the year.

This growth has contributed to an IFRS profit of £3.4m being reported during the first half 2015, £1.3m higher than in the same period in 2014. Whilst it is reassuring to see this level of growth, the results for the first half of 2015 have benefitted from some large fee-rebates, amounting to £1.0m, which, by their nature, are more variable.

The Sterling value of Movestic's results continue to be suppressed by the ongoing weakening in the Swedish Krona against Sterling, which has seen a 7.5% fall during the first half of 2015.

Further detail of the results of the Movestic segment can be found on page 27.

IFRS results

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

Pre-tax IFRS profit	Unaudited Six months ended 30 June		Year ended 31 December	Note
	2015 £m	2014 £m	2014 £m	
CA	13.9	24.2	46.7	1
S&P	7.5	6.8	(9.2)	2
Movestic	3.4	2.1	4.9	3
Waard Group	-	-	-	4
Chesnara	(7.4)	(2.7)	(7.6)	5
Consolidation adjustments	(3.2)	(3.0)	(6.0)	
Total profit before tax and exceptional items	14.2	27.4	28.8	
Profit arising on acquisition	16.2	-	-	6
Total profit before tax	30.4	27.4	28.8	
Tax	(2.1)	(4.5)	(3.2)	
Total profit after tax	28.3	22.9	25.6	

Note 1 – The CA segment has reported solid results for the first half of 2015, albeit reduced when compared with the same period in 2014 due to a number of one off items in 2014 not repeating in the year to date. The result is underpinned by product deductions, particularly in relation to mortality surpluses. Further detail has been provided on page 25.

Note 2 – The S&P segment has reported a pre-tax profit in the first half of 2015 that is broadly in line with the same period in 2014. The result includes a small surplus arising from products with guaranteed returns. The full year result in 2014 amounted to a loss, driven by the significant reduction in bond yields during the latter half of 2014. Further detail has been provided on page 26.

Note 3 – The Movestic result has improved when compared with the same period in 2014. This is primarily driven by fees emerging from the increased levels of assets under management, coupled with some large rebates that were received in the period. Further detail has been provided on page 27.

Note 4 – The post acquisition IFRS profit of the Waard Group is immaterial due to the close proximity of the acquisition to 30 June 2015.

Note 5 – The Chesnara segment contains the corporate governance costs of the Group. The segment has reported a large increase in costs compared with the same period in 2014, the majority of which (£3.5m) represents a foreign currency translation loss arising on holding Euros prior to the completion of the Waard Group acquisition. Some additional one-off expenses have been incurred in the first half of 2015, such as the cost of additional resources required for final Solvency II preparations, deal costs associated with the Waard Group acquisition and loss of office payments associated with the resignation of the previous CEO.

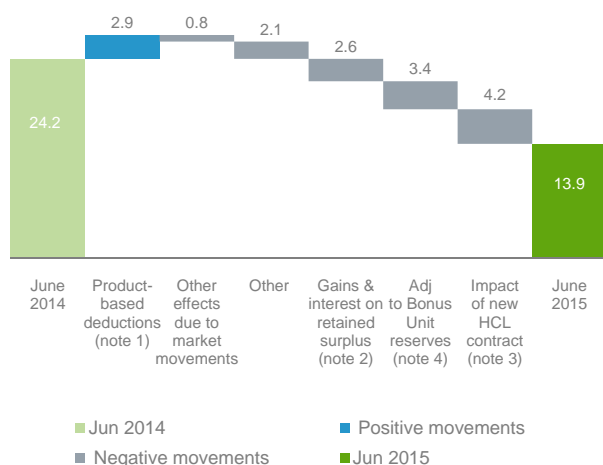
Note 6 – The IFRS pre-tax profits include a day one profit arising on the acquisition of the Waard Group, being the excess of the fair value of the net assets acquired over the purchase consideration. Further detail behind this can be found on note 5 of the IFRS Financial Statements on page 56.

The IFRS results by business segment are analysed in more detail on the following pages.

CA

CA now includes the results of the PL segment, which was previously reported separately. The segment has reported a profit of £13.9m for the first six months of 2015 (six months to 30 June 2014: £24.2m). This reduction in profit before tax is largely driven by non-recurring items affecting the 2014 result that have not been repeated during 2015, further detail of which has been provided below. The underlying drivers of earnings in the CA segment have continued to hold up well, with product deductions actually improving when compared with 2014, largely driven by strong mortality surpluses in year to date.

The waterfall graph below bridges the IFRS profit for the first half of 2015 compared with the same period in 2014, and illustrates that, save for the non-recurring items referred to in notes 3 and 4, the results are broadly in line.

Profit before tax movement**Six months ended 30 June 2014 to 30 June 2015 (£m)**

The key components of the IFRS result for the year are as follows:

Pre-tax IFRS profit	Unaudited Six months ended 30 June		Year ended 31 December	Note
	2015 £m	2014 £m	2014 £m	
Product-based charges	16.4	13.5	29.4	1
Administration expenses	(5.0)	(4.9)	(10.5)	
Gains and interest on retained surplus	(0.2)	2.4	5.7	2
Operating assumption changes	0.2	0.3	0.7	
Other effects due to investment market movements	1.2	2.4	10.1	
Impact of new HCL contract	-	4.2	4.2	3
Complaint costs	(0.2)	(0.3)	(1.4)	
Other	1.5	6.6	8.5	4
Total	13.9	24.2	46.7	

Note 1 – Product-based charges of £16.4m for the period have increased by £2.9m when compared with the same period in 2014. The key drivers of this are two-fold; the mortality surplus has increased by £2.3m when compared with the same period in 2014, driven by positive mortality experience, coupled with an increase in tax deductions from policyholder funds, driven by slightly better equity performance in the funds compared with the same period in 2014.

Note 2 – Profits arising from gains and interest on retained surplus have reduced by £2.6m when compared with the same period in 2014. This is primarily driven by the impact of a small decrease in bond values as a result of an increase in bond yields in the first half of the year. The converse dynamic existed in the same period in 2014.

Note 3 – The CA surplus in the first half of 2014 included a £4.2m positive effect of modelling the new HCL contract. No such item has been reported in the 2015 profit.

Note 4 – During the first half of 2014 the CA result benefitted from a £3.4m one-off item relating to the reserving impact of a change in practice associated with policies that can accrue bonus units in certain circumstances. No such item is being reported in the 2015 year to date results. The balance in 2015 relates to a number of small items, including the small impact of changes in actuarial reserves in the period.

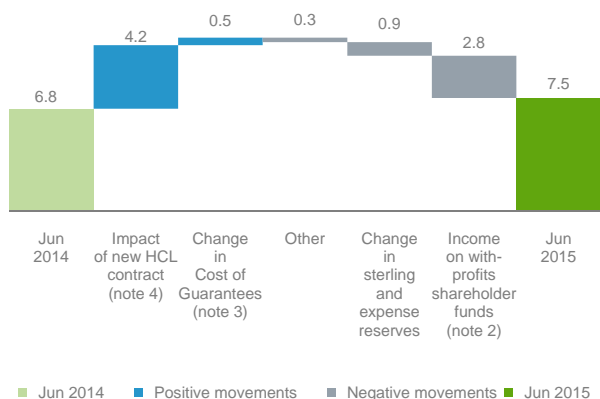
IFRS PRE-TAX PROFIT (CONTINUED)

S&P

The S&P segment has posted a pre-tax profit of £7.5m for the year to date, which is broadly in line with the same period in 2014. Whilst the total results are broadly similar period on period, the constituent parts continue to show some variability. Further analysis has been provided in both the waterfall graph and the table below.

Profit before tax movement

Six months ended 30 June 2014 to 30 June 2015 (£m)



Note 1 – Sustained levels of product-based deductions have been delivered as the book runs-off. These are supported by assets under management, which have remained broadly constant throughout 2014 and into the first half of 2015, closing at £1,069m. Product deductions exceed administration expenses by £3.6m for the year to 30 June 2015 (six months ended 30 June 2014: £3.6m).

Note 2 – The income on with-profits shareholder funds is a function of investment market performance. The 2015 result to date has seen the impact of increased bond yields driving down the value of the shareholder holdings in such bonds. During the first half of 2014 the opposite dynamic applied.

Note 3 – The reserves held for products that contain options and guarantees has reduced since the start of the year, resulting in a gain of £3.8m in the period. Whilst this is broadly in line with the same period in the prior year, the drivers of this surplus are different. In particular, the first half of 2015 has witnessed the positive impact of increasing Government bond yields, compared with a reduction in 2014. In addition to this, the movement in the Cost of Guarantee reserve during 2015 includes a one-off charge of £2.1m that reflects the impact of updated annuity rates for deferred annuity policies.

Note 4 – As reported in the 2014 Interim Financial Statements, during the first half of 2014 a £4.2m strain arose as a result of the effect of modelling the revised HCL contract. This dynamic did not exist in the six months to 30 June 2015.

S&P posted a pre-tax IFRS profit of £7.5m for period, the key components of the result being analysed as follows:

Pre-tax IFRS profit	Unaudited Six months ended 30 June		Year ended 31 December	Note
	2015 £m	2014 £m	2014 £m	
Product based deductions	8.2	8.3	17.1	1
Administration expenses	(4.6)	(4.7)	(9.7)	1
Income on with-profits shareholder funds	0.4	2.9	6.4	2
Change in cost of guarantees in with-profit funds:				3
Asset valuation movements	3.6	13.5	15.7	
Change in yield curve	3.3	(8.5)	(23.2)	
Lapse experience	(1.0)	(1.7)	(4.0)	
Other	(2.1)	-	(6.3)	
Total	3.8	3.3	(17.8)	
Change in sterling and expense reserves	(0.3)	0.5	(0.6)	
Impact of new HCL contract	-	(4.2)	(4.2)	4
Other	-	0.7	(0.4)	
Total	7.5	6.8	(9.2)	

Movestic

The IFRS pre-tax results of Movestic for the six months amounted to £3.4m, showing an increase of £1.3m when compared with the same period in 2014. This reported increase is despite a weakening of the Swedish Krona, with average exchange rates in the first half of 2015 being some 15% weaker than the same period in 2014.

The table below analyses the constituent parts of the pre-tax IFRS profit:

Pre-tax IFRS profit	Unaudited Six months ended 30 June		Year ended 31 December	Note
	2015	2014	2014	
	£m	£m	£m	
Pensions and Savings	2.9	0.6	2.4	1
Life and Health	0.1	0.5	0.4	2
Other	0.4	1.0	2.1	3
Total profit before tax	3.4	2.1	4.9	

Note 1 – The Pensions and Savings segment has grown significantly when compared with the same period in 2014 and is reporting a profit that is higher than the full year result in 2014. This growth is driven predominantly by the ongoing growth in funds under management, which generates fee income from policyholders and also performance related rebates from investment managers. Funds under Management (FuM), which have increased from £1.68bn (SEK 21.94bn) at 31 December 2014 to £1.86bn (SEK 24.25bn) at 30 June 2015, have grown due to investment returns in the period (the OMX 30 increased by c5% in the year to date), and premiums from existing and new policies, which amounted to SEK 1.78bn in the period). In addition to the general growth in FuM, profitability improvements have also arisen due to the SICAV, which was set up during 2014 and has continued to deliver the expected improvements in margins. Whilst the period has experienced some positive fee rebates, these are, by their nature, more variable.

Note 2 – The Life and Health business has delivered a small profit of £0.1m in the first half of 2015, compared with £0.5m in the same period in 2014. The Life and Health business typically provides a small contribution to the Group and the portfolio of policies has remained stable period on period. The key driver for the reduction in profitability is due to the reduction in interest rates in Sweden during the first half of 2015, which resulted in the longer tail liabilities in this business unit being discounted less than in previous periods.

Note 3 – The “other” component includes; the results of Movestic’s associated company, Modernac; investment income; the results of Movestic’s investment management business and fair value adjustments on the financial reinsurance that Movestic uses to fund the writing of new Pensions & Savings business. These results have reduced slightly when compared with the same period in 2014, due to a small reduction in profits arising from Modernac and a slight profit reduction of c£0.2m emerging from Movestic Kapitalförvaltning.

The Waard Group

The Waard Group was acquired on 19 May 2015. As a result of the close proximity of the acquisition date to the period end, the amount of post acquisition IFRS surplus generated by this segment is not material.

Consolidation adjustments

The adjustments arising on consolidation are analysed below:

	Unaudited Six months ended 30 June		Year ended 31 December	Note
	2015	2014	2014	
	£m	£m	£m	
CA – Amortisation of AVIF	(2.5)	(2.3)	(4.7)	
S&P – Amortisation of AVIF	(0.3)	(0.4)	(0.7)	
Movestic:				
Amortisation of AVIF	(1.7)	(2.0)	(3.9)	
Write back of DAC	1.4	1.7	3.3	
Total	(0.3)	(0.3)	(0.6)	
Waard Group –				
Amortisation of AVIF	(0.1)	-	-	4
Total	(3.2)	(3.0)	(6.0)	

Note 4 – The amortisation of the AVIF for the Waard Group only relates to the six week period post acquisition.

NET CASH GENERATION

**£56.7M** SIX MONTHS ENDED 30 JUNE 2014: £15.6M

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.

HIGHLIGHTS

- A significant amount of net cash, amounting to £39.9m, has emerged from the acquisition of the Waard Group, driven by the strong levels of regulatory surplus in this group.
- Gross cash generation in the UK run-off business of £18.9m in the period is in line with the same period in 2014.
- We are reporting modest levels of cash generation (£3.3m) for Movestic for the first time (see note 3) since its acquisition in 2009.
- The increase in cash utilised by Chesnara in the period compared with the same period in 2014 is largely due to a one-off foreign exchange loss of £3.5m in the period, directly associated with the acquisition of the Waard Group.

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 and Dutch closed books run-off.

Although investment returns are less predictable, a significant portion of the investment risk is borne by policyholders. However, the S&P segment continues to bring the potential of short-term variability. This arises from the impact of investment market movements and the cost to shareholders of guarantees within the S&P with-profits funds. Although the short-term measure of this cost follows the fortunes of investment markets, we manage the risk taking a longer-term perspective.

Given the recent growth in Movestic it is now generating modest levels of cash, having been cash neutral for a while, and prior to this requiring periodic cash support from Chesnara.

The Waard Group has delivered a one off large cash generation item due to its strong levels of solvency. It is expected to generate modest levels of cash in the future as the closed books in this group run off and surpluses emerge.

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

Cash generated from/(utilised by):	Unaudited Six months ended 30 June		Year ended 31 December	Note
	2015 £m	2014 £m	2014 £m	
CA				
Surplus arising in the period	9.7	19.1	43.8	1
Change in target capital requirement	2.1	(0.2)	2.7	1
S&P				
Surplus arising in the period	(0.3)	0.2	3.7	2
Change in target capital requirement	5.4	0.1	(0.8)	2
Decrease/(increase) in ring-fenced policyholder funds	2.0	(0.2)	1.5	2
UK	18.9	19.0	50.9	
Movestic				
Cash generation in the period	3.3	–	–	3
Waard Group				
Cash generation in the period	–	–	–	4
Chesnara				
Cash utilised by operations	(6.9)	(3.0)	(8.3)	5
Total gross cash generation	15.3	16.0	42.6	
Items affecting ability to distribute cash				
Cash generated on acquisition of the Waard Group	39.9	–	–	4
Synergistic effects of Part VII transfer	–	–	27.4	7
Restricted surplus in S&P WP fund	1.5	(0.4)	1.1	2
Net cash generation available for distribution	56.7	15.6	71.1	6

Items affecting the net cash available for distribution:

Note 1 – The CA segment has generated cash of £11.8m in the period, which is less than the £18.9m in the same period in 2014. This is principally due to a reduction in the surplus arising, driven by the same key items that affect the IFRS profit, as analysed on page 25. As expected, our capital requirements continue to run off as our book runs off, which further supports the ability to distribute cash out of the segment.

Note 2 – The S&P segment has reported cash generation of £7.1m. This is driven primarily through a reduction in the target required capital in the period, as result of a reduction in the estimated regulatory capital requirement since the start of the year. The regulatory surplus in the period has been slightly negative, and is lower than the reported IFRS surplus due to the difference in accounting requirements for those products that contain options and guarantees.

Note 3 – Movestic's scale has now reached a level such that it is now generating cash, which amounted to £3.3m in the period.

Note 4 – The Waard Group has generated immaterial levels of post-acquisition cash in the period due to the proximity of the acquisition to the end of the period. The acquisition of the Waard Group has delivered a significant one off cash generation item, amounting to £39.9m, driven by the strong levels of regulatory surplus in this group.

Note 5 – The Chesnara segment has reported an increase in cash utilisation compared with the same period in 2014, the majority of which (£3.5m) represents a foreign currency translation loss arising on holding Euros prior to the completion of the Waard Group acquisition, coupled with some additional one-off expenses, such as the cost of additional resources required for final Solvency II preparations, deal costs associated with the Waard Group acquisition and loss of office payments associated with the resignation of the previous CEO.

Note 6 – 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.

Note 7 – There have been no further synergistic effects arising from the Part VII transfer of the Protection Life business into CA plc in the period. Subsequent to the end of the period notification was received that Protection Life has been deauthorised. This will give rise to the balance of the synergistic impact of the Part VII, amounting to £3.5m. This will be reported in the full year 2015 cash generation.

EEV EARNINGS



£44.9M*

SIX MONTHS ENDED 30 JUNE 2014: £47.3M

*excluding the positive impact of modelling adjustments of £5.9m

Summary

The first half of 2015 has seen a positive EEV result being reported for the Group, amounting to £44.9m (six months to 30 June 2014: £47.3m). The results are driven by three key areas:

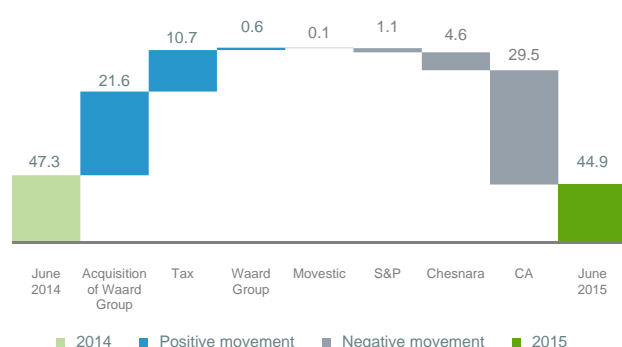
- **Solid operating profit of £15.2m (six months to 30 June 2014: £37.2m).** Whilst the profit shows a reduction when compared with the same period in 2014, the 2014 result was dominated by operating assumption changes in the CA segment, primarily due to the £17.3m one off surplus arising from a change around how the assumptions for future bonus units that are allocated to policyholders are determined. After taking account of this the operating profits are more aligned, as would be expected.
- **Positive investment market results of £15.9m (six months to 30 June 2014: £21.2m).** Investment markets in the UK have been relatively flat, resulting in a modest result for this territory. Swedish investment markets have performed more positively, and despite a further reduction in the risk free rate in the period, taking Sweden into negative territory, this is more than off-set by relatively strong equity markets, which have increased by 6.5% in the period.
- **Gain of £21.6m arising on the acquisition of the Waard Group.** As expected, and in line with previous estimates, the acquisition of the Waard Group has yielded a day-one gain, representing the excess of the EEV acquired over the purchase consideration.

The results of the Waard Group are immaterial in the period, due to the proximity of the acquisition to the period end.

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 2014 to 30 June 2015 (£m)



Analysis of the EEV result in the year by business segment

	Unaudited Six months ended 30 June		Year ended 31 December
	2015 £m	2014 £m	2014 £m
CA	7.0	36.4	49.1
S&P	5.5	6.6	(14.2)
Movestic	17.3	17.5	27.5
Waard Group	0.6	-	-
Chesnara	(7.4)	(2.8)	(7.7)
Profit before tax and gain on acquisition	23.0	57.7	54.7
Gain on acquisition of the Waard Group	21.6	-	-
Profit before tax	44.6	57.7	54.7
Tax	0.3	(10.4)	(10.5)
Profit after tax	44.9	47.3	44.2

Analysis of the EEV result in the period by earnings source

	Unaudited Six months ended 30 June		Year ended 31 December
	2015 £m	2014 £m	2014 £m
New business contribution	2.6	6.2	9.7
Return from in-force business			
Expected return	4.2	3.9	7.1
Experience variances	3.3	6.0	0.5
Operating assumption changes	4.8	17.1	11.0
Return on shareholder net worth	0.1	4.0	9.1
Operating profit of covered business	15.0	37.2	37.4
Variation from longer term investment return	13.6	25.8	32.0
Effect of economic assumption changes	2.3	(4.6)	(7.4)
Profit on covered business before tax and gain on acquisition	30.9	58.4	62.0
Tax	(1.2)	(10.3)	(12.2)
Profit on covered business after tax and before gain on acquisition	29.7	48.1	49.8
Gain on acquisition	21.6	-	-
Uncovered business and other group activities	(7.9)	(0.7)	(7.3)
Tax on uncovered business	1.5	(0.1)	1.7
Profit after tax	44.9	47.3	44.2

Economic experience and assumption changes

The EEV results are sensitive to investment market conditions. Economic experience and assumption changes contributed a profit of £15.9m in the first half of 2015 compared with a profit of £21.2m in the same period in 2014. Key economic condition highlights are as follows:

- The FTSE All Share has increased by 1.1% during the first half of 2015, compared with a small reduction of 0.3% in the same period in 2014.
- The Swedish OMX All Share has increased by 6.5% during the period, compared with a 6.0% increase in the same period last year.
- 10 year UK gilt yields have increased by 0.3% in the year to date, compared with a decrease of 0.2% in the same period in 2014.

These conditions have led to investment market surpluses emerging in the period, albeit at relatively modest levels compared with prior periods.

The following table analyses the impact of investment market conditions by segment:

	Unaudited Six months ended 30 June		Year ended 31 December
	2015 £m	2014 £m	2014 £m
CA	0.5	6.4	17.8
S&P	3.8	4.6	(11.7)
Movestic	11.6	10.2	18.5
Total	15.9	21.2	24.6

The CA and S&P segments have both reported modest economic experience and assumption changes in the period, driven by the relatively flat investment markets in the period, as described above.

Movestic is sensitive to movements in equity markets, largely due to its core income stream being dependent upon management charges generated from policyholders. These management charges are based on the level of funds under management, which are primarily equity invested. Equity growth in Sweden of c6.5%, coupled with an increase in longer-duration Government bond yields in the period having led to this positive contribution in the period.

EEV EARNINGS (CONTINUED)

New business contribution

The new business contribution relates primarily to the Movestic Pensions and Savings business. Movestic also writes Life and Health policies, but due to its more short-term nature the Life and Health business is reported as uncovered business and hence does not contribute to the new business result. Movestic has contributed £2.4m (six months to 30 June 2014: £5.8m) of new business profits in the period, representing a significant reduction when compared with the same period in 2014. This reduction is due to a combination of a reduction in the overall volume of products being sold, coupled with a reduction in margins on those products sold as a result of a change in the sales mix. The lower volumes have arisen from the ongoing challenges in selling new contracts, with competitors continuing to offer high guaranteed returns to policyholders, something that we perceive is unsustainable in light of the low interest rate environment in Sweden.

Experience variances

	Unaudited Six months ended 30 June		Year ended 31 December
	2015 £m	2014 £m	2014 £m
CA	4.1	3.6	5.4
S&P	1.8	1.8	(4.8)
Movestic	(3.0)	0.6	(0.1)
Waard Group	0.4	-	-
Total	3.3	6.0	0.5

The CA and S&P segments have both reported positive experience variances of £4.1m and £1.8m respectively in the period, which are both broadly in line with the same period in 2014. For both of these books the experience is made up of a number of small items, with both including the positive impact of favourable lapse experience in the period.

Movestic has reported an experience loss of £3.0m in the period. This is predominantly driven by an expense overrun of c£0.7m, a reduction driven by the impact of policyholders changing their investment allocations (c£1.0m) and an adverse impact of c£1.0m driven by the 100% paid up rate for private pension policies, following legislation change in Sweden resulting in there no longer being a tax benefit of investing in private pensions.

Operating assumption changes

	Unaudited Six months ended 30 June		Year ended 31 December
	2015 £m	2014 £m	2014 £m
CA	0.4	24.1	20.8
S&P	(1.0)	(3.1)	(4.6)
Movestic	5.4	(3.9)	(5.2)
Waard Group	-	-	-
Total	4.8	17.1	11.0

For the CA segment there were no significant operating assumption changes in the period. This compares with a significant surplus arising from operating assumption changes in the same period in 2014, primarily due to a one off positive item of £17.3m arising from a change around how the assumptions for future bonus units that are allocated to policyholders are determined.

S&P has reported a strain of £1.0m in the period arising from operating assumption changes. This is primarily due to a slight strengthening in lapse assumptions due to the recent "Pension Freedoms" rules.

During the period Movestic has reported profits of £5.4m arising from operating assumption changes. There are two key drivers of this. Firstly, the impact of a change in assumptions on fee rebates arising, based on recent fee rebate experience, has resulted in an EEV profit of c£9.0m in the period. This assumption change is based on a combination of fee rebates emerging from the new SICAV structure coupled with renegotiated terms with some key fund managers. Off-setting this is the impact of strengthening lapse assumptions for certain broker-generated blocks of business coupled with an increase in expense assumptions to capture some expected future IT development costs.

Gain on acquisition of the Waard Group

The EEV result in the period has benefitted from a gain of £21.6m arising from the purchase of the Waard Group. This represents the excess of the Embedded Value of the Waard Group at the point of acquisition over the consideration paid.

Uncovered business and other group activities

	Unaudited Six months ended 30 June		Year ended 31 December
	2015 £m	2014 £m	2014 £m
Chesnara	(7.5)	(2.7)	(7.7)
Movestic	(0.6)	2.1	0.3
Waard Group	0.2	-	-
Total	(7.9)	(0.6)	(7.4)

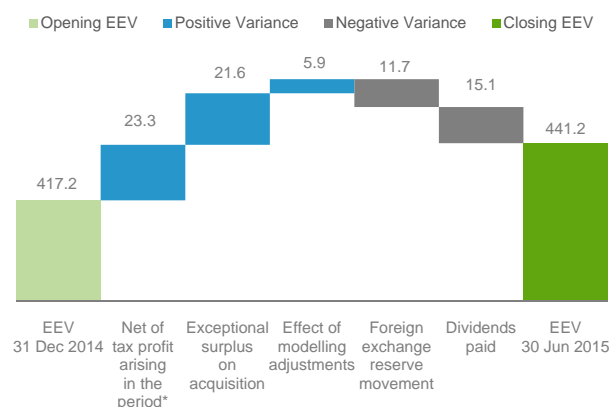
The Chesnara segment of the uncovered business relates to Chesnara parent company costs, such as corporate governance and business development, that are not attributable to the covered business. The increase in costs when compared with the same period in 2014 largely relates to a one-off foreign exchange loss of £3.5m arising from holding Euros prior to purchasing the Waard Group. In addition to this, some additional corporate costs have been incurred in the period. These include costs associated with the Waard Group purchase, some loss of office costs arising in relation to the resignation of the previous CEO and some additional resource costs to support the readiness for Solvency II.

Movestic has reported a small uncovered business loss of £0.6m, compared with a profit of £2.1m in the same period in 2014. This reduction is driven by a reduction in profits of £1.1m in Movestic's associate, Modernac, coupled with a reduction of £0.4m arising in the Life and Health segment, which is not modelled for EEV purposes.

EUROPEAN EMBEDDED VALUE

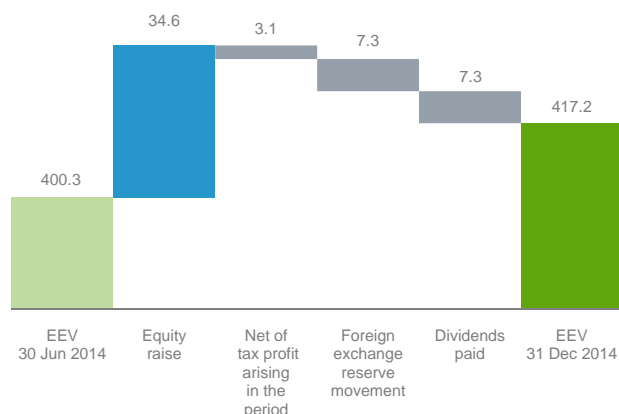

£441.2M 31 DECEMBER 2014: £417.2M

EEV movement 31 December 2014 to 30 June 2015 (£m):

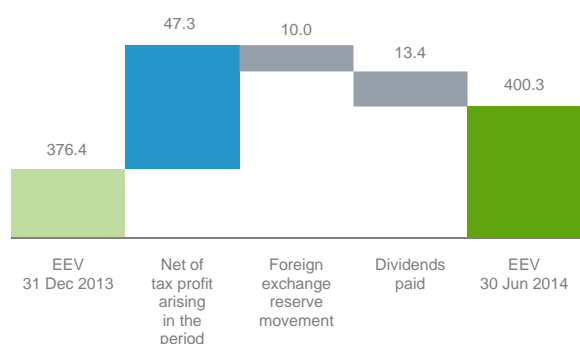


*excludes profit arising on acquisition of the Waard Group

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



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



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 impact of raising new equity;
 - the surpluses arising on acquisitions; and
 - modelling adjustments;
- Foreign exchange movements arising from retranslating the EEV of overseas subsidiaries into Sterling; and
- Dividends that are paid in the period.

More detail behind each of these components for the six months to 30 June 2015 has been provided below. Waterfall graphs for comparative periods have been provided to provide additional context.

Net of tax profit

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

Exceptional surplus on acquisition

The purchase of the Waard Group on 19 May 2015 resulted in a day one increment to EEV of £21.6m. This represents the excess of the Embedded Value of the Waard Group over the purchase price.

Equity raised for acquisition

During December 2014 equity of £34.6m was raised to finance the acquisition of the Waard Group. To mitigate the downside risk of a strengthening Euro the capital raised was converted to Euros at the time of the capital raise.

Effect of modelling adjustments

Six months to 30 June 2015:

During the six months to 30 June 2015 an adjustment of £5.9m has been reported relating to a tax error in the EEV model which resulted in the tax charge in the EEV model being overstated at 31 December 2014. This has been corrected in the period.

Six months to 31 December 2014 and six months to 30 June 2014:
There were no modelling adjustments during these periods.

Foreign exchange reserve movements

The £11.7m foreign exchange reserve movement during the first half of 2015 has arisen as a result of a further weakening of the Swedish Krona against Sterling by 7.5% since the end of 2014. This further adds to the weakening in the Swedish Krona that was witnessed during 2014, albeit at a lower rate than was experienced in the prior year.

Dividends paid

Dividends of £15.1m were paid during the first half of 2015, being the final dividend from 2014.

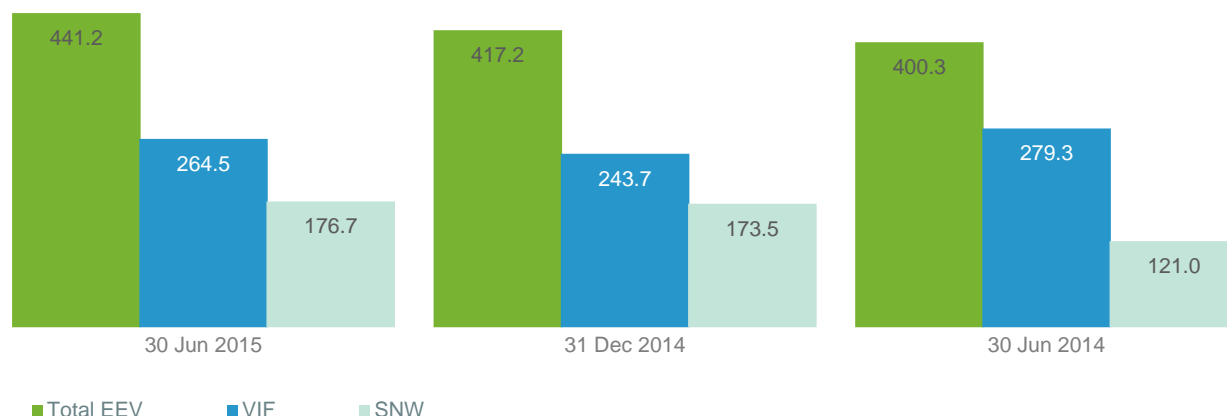
EUROPEAN EMBEDDED VALUE (CONTINUED)

Analysis of EEV

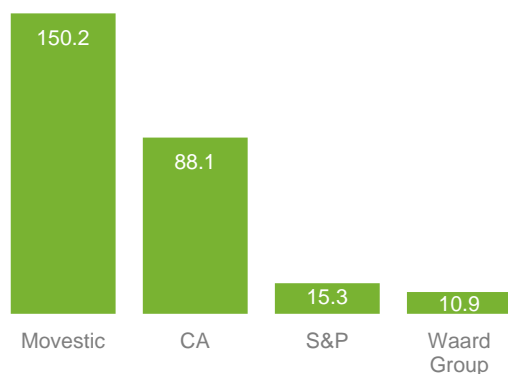
The information on this page provides some further analysis of the EEV of the Group, both in terms of the split between different operating segments and also the split between the adjusted shareholder net worth and the value of the in-force (VIF) business. The adjusted shareholder net worth represents 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)

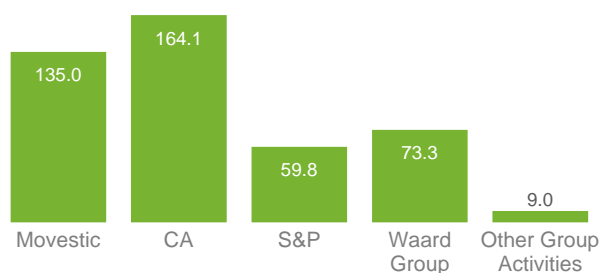
(£m)



Analysis of VIF at 30 June 2015 - £264.5m



Analysis of EEV at 30 June 2015 - £441.2m



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 (51%) of the total EEV. The value in-force component is dominated by the Swedish business which represents 57% of the total Group VIF.
- The Group EEV includes the addition in the period of Waard Group, representing £73.3m of EEV.
- 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, 62.1% of the total product level value in-force relates to pension contracts, 26.1% to protection business and 9.8% to endowments.
- "Other Group Activities" of £9.0m represents the Chesnara holding company balance sheet, stated after the elimination of the carrying value of investments in Group companies.

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 the Group.

30 June 2015 (unaudited)	Number of policies					Value of in-force business				
	CA 000's	S&P 000's	Movestic 000's	Waard 000's	Total 000's	CA £m	S&P £m	Movestic £m	Waard £m	Total £m
Endowment	27	3	11	4	45	17.7	3.7	9.3	0.7	31.4
Protection	165	4	–	55	224	71.2	2.3	–	10.2	83.7
Annuities	6	–	–	–	6	4.3	0.6	–	–	4.9
Pensions	37	111	90	–	238	35.6	39.7	149.6	–	224.9
Other	2	10	–	–	12	2.3	3.9	–	–	6.2
Total at product level	237	128	101	59	525	131.1	50.2	158.9	10.9	351.1
Valuation adjustments:										
Holding company expenses						(7.3)	(2.8)	(8.8)	–	(18.9)
Other						(12.8)	(30.9)	–	–	(43.7)
Cost of capital/frictional costs						(3.6)	(1.2)	(0.1)	–	(4.9)
Value in-force pre-tax						107.4	15.3	150.0	10.9	283.6
Taxation						(19.1)	–	–	–	(19.1)
Value in-force post-tax						88.3	15.3	150.0	10.9	264.5

30 June 2014 (unaudited)	Number of policies				Value of in-force business			
	CA 000's	S&P 000's	Movestic 000's	Total 000's	CA £m	S&P £m	Movestic £m	Total £m
Endowment	31	4	11	46	22.2	3.4	8.2	33.8
Protection	179	4	–	183	79.6	3.5	–	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	262	139	96	497	153.1	59.1	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					(4.5)	(2.4)	(0.1)	(7.0)
Value in-force pre-tax					126.5	36.7	143.1	306.3
Taxation					(27.0)	–	–	(27.0)
Value in-force post-tax					99.5	36.7	143.1	279.3

31 December 2014	Number of policies				Value of in-force business			
	CA 000's	S&P 000's	Movestic 000's	Total 000's	CA £m	S&P £m	Movestic £m	Total £m
Endowment	29	3	10	42	19.0	4.1	8.3	31.4
Protection	172	4	–	176	69.0	2.4	–	71.4
Annuities	6	–	–	6	4.6	0.6	–	5.2
Pensions	37	115	88	240	37.8	39.1	147.0	223.9
Other	2	10	–	12	2.2	4.2	–	6.4
Total at product level	246	132	98	476	132.6	50.4	155.3	338.3
Valuation adjustments:								
Holding company expenses					(7.8)	(3.0)	(9.1)	(19.9)
Other					(12.4)	(34.6)	–	(47.0)
Cost of capital/frictional costs					(3.9)	(1.3)	(0.1)	(5.3)
Value in-force pre-tax					108.5	11.5	146.1	266.1
Taxation					(22.4)	–	–	(22.4)
Value in-force post-tax					86.1	11.5	146.1	243.7

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

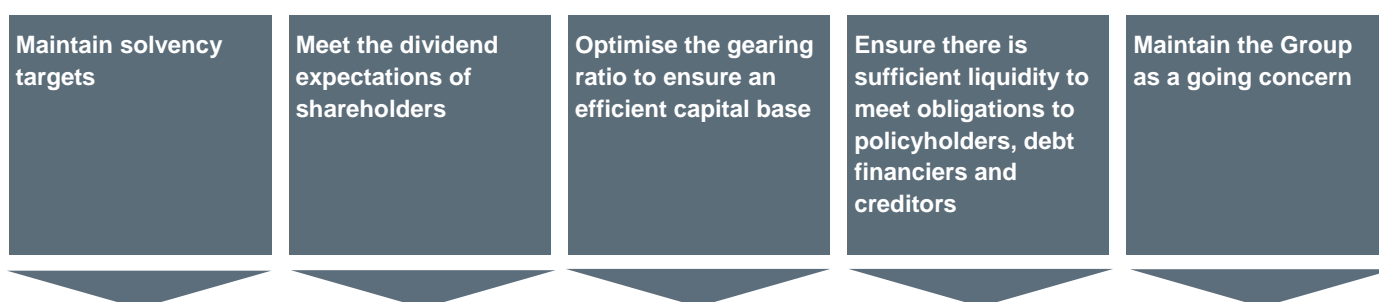


The Group's financial management framework is designed to provide security for all stakeholders, while meeting the expectations of policyholders and shareholders.

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

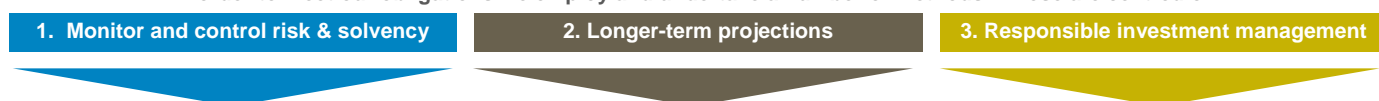
OBJECTIVES

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:



HOW WE DELIVER TO OUR OBJECTIVES

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



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 271%	2015 TSR: <ul style="list-style-type: none"> – Increased interim dividend – Share price remains broadly neutral – TSR for 2015, up to 25 August of 5.40% 	Gearing ratio of 22.5% <p>This does not include the financial reinsurance that is held within the Swedish business.</p>	Competitive fund performance Policyholders' realistic expectations maintained	Group remains a going concern

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 regularly.

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 our UK, Swedish and Dutch 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 regularly. Further detail of the solvency positions of the Group and its regulated insurance companies has been summarised in the Business Review on pages 18 and 19.

2. Shareholder returns

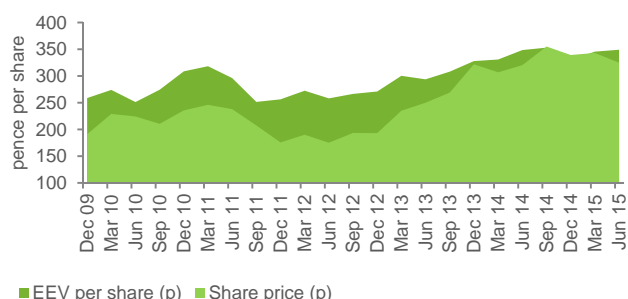
The Board's primary aim is to provide an attractive dividend flow to its shareholders. Historically shareholder dividend flows have been purely generated by CA plc, by way of the emergence of surplus in, and transfer of surplus from, its long-term insurance funds to shareholder funds and by the return on shareholder net assets. Whilst CA plc remains the principal cash generating subsidiary, especially following the Part VII transfer of Protection Life into it on 31 December 2014, 2015 has seen two changes to this dynamic. Firstly Movestic, whilst retaining a focus on targeted profitable growth, has now reached a size where it is generating small levels of cash that are available to Chesnara. Secondly, the acquisition of the Waard Group has introduced a second territory with a closed book focus, and there is a plan in place to manage an orderly transfer of existing and future surplus to be available to Chesnara.

Dividend flows from cash generating subsidiaries 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 capital 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 2015; and
- the dividend growth per share over this same period.

EEV per share versus share price:



Dividends (pence per share)



Throughout 2015, up to 25 August, the share price has remained broadly flat, being 339.3p per share at 1 January 2015 and 345.5p per share at 25 August 2015. The combined impact of the relatively flat share price and the continuing attractive dividends means shareholders have achieved good total shareholder return in the period.

3. Capital structure

The Group's UK operations are financed through a combination of retained earnings and debt finance. Surplus emerging from the UK business is used to:

- repay our debt obligations;
- support dividend distributions to shareholders; and
- continue to support our ongoing acquisition strategy.

The borrowings in place that part-finance the UK operations arose as follows:

- S&P, which was purchased in December 2010 for £63.5m, was accomplished by way of debt:equity financing broadly in a ratio of 2:1.
- PL, which was acquired 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 2015 bank borrowings amounted to £64.4m. This is a five year loan that has less than four years remaining.

The purchase of Movestic was financed by internal cash resources. On an ongoing basis the Movestic business is financed by an external financial reinsurance arrangement. Historically Movestic has also required capital contributions from Chesnara to support its initial growth phase and to ensure it remained appropriately capitalised. Movestic has, during 2015, reached a size where it is starting to now generate cash.

The recent acquisition of the Waard Group was funded primarily through an equity raise in December 2014, although it was part funded by existing cash resources. The Waard Group, as a well-capitalised closed book of business will generate cash for the benefit of our shareholders through a combination of the orderly transfer of existing surplus in the funds coupled with the emergence of future surplus.

With respect to future acquisitions the Group seeks to finance these through a suitable mix of debt, existing cash resources, 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, Swedish and Dutch businesses 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 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 Group's subsidiaries under the Solvency I regime, and their ongoing ability to generate surpluses following the implementation of Solvency II, 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 on pages 18 and 19 indicates a strong solvency position as at 30 June 2015 under Solvency I, as measured at both the individual regulated life company levels in the UK, Sweden and the Netherlands, and at the Group level, and that we do not expect the implementation of Solvency II to adversely impact our solvency position across the Group.

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.

The Group is well capitalised, and has a healthy level of cash reserves to be able to meet its debt obligations as they fall due. 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, which brings with it the risk of bond default. In order to manage this risk we ensure that our bond portfolio is actively monitored and well diversified. Other significant counterparty default risk relates to our principal reinsurers. We monitor their financial position and are satisfied that any associated credit default risk is low. It is noteworthy that we have negligible exposure to Euro-denominated sovereign debt.

In light of the above, our expectation is that the Group will continue to generate surplus in its insurance subsidiaries sufficient to meet its debt obligations as they fall due. 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 the UK, Swedish and Dutch businesses we maintain processes for identifying, evaluating and managing the most 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 Chesnara plc Group risk register is updated on a quarterly basis for any material changes in the CA plc risk register, which is then presented to the Chesnara Audit & Risk Committee. 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.

The Dutch businesses has in place a risk management framework in accordance with guidance issued by the local regulators (DNB for prudential supervision and AFM for financial conduct supervision). Appropriate to the size of the businesses, the Audit Committee and the Risk Committee comprise all members of the Board of Directors and the Supervisory Board respectively. The Risk & Compliance function performs Quarterly Risk Reviews with the risk owners, which include the identification and response to newly emerging risks. To stay abreast with market developments, the company's Risk and Compliance function also engages external professional support when conducting these Risk reviews. The risks identified and corresponding mitigating internal control measures are centrally registered and appropriate monitoring and reminding is ensured by the Risk & Compliance function.

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.

These risk management processes are continuing to be refined, in particular through the implementation of the Governance Maps across the Divisions, the appointment of a Chief Risk Officer which will bring further expertise to this field, and the implementation of the various risk management aspects of Solvency II. In particular our Group-wide risk management processes are being 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.

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 and the Netherlands;
- ii) notwithstanding this, the Group has a material segment, which comprises an open life and pensions business; and
- iii) these businesses are subject to local regulation, which significantly influences the amount of capital which they are required to retain and which may otherwise constrain the conduct of business.

The following table 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 these risks. These have been updated to reflect the risks of the Waard Group, and it is worth noting that our Group-wide principal risks and uncertainties have remained materially unchanged as a result of this update since those reported in the 2014 Annual Report & Accounts.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk	Impact	Control
Adverse mortality / morbidity / longevity experience	To the extent that actual mortality or morbidity rates vary from the assumptions underlying product pricing, so more or less profit will accrue to the Group.	<ul style="list-style-type: none"> – Effective underwriting techniques and reinsurance programmes. – Option on certain contracts to vary premium rates in the light of actual experience. – Partial risk diversification in that the Group has a portfolio of annuity contracts where the benefits cease on death.
Adverse persistency experience	Persistency rates significantly lower than those assumed will lead to reduced Group profitability in the medium to long-term.	<ul style="list-style-type: none"> – Active investment management to ensure competitive policyholder investment funds. – Outsourcer service levels ensure strong customer service standards. – Customer retention processes. – Close monitoring of persistency levels across all groups of business.
Expense overruns and unsustainable unit cost growth	For the closed UK and Dutch businesses, the Group is exposed to the impact of fixed and semi-fixed expenses, in conjunction with a diminishing policy base, on profitability. For the Swedish open life and pensions business, the Group is exposed to the impact of expense levels varying adversely from those assumed in product pricing.	<ul style="list-style-type: none"> – For the UK businesses, the Group pursues a strategy of outsourcing functions with charging structures such that the policy administration 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. – The Dutch business pursues a low cost-base strategy using a designated service company. The cost base is supported by service income from third party customers. – For all three divisions, the Group maintains a strict regime of budgetary control.
Significant and prolonged equity 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 content, the Group is particularly exposed to the impact of significant and prolonged equity market falls, which may lead to policyholders switching to lower-margin, fixed-interest funds.	<ul style="list-style-type: none"> – Individual fund mandates may give rise to a degree of diversification of risk and within those funds, hedging techniques are used where appropriate. – Investment management costs fall in line with market falls and hence cost savings partially hedge the impact on income. – There is a wide range of investment funds and managers so that there is no significant concentration of risk.
Adverse exchange rate movements against Sterling	Exposure to adverse Sterling:Swedish Krona and Sterling:Euro exchange rate movements arises from actual planned cash flows between Chesnara and its overseas subsidiaries and from the impact on reported IFRS and EEV results which are expressed in Sterling.	<ul style="list-style-type: none"> – The Group monitors exchange rate movements and the cost of hedging the currency risk on cash flows when appropriate.
Counterparty failure	<p>The Group carries significant inherent risk of counterparty failure in respect of:</p> <ul style="list-style-type: none"> – its fixed interest security portfolio; – cash deposits; and – amounts due from reinsurers. 	<ul style="list-style-type: none"> – Operation of guidelines which limit the level of exposure to any one counterparty and which impose limits on exposure to credit ratings. – In respect of exposure to one major reinsurer, Guardian Assurance Limited ('Guardian'), the Group has a floating charge over the reinsurer's related investment assets, which ranks the Group equally with Guardian's policyholders.

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.	<ul style="list-style-type: none"> – The Group maintains rigorous matching programmes to ensure that exposure to mismatching is minimised. – Active investment management such that, where appropriate, asset mixes will be changed to mitigate the potential adverse impact on declines in bond yields.
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 any of the service providers to fulfil their contractual obligations, in whole or in part, to the requisite standards specified in the contracts, the Group may suffer loss as its functions degrade.	<ul style="list-style-type: none"> – Rigorous service level measures and management information flows under its contractual arrangements. – Continuing and close oversight of the performance of all 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 it relies on a number of key individuals who have particular knowledge, experience and know how. The Group is, accordingly, exposed to the sudden loss of the services of these individuals.	<ul style="list-style-type: none"> – The Group promotes the sharing of know how and expertise to the fullest extent possible. – It periodically reviews and assesses staffing levels, and, where the circumstances of the Group justify and permit, will enhance resource to ensure that know how and expertise is more widely embedded. – The Group maintains succession plans and remuneration structures which comprise a retention element. – The Group complements its internal expertise with established relationships with external specialist partners.
Adverse regulatory and legal changes	<p>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:</p> <ul style="list-style-type: none"> i) the implementation of Solvency II requirements; ii) the FCA's review of legacy business; iii) the changes in pensions legislation in April 2015; iv) HM Treasury's review of exit charges on pensions businesses; and v) Commission and rebate income changes in Sweden. 	<p>The current opinion is that the implementation of Solvency II will strengthen the long-term risk management environment of Chesnara (as is its intention).</p> <p>The Solvency II programme is covered in more detail on the next page. The key risks are mitigated as follows:</p> <ul style="list-style-type: none"> – The utilisation of external specialists to provide quality assurance where required; – Dedicated internal resource; and – Robust programme governance framework. <p>Management continually reviews the potential impact of any prospective regulatory changes.</p>

SOLVENCY II



The Solvency II programme has been given a high profile in all Divisions, and the coordinated efforts have ensured that all the components will be in place to meet the 1 January 2016 implementation deadline.

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 implementation date is 1 January 2016 and we remain confident that our SII projects in the UK, Sweden and the Netherlands Divisions are on target to achieve SII-compliance by this date. Solvency II costs across the industry are considered to be significant and, for Chesnara, we expect to incur additional implementation costs of up to £2m during 2015. Our view remains that the introduction of Solvency II will not adversely impact the Group's solvency position. A summary of our progress and key milestones over the next two years has been provided below:

Pillar one

Pillar one considers the quantitative requirements, including the calculation of technical provisions and the rules relating to the calculation of two capital thresholds, 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 to calculate the SCR for all three divisions on the grounds that it is a good fit and appropriate for our businesses at the current time. However, we will continue to monitor our position on the choice of approach as our businesses evolve. The MCR is calculated as a linear function of specified variables: it cannot fall below 25%, or exceed 45% of the SCR.

Progress update

All model development for Pillar one is materially complete in all three Divisions and a full "dry-run" for the Solo entities was successfully carried out in Q2 2015. The Solo "dry-runs" will be consolidated into the Group "dry-run" in Q3 2015. Outputs from these exercises is subject to review and challenge by the respective boards. In December 2014, following Board review and approval, CA plc provided an assessment of the appropriateness of the Standard Formula for its business to the PRA. The PRA have provisionally accepted the assessment. For Movestic, this assessment was included as part of its 2014 Forward Looking Assessment of Own Risk (FLAOR) submission, but no response has yet been received from the Swedish regulator (SFSA). The Waard Group has been providing the Dutch regulator, DNB, with Pillar one returns for a number of years and DNB has accepted the Standard Formula as being appropriate for that Division.

Pillar two

Pillar two deals with qualitative governance and supervisory requirements. The governance aspect ensures that each of our businesses has 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. The supervision aspect 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 a 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. The Group ORSA will be submitted to the PRA, who are expected to be confirmed as the primary regulator for the Group.

Progress update

Significant progress has been made during Q1/Q2 2015 in the refinement and embedding of Group and Divisional policies and Corporate Governance Maps, ensuring a platform for a consistent, cohesive governance approach across all of our businesses will be in place and will be Solvency II-compliant by year end. The Risk Management Function is being enhanced by the recent recruitment of a Group-wide Chief Risk Officer, who will join us in Q4 2015. The UK and Swedish divisions each produced a FLAOR (forward-looking assessment of own risks) report based on the own risk and solvency assessment ('ORSA') principles as required under the preparatory Solvency II guidelines during 2014, and the processes have subsequently been enhanced in preparation for the production of ORSAs during Q3/Q4 2015. The Waard group submitted an ORSA to the DNB in each of the past three years, so the Netherlands division already has the ORSA processes embedded in the business.

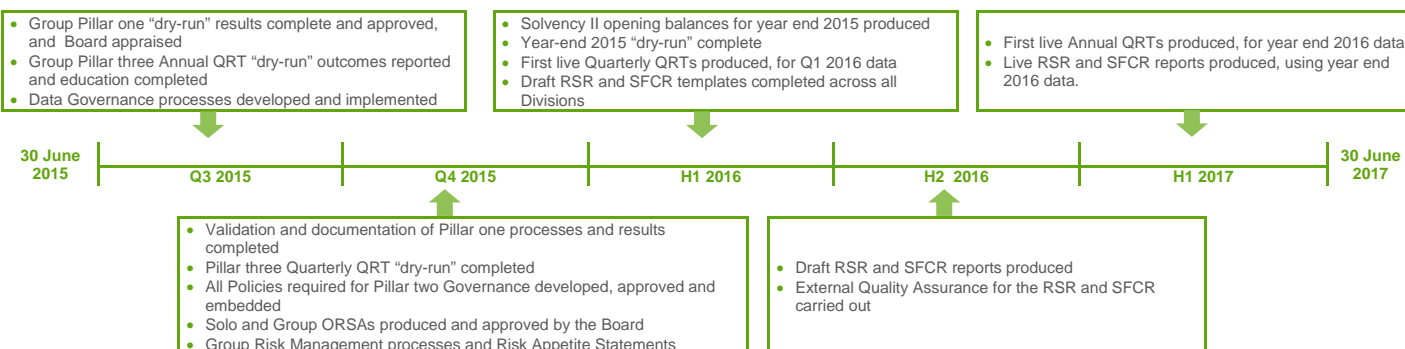
Pillar three

Pillar three deals with reporting and disclosure, seeking to enhance market discipline on regulated firms by requiring them to disclose, both publicly and privately, key information that is relevant to market participants. The key reporting requirements are a Solvency & Financial Condition Report (SFCR) and a Regular Supervisory Report (RSR). The SFCR is for public disclosure and will follow a prescribed format. The RSR is not public and is only communicated to the relevant supervisor and, again, will largely follow a prescriptive format. The SFCR and RSR contain both quantitative reports, including the Pillar one outputs, and narrative reports, including the Pillar two outputs. The SFCR is largely backward-looking, whereas the RSR report also includes business and operational forecasts, along with comparisons of actual and forecast results. For instance, the first RSR, to be produced in 2017, will compare the forecast made in 2015 for 2016 with the actual 2016 results.

Progress update

The development work required to populate the Quantitative Reporting Templates (QRTs) that inform the Pillar three quantitative reports is materially complete and a "dry-run" exercise to produce the solo QRTs was carried out successfully in all three divisions in Q2 2015, based on year-end 2014 data. Quarterly QRTs (based on half-year 2015 data) and a consolidated set of Group QRTs (based on year-end 2014 data) will be produced in Q3/4 2015. The QRTs produced in the Netherlands division were submitted to the DNB and their feedback has been incorporated in revised reports. External quality assurance of the "dry-run" QRTs will be sought during Q4 2015. Work is also ongoing to finalise the format and content of the SFCR and RSR to ensure consistency across the Divisions. We plan to perform a "dry-run" on these reports during 2016, and the first live reports will be produced during 2017 on 2016 year end data.

Timeline of key Solvency II activities over the next two years:



SECTION C

IFRS FINANCIAL STATEMENTS

IN THIS SECTION

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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

John Deane

Chairman

Chief Executive Officer

27 August 2015

27 August 2015

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 2015 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 8. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 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
London
United Kingdom
27 August 2015

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

		Unaudited Six months ended 30 June		Year ended 31 December
	Note	2015 £000	2014 £000	2014 £000
Insurance premium revenue		58,078	66,512	128,384
Insurance premium ceded to reinsurers		(23,780)	(26,507)	(51,646)
Net insurance premium revenue		34,298	40,005	76,738
Fee and commission income		33,327	34,873	66,592
Net investment return		182,231	199,312	430,673
Total revenue net of reinsurance payable		249,856	274,190	574,003
Other operating income		11,513	12,467	23,624
Total income net of investment return		261,369	286,657	597,627
Insurance contract claims and benefits incurred				
Claims and benefits paid to insurance contract holders		(159,896)	(152,612)	(303,521)
Net decrease in insurance contract provisions		77,595	67,148	39,676
Reinsurers' share of claims and benefits		21,144	15,412	44,627
Net insurance contract claims and benefits		(61,157)	(70,052)	(219,218)
Change in investment contract liabilities		(143,425)	(146,117)	(267,140)
Reinsurers' share of investment contract liabilities		1,031	647	2,272
Net change in investment contract liabilities		(142,394)	(145,470)	(264,868)
Fees, commission and other acquisition costs		(10,512)	(11,126)	(21,707)
Administrative expenses		(19,125)	(19,981)	(42,494)
Other operating expenses				
Charge for amortisation of acquired value of in-force business		(4,580)	(4,721)	(9,281)
Charge for amortisation of acquired value of customer relationships		(112)	(136)	(263)
Other		(8,096)	(6,487)	(8,840)
Total expenses net of change in insurance contract provisions and investment contract liabilities		(245,976)	(257,973)	(566,671)
Total income less expenses		15,393	28,684	30,956
Share of profit of associate		405	608	855
Profit recognised on business combination	5	16,209	–	–
Financing costs		(1,609)	(1,914)	(3,008)
Profit before income taxes	4	30,398	27,378	28,803
Income tax expense		(2,138)	(4,558)	(3,228)
Profit for the period	3,4	28,260	22,820	25,575
Foreign exchange translation differences arising on the revaluation of foreign operations		(5,366)	(4,645)	(7,844)
Total comprehensive income for the period		22,894	18,175	17,731
Basic earnings per share (based on profit for the period)	2	22.36p	19.87p	22.10p
Diluted earnings per share (based on profit for the period)	2	22.33p	19.87p	22.08p

The notes and information on pages 50 to 59 form part of these financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET

(UNAUDITED)

		Unaudited 30 June 2015 £000	2014 £000	31 December 2014 £000
	Note			
Assets				
Intangible assets				
Deferred acquisition costs		31,986	29,539	31,298
Acquired value of in-force business		72,483	80,313	73,469
Acquired value of customer relationships		948	1,336	1,143
Software assets		3,726	4,348	3,715
Property and equipment		490	610	477
Investment in associates		4,453	4,367	4,388
Investment properties		9,245	5,173	5,520
Reinsurers' share of insurance contract provisions		313,302	356,432	335,936
Amounts deposited with reinsurers		35,455	34,224	35,498
Financial assets				
Equity securities at fair value through income		465,350	475,344	475,983
Holdings in collective investment schemes at fair value through income		3,563,740	3,463,411	3,516,424
Debt securities at fair value through income		385,847	344,115	377,193
Policyholders' funds held by the Group		176,267	158,461	164,858
Insurance and other receivables		73,813	47,201	45,360
Prepayments		5,599	5,155	4,821
Derivative financial instruments		2,872	2,424	3,580
Total financial assets		4,673,488	4,496,111	4,588,219
Reinsurers' share of accrued policyholder claims		19,744	12,457	14,722
Income taxes		4,182	1,917	1,962
Cash and cash equivalents		279,813	219,290	241,699
Total assets	4	5,449,315	5,246,117	5,338,046
Liabilities				
Insurance contract provisions		2,330,084	2,290,815	2,308,043
Other provisions		3,017	4,052	729
Financial liabilities				
Investment contracts at fair value through income		2,408,122	2,337,862	2,389,812
Liabilities relating to policyholders' funds held by the Group		176,267	158,461	164,858
Borrowings	6	87,837	95,220	87,296
Derivative financial instruments		656	525	49
Total financial liabilities		2,672,882	2,592,068	2,642,015
Deferred tax liabilities		10,599	9,392	8,340
Reinsurance payables		8,619	9,978	10,499
Payables related to direct insurance and investment contracts		80,288	47,425	58,789
Deferred income		17,486	7,377	6,974
Income taxes		8,260	10,756	4,168
Other payables		28,503	20,631	18,467
Bank overdrafts		2,897	1,703	1,189
Total liabilities	4	5,162,635	4,994,197	5,059,213
Net assets		286,680	251,920	278,833
Shareholders' equity				
Share capital		42,600	42,024	42,600
Share premium		76,523	42,526	76,523
Treasury shares		(168)	(212)	(168)
Other reserves		(6,007)	2,558	(641)
Retained earnings	3	173,732	165,024	160,519
Total shareholders' equity		286,680	251,920	278,833

The notes and information on pages 50 to 59 form part of these financial statements.

Approved by the Board of Directors and authorised for issue on 27 August 2015 and signed on its behalf by:

Peter Mason
Chairman

John Deane
Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	Unaudited Six months ended 30 June	Year ended 31 December	
	2015	2014	2014
	£000	£000	£000
Profit for the period	28,260	22,820	25,575
Adjustments for:			
Depreciation of property and equipment	89	109	206
Amortisation of deferred acquisition costs	4,695	5,063	9,729
Amortisation of acquired value of in-force business	4,580	4,720	9,281
Amortisation of acquired value of customer relationships	112	136	263
Amortisation of software assets	715	982	1,802
Share based payment	96	–	114
Tax paid	2,138	4,558	3,228
Interest receivable	(11,297)	(13,270)	(26,975)
Dividends receivable	(13,867)	(13,152)	(30,032)
Interest expense	1,609	1,914	3,008
Change in fair value of investment properties	(4,400)	(2,265)	(2,526)
Fair value gains on financial assets	(152,542)	(170,200)	(370,641)
Profit arising on business combination	(16,209)	–	–
Share of profit of associate	(404)	(608)	(855)
Interest received	11,590	13,333	27,346
Dividends received	12,768	5,859	29,835
Increase in intangible assets related to insurance and investment contracts	(7,520)	(8,354)	(16,219)
Changes in operating assets and liabilities:			
Decrease in financial assets	37,410	34,128	44,847
Decrease in reinsurers share of insurance contract provisions	20,669	18,885	34,654
Decrease/(increase) in amounts deposited with reinsurers	43	69	(1,205)
(Increase)/decrease in insurance and other receivables	(26,802)	4,245	(2,492)
Increase in prepayments	(942)	(482)	(317)
Decrease in insurance contract provisions	(84,884)	(65,929)	(44,940)
Increase in investment contract liabilities	170,875	216,853	369,838
Decrease in provisions	(691)	(1,290)	(4,600)
(Decrease)/increase in reinsurance payables	(1,276)	(847)	222
Increase in payables related to direct insurance and investment contracts	20,448	639	12,820
Increase/(decrease) in other payables	7,326	(4,928)	(7,402)
Cash generated from operations	2,589	52,988	64,564
Income tax paid	(1,217)	(2,471)	(8,839)
Net cash generated from operating activities	1,372	50,517	55,725
Cash flows from investing activities			
Business combinations	54,258	–	–
Development of software	(987)	(680)	(1,079)
Purchases of property and equipment	(126)	(81)	(224)
Proceeds from the disposal of property and equipment	–	–	152
Net cash generated from/(utilised by) investing activities	53,145	(761)	(1,151)
Cash flows from financing activities			
Proceeds from issue of share capital	–	–	34,573
Proceeds from/(repayment of) borrowings	2,218	2,375	(4,469)
Sale of treasury shares	–	–	44
Dividends paid	(15,143)	(13,357)	(20,731)
Interest paid	(1,377)	(1,764)	(2,593)
Net cash (utilised by)/generated from financing activities	(14,302)	(12,746)	6,824
Net increase in cash and cash equivalents	40,215	37,010	61,398
Cash and cash equivalents at beginning of period	240,510	183,136	183,136
Effect of exchange rate changes on cash and cash equivalents	(3,809)	(2,559)	(4,024)
Cash and cash equivalents at end of the period	276,916	217,587	240,510

The notes and information on pages 50 to 59 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(UNAUDITED)

Unaudited six months ended 30 June 2015

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2015	42,600	76,523	(641)	(168)	160,519	278,833
Profit for the period	–	–	–	–	28,260	28,260
Dividends paid	–	–	–	–	(15,143)	(15,143)
Foreign exchange translation differences	–	–	(5,366)	–	–	(5,366)
Share based payment	–	–	–	–	96	96
Equity shareholders' funds at 30 June 2015	42,600	76,523	(6,007)	(168)	173,732	286,680

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

Year ended 31 December 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 year	–	–	–	–	25,575	25,575
Dividends paid	–	–	–	–	(20,731)	(20,731)
Foreign exchange translation differences	–	–	(7,844)	–	–	(7,844)
Share based payment	–	–	–	–	114	114
Issue of new shares	576	33,971	–	–	–	34,547
Sale of treasury shares	–	26	–	44	–	70
Equity shareholders' funds at 31 December 2014	42,600	76,523	(641)	(168)	160,519	278,833

The notes and information on pages 50 to 59 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 2014.

The Group's published consolidated financial statements for the year ended 31 December 2014 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 2014.

The financial information shown in these interim financial statements 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 2014 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.

Particular segment information

The Group acquired Waard Group on 19 May 2015 which represents the Group's Dutch life and general insurance business. As a result, a further operating segment has been added in Note 4. Furthermore, following the Part VII transfer on 31 December 2014 of the long-term business of Protection Life Company Limited into Countrywide Assured plc, the business of Protection Life (PL) is now reported within the CA segment, effective from 1 January 2015. Previously PL was reported as a separate segment. Comparative information has been restated to reflect this change.

2 Earnings per share

Earnings per share are based on the following:

	Unaudited Six months ended 30 June		Year ended 31 December
	2015	2014	2014
Profit for the period attributable to shareholders (£000)	28,260	22,820	25,575
Weighted average number of ordinary shares	126,398,396	114,851,282	115,711,981
Basic earnings per share	22.36p	19.87p	22.10p
Diluted earnings per share	22.33p	19.87p	22.08p

The weighted average number of ordinary shares in respect of the six months ended 30 June 2015 is based upon 126,552,427 shares in issue, less 154,031 own shares held in treasury.

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.

On 5 December 2014, 11,504,765 new shares were issued to existing shareholders, as part of a fund raising exercise in respect of the proposed acquisition of the Waard Group. The weighted average number of ordinary shares in respect of the year ended 31 December 2014 is based upon 115,047,662 shares in issue, less 194,183 own shares held in treasury at the beginning of the period, and 126,552,427 shares in issue, less 154,031 own shares held in treasury at the end of the period..

There were 180,765 share options outstanding during this period (30 June 2014: nil). Accordingly, there is dilution of the average number of ordinary shares in issue in respect of 2015. There were 116,373 share options outstanding as at 31 December 2014.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

3 Retained earnings

	Unaudited Six months ended 30 June		Year ended 31 December
	2015 £000	2014 £000	2014 £000
Retained earnings attributable to equity holders of the parent company comprise:			
Balance at 1 January	160,519	155,561	155,561
Profit for the period	28,260	22,820	25,575
Share based payment	96	–	114
Dividends:			
Final approved and paid for 2013	–	(13,357)	(13,357)
Interim approved and paid for 2014	–	–	(7,374)
Final approved and paid for 2014	(15,143)	–	–
Balance at period end	173,732	165,024	160,519

The interim dividend in respect of 2014, approved and paid in 2014 was paid at the rate of 6.42p per share.

The final dividend in respect of 2014, approved and paid in 2014, was paid at the rate of 11.98p per share so that the total dividend paid to the equity shareholders of the Parent Company in respect of the year ended 31 December 2014 was made at the rate of 18.40p per share.

An interim dividend of 6.61p per share in respect of the year ending 31 December 2015 payable on 15 October 2015 to equity shareholders of the Parent Company registered at the close of business on 11 September 2015, the dividend record date, was approved by the Directors after the balance sheet date. The resulting total final dividend of £8.4m 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 2015 and the year ended 31 December 2014:

	Six months ended 30 June 2015	Year ended 31 December 2014
	p	p
Interim – approved/paid	6.61	6.42
Final - proposed/paid	–	11.98
Total	6.61	18.40

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 2015 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 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. This segment also contains the business of Protection Life, which was purchased on 28 November 2013. Following the Part VII transfer on 31 December 2014 of the long-term business of Protection Life Company Limited into Countrywide Assured plc, the business of Protection Life (PL) is now reported within the CA segment, effective from 1 January 2015. Previously PL was reported as a separate segment. Comparative information has been restated to reflect this change. CA 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' in the Chesnara plc 2014 Annual Report and Accounts. On 31 December 2011 the whole of the business of this segment was transferred to Countrywide Assured plc under the provisions of Part VII of the Financial Services and Markets Act 2000.

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

Waard Group: This segment represents the Group's Dutch life and general insurance business, which was acquired on 19 May 2015 and comprises the three insurance companies Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V., and a servicing company, Tadas Verzekering. The Waard Group's policy base is predominantly made up of term life policies, although also includes unit-linked policies and some non-life policies, covering risks such as occupational disability and unemployment.

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

The accounting policies of the segments are the same as those for the Group as a whole. Any transactions between the business segments are on normal commercial terms in normal market conditions. The Group evaluates performance of operating segments on the basis of the profit before tax attributable to shareholders 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 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

4 Operating segments (continued)

(i) Segmental income statement for the six months ended 30 June 2015

	CA £000	S&P £000	UK Total £000	Movestic £000	Waard Group £000	Other Group Activities £000	Total £000
Net insurance premium revenue	24,548	2,871	27,419	6,716	163	–	34,298
Fee and commission income	15,160	1,225	16,385	16,940	2	–	33,327
Net investment return	26,519	28,191	54,710	129,068	(1,780)	233	182,231
Total revenue (net of reinsurance payable)	66,227	32,287	98,514	152,724	(1,615)	233	249,856
Other operating income	1,411	5,792	7,203	3,943	367	–	11,513
Segmental income/(expenses)	67,638	38,079	105,717	156,667	(1,248)	233	261,369
Net insurance contract claims and benefits incurred	(33,938)	(24,912)	(58,850)	(3,357)	1,050	–	(61,157)
Net change in investment contract liabilities	(12,781)	(771)	(13,552)	(128,842)	–	–	(142,394)
Fees, commission and other acquisition costs	(1,038)	(11)	(1,049)	(9,454)	(9)	–	(10,512)
Administrative expenses:							
Amortisation charge on software assets	–	–	–	(2,188)	–	–	(2,188)
Depreciation charge on property and equipment	(22)	–	(22)	(187)	–	–	(209)
Other	(5,214)	(4,922)	(10,136)	(3,594)	267	(3,265)	(16,728)
Other operating expenses:							
Charge for amortisation of acquired value of in-force business	(2,495)	(330)	(2,825)	(1,661)	(94)	–	(4,580)
Charge for amortisation of acquired value of customer relationships	–	–	–	(112)	–	–	(112)
Other	(652)	(6)	(658)	(3,913)	7	(3,532)	(8,096)
Segmental (expenses)/income	(56,140)	(30,952)	(87,092)	(153,308)	1,221	(6,797)	(245,976)
Segmental income less expenses	11,498	7,127	18,625	3,359	(27)	(6,564)	15,393
Share of profit from associates	–	–	–	405	–	–	405
Profit arising on business combinations	–	–	–	–	–	16,209	16,209
Financing costs	–	(1)	(1)	(687)	–	(921)	(1,609)
Profit/(loss) before tax	11,498	7,126	18,624	3,077	(27)	8,724	30,398
Income tax (expense)/credit			(3,628)	(14)	(12)	1,516	(2,138)
Profit/(loss) after tax			14,996	3,063	(39)	10,240	28,260

(ii) Segmental balance sheet as at 30 June 2015

	CA £000	S&P £000	Movestic £000	Waard Group £000	Other Group Activities £000	Total £000
Total assets	1,903,488	1,227,757	2,048,599	194,583	74,888	5,449,315
Total liabilities	(1,803,562)	(1,174,449)	(1,991,196)	(127,288)	(66,140)	(5,162,635)
Net assets	99,926	53,308	57,403	67,295	8,748	286,680
Investment in associates	–	–	4,453	–	–	4,453
Additions to non-current assets	–	26	8,607	26	–	8,659

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

4 Operating segments (continued)

(iii) Segmental income statement for the six months ended 30 June 2014 (re-stated)*

	CA*	S&P	UK Total	Movestic	Other Group Activities	Total
	£000	£000	£000	£000	£000	£000
Net insurance premium revenue	28,627	3,411	32,038	7,967	–	40,005
Fee and commission income	15,968	1,152	17,120	17,753	–	34,873
Net investment return	36,007	28,975	64,982	134,106	224	199,312
Total revenue (net of reinsurance payable)	80,602	33,538	114,140	159,826	224	274,190
Other operating income	1,542	5,779	7,321	5,146	–	12,467
Segmental income	82,144	39,317	121,461	164,972	224	286,657
Net insurance contract claims and benefits incurred	(39,941)	(26,498)	(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	(934)	(16)	(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	(5,138)	(4,721)	(9,859)	(5,921)	(1,804)	(17,584)
Other operating expenses:						
Charge for amortisation of acquired value of in-force business	(2,397)	(350)	(2,747)	(1,974)	–	(4,721)
Charge for amortisation of acquired value of customer relationships	–	–	–	(136)	–	(136)
Other	(928)	(467)	(1,395)	(5,092)	–	(6,487)
Segmental expenses	(60,211)	(32,854)	(93,065)	(163,104)	(1,804)	(257,973)
Segmental income less expenses	21,933	6,463	28,396	1,868	(1,580)	28,684
Share of profit from associates	–	–	–	608	–	608
Financing costs	–	(3)	(3)	(724)	(1,187)	(1,914)
Profit/(loss) before tax	21,933	6,460	28,393	1,752	(2,767)	27,378
Income tax (expense)/credit			(6,021)	868	595	(4,558)
Profit/(loss) after tax			22,372	2,620	(2,172)	22,820

(iv) Segmental balance sheet as at 30 June 2014 (re-stated)*

	CA*	S&P	Movestic	Other Group Activities	Total
	£000	£000	£000	£000	£000
Total assets	2,017,631	1,212,296	1,945,101	71,089	5,246,117
Total liabilities	(1,888,456)	(1,142,965)	(1,885,696)	(77,080)	(4,994,197)
Net assets/(liabilities)	129,175	69,331	59,405	(5,991)	251,920
Investment in associates	–	–	4,367	–	4,367
Additions to non-current assets	–	–	8,691	–	8,691

* Includes Protection Life Company Limited (previously shown separately).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

4 Operating segments (continued)

(v) Segmental income statement for the year ended 31 December 2014 (re-stated)*

	CA*	S&P	UK Total	Movestic	Other Group Activities	Total
	£000	£000	£000	£000	£000	£000
Net insurance premium revenue	54,946	6,330	61,276	15,462	–	76,738
Fee and commission income	30,773	2,333	33,106	33,486	–	66,592
Net investment return	115,757	90,292	206,049	224,278	346	430,673
Total revenue (net of reinsurance payable)	201,476	98,955	300,431	273,226	346	574,003
Other operating income	3,011	11,664	14,675	6,086	2,863	23,624
Segmental income	204,487	110,619	315,106	279,312	3,209	597,627
Net insurance contract claims and benefits incurred	(104,341)	(106,986)	(211,327)	(7,891)	–	(219,218)
Net change in investment contract liabilities	(38,319)	(2,637)	(40,956)	(223,912)	–	(264,868)
Fees, commission and other acquisition costs	(1,991)	(26)	(2,017)	(19,690)	–	(21,707)
Administrative expenses:						
Amortisation charge on software assets	–	–	–	(2,188)	–	(2,188)
Depreciation charge on property and equipment	(22)	–	(22)	(187)	–	(209)
Other	(11,190)	(9,741)	(20,931)	(11,273)	(7,893)	(40,097)
Other operating expenses:	–					
Charge for amortisation of acquired value of in-force business	(4,778)	(701)	(5,479)	(3,802)	–	(9,281)
Charge for amortisation of acquired value of customer relationships	–	–	–	(263)	–	(263)
Other	(1,809)	(411)	(2,220)	(5,973)	(647)	(8,840)
Segmental expenses	(162,450)	(120,502)	(282,952)	(275,179)	(8,540)	(566,671)
Segmental income less expenses	42,037	(9,883)	32,154	4,133	(5,331)	30,956
Share of profit from associates	–	–	–	855	–	855
Financing costs	–	(4)	(4)	(663)	(2,341)	(3,008)
Profit/(loss) before tax	42,037	(9,887)	32,150	4,325	(7,672)	28,803
Income tax (expense)/credit			(5,045)	929	888	(3,228)
Profit/(loss) after tax			27,105	5,254	(6,784)	25,575

(vi) Segmental balance sheet as at 31 December 2014 (re-stated)*

	CA*	S&P	Movestic	Other Group Activities	Total
	£000	£000	£000	£000	£000
Total assets	2,020,863	1,234,780	1,999,102	83,301	5,338,046
Total liabilities	(1,870,682)	(1,181,721)	(1,940,262)	(66,548)	(5,059,213)
Net assets	150,181	53,059	58,840	16,753	278,833
Investment in associates	–	–	4,388	–	4,388
Additions to non-current assets	–	–	17,297	–	17,297

* Includes Protection Life Company Limited (previously shown separately).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

5 Business combinations

On 19 May 2015, Chesnara plc acquired the entire issued share capital (100%) of the Waard Group, a closed life assurance company based in Netherlands, from DSB Beheer B.V., a Dutch financial services group for a total consideration of £50,123,000. The acquired companies comprise of the three insurance companies Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V., and a service company, Tadas Verzekering. The Waard Group's policy base is predominantly made up of term life policies, although also includes unit-linked policies and some non-life policies, covering risks such as occupational disability and unemployment. The acquisition represented an attractive opportunity to purchase a closed book with the potential to generate significant cash flow over the near-to-medium term, while also providing a platform to participate in further consolidation within the Dutch and other European markets.

The acquisition of this shareholding has given rise to a profit on acquisition of £16.2m calculated as follows:

	Book value £000	Provisional fair value adjustments £000	Fair value £000
Assets			
Intangible assets			
Acquired value of in-force business	–	6,680	6,680
Software assets	25	–	25
Property and equipment	13	–	13
Reinsurers' share of insurance contract provisions	5,522	–	5,522
Financial assets:			
Equity securities at fair value through income	170	–	170
Holdings in collective investment schemes at fair value through income	45,131	–	45,131
Debt securities at fair value through income	37,793	–	37,793
Insurance and other receivables	679	–	679
Prepayments	64	–	64
Total financial assets	83,837	–	83,837
Reinsurers' share of accrued policyholder claims	1,084	–	1,084
Deferred tax asset	508	–	508
Income taxes	255	–	255
Cash and cash equivalents	104,381	–	104,381
Total assets	195,625	6,680	202,305
Liabilities			
Insurance contract provisions	113,633	–	113,633
Other provisions	3,025	–	3,025
Deferred tax liabilities	1,594	1,670	3,264
Reinsurance payables	72	–	72
Payables related to direct insurance contracts	2,337	–	2,337
Deferred income	11,316	–	11,316
Income taxes	576	–	576
Other payables	1,750	–	1,750
Total liabilities	134,303	1,670	135,973
Net assets	61,322	5,010	66,332
Net assets acquired			66,332
Total consideration, paid in cash			(50,123)
Profit arising on business combination			16,209

The assets and liabilities at the acquisition date in the table above are stated at their provisional fair values and may be amended for 12 months after the date of acquisition in accordance with IFRS 3, Business Combinations.

Acquired receivables: Within the net assets acquired are reinsurance related and other receivable balances totalling £7.3m, which are held at fair value. For all receivables other than reinsurers' share of insurance contract provisions the gross contractual amounts receivable are equal to fair value. The reinsurers' share of insurance contract provisions receivable balance of £5.5m is discounted as a result of the long-term nature of this asset. Gross contractual amounts receivable are estimated as being £6.4m.

Acquired value of in-force business: The acquisition has resulted in the recognition of net of tax intangible asset amounting to £5.0m, which represents the present value of the future post-tax cash flows expected to arise from policies that were in force at the point of acquisition. The asset has been valued using a discounted cash flow model that projects the future surpluses that are expected to arise from the business. The model factors in a number of variables, of which the most influential are; the policyholders' ages, mortality rates, expected policy lapses, expenses that are expected to be incurred to manage the policies and future investment growth, as well as the discount rate that has been applied. This asset will be amortised over its expected useful life.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

5 Business combinations (continued)

Gain on acquisition: As shown on the previous page, a gain of £16.2m has been recognised on acquisition. Under IFRS 3, a gain on acquisition is defined as being a “bargain purchase”. At the point of price negotiation and subsequent deal completion, the Waard Group was owned by DSB Bank N.V. (a wholly-owned subsidiary DSB Beheer B.V.) which was subject to bankruptcy proceedings in the Netherlands. In the opinion of the Directors this resulted in a disposal pricing strategy for the Waard Group that would have differed to that which would have been used had the businesses been sold by a Group that was a going concern.

Acquisition-related costs: The costs in respect of the transaction amounted to £3.7m. £2.7m of these costs have been included in Administration Expenses, of which £1.7m was recognised within the Consolidated Statement of Comprehensive Income in 2014, with the remainder recognised in the current period. Transaction costs of £1.0m were incurred in respect of the equity fund-raising and were deducted from equity in 2014.

Results of Waard Group: The results of the Waard Group have been included in the consolidated financial statements of the Group with effect from 19 May 2015. Net insurance premium revenue for the period was £0.2m, with contribution to overall consolidated profit before tax of £0.2m, before the amortisation of the AVIF intangible asset. Had the Waard Group been consolidated from 1 January 2015, the Consolidated Statement of Comprehensive Income would have included net insurance premium revenue of £1.3m, and would have contributed £1.7m to the overall consolidated profit before tax.

6 Borrowings

	Unaudited 30 June		31 December
	2015	2014	2014
	£000	£000	£000
Bank loan	64,431	73,190	64,327
Amount due in relation to financial reinsurance	23,406	22,030	22,969
Total	87,837	95,220	87,296

The bank loan subsisting at 30 June 2015 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. During 2014, £4.4m of the debt was repaid.
- 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. During 2014, £4.6m of the debt was repaid.
- on 27 November 2013 a short-term loan of £12.8m was drawn down. This was originally repayable in full on 27 May 2015. During 2014, the repayment date of the loan was extended to December 2018. 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 2015 was £64,800,000 (31 December 2014: £64,800,000).

The fair value of amounts due in relation to financial reinsurance was £23,944,162 (31 December 2014: £23,767,650).

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

7 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 2015. 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 2015 using				
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial Assets				
Equities				
Listed	465,350	–	–	465,350
Holdings in collective investment schemes	3,563,197	543	–	3,563,740
Debt securities - fixed rate				
Government Bonds	292,549	–	–	292,549
Listed	67,549	21,684	–	89,233
Debt securities - floating rate				
Listed	4,065	–	–	4,065
Total debt securities	364,163	21,684	–	385,847
Policyholders' funds held by the group	176,267	–	–	176,267
Derivative financial instruments	566	2,306	–	2,872
Total	4,569,543	24,533	–	4,594,076
Current				118,534
Non-current				4,475,542
Total				4,594,076
Financial liabilities				
Investment contracts at fair value through income	–	2,408,122	–	2,408,122
Liabilities related to policyholders' funds held by the group	176,267	–	–	176,267
Derivative financial instruments	49	607	–	656
Total	176,316	2,408,729	–	2,585,045

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.

The debt securities classified as Level 2 are structured bond-type or non-standard debt products, held by our newly acquired Dutch subsidiaries, for which there is no active market. These products were structured such that the principal amount invested was protected by high security assets, with the returns being linked to underlying pools of riskier, higher-return assets. At acquisition and the balance sheet date, the underlying assets supporting the coupon had under performed such that no coupon is being paid, resulting in these assets all now behaving like zero coupon bonds.

These assets are valued using counterparty or broker quotes and are periodically validated against third-party models.

These assets have been classified as Level 2 because the third-party valuation models include observable inputs to the valuation of these assets, including counterparty default spreads, yield curve swaps and foreign exchange swaps.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

7 Financial instruments fair value disclosures (continued)

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 2015 £000	30 June 2014 £000	31 December 2014 £000	30 June 2015 £000	30 June 2014 £000	31 December 2014 £000
Financial liabilities:						
Borrowings	87,837	95,220	87,296	88,744	96,009	88,568

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.

The Group holds no Level 3 liabilities as at the balance sheet date.

8 Approval of consolidated report for the six months ended 30 June 2015

This condensed consolidated report was approved by the Board of Directors on 27 August 2015. A copy of the report will be available to the public at the Company's registered office, 2nd Floor, Building 4, West Strand Business Park, West Strand Road, Preston, PR1 8UY and at www.chesnara.co.uk.

SECTION D

EEV SUPPLEMENTARY INFORMATION

IN THIS SECTION

62	Directors' Responsibilities Statement
63	Independent Auditor's Report
64	Summarised EEV Consolidated Income Statement
65	Summarised EEV Consolidated Balance Sheet
66	Notes to the EEV Supplementary Information

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
Chairman
27 August 2015

John Deane
Chief Executive Officer
27 August 2015

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 2015 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 2015. 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 2015 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 2015 has not been properly prepared in accordance with the EEV principles using the methodology and assumptions set out on pages 66 to 71.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London,
United Kingdom

27 August 2015

EEV CONSOLIDATED INCOME STATEMENT (UNAUDITED)

		Unaudited Six months ended 30 June		Year ended 31 December
	Note	2015 £000	2014 £000	2014 £000
Operating profit of covered business	6(b)	14,974	37,168	37,522
Other operational result	6(b)	(7,887)	(673)	(7,409)
Operating profit		7,087	36,495	30,113
Variation from longer-term investment return	6(b)	13,647	25,845	32,040
Effect of economic assumption changes	6(b)	2,263	(4,612)	(7,451)
Profit before tax and before exceptional item		22,997	57,728	54,702
Exceptional items				
Profit recognised on business combination	9	21,630	–	–
Effect of modelling adjustments	6(a)	5,903	–	–
Profit before tax		50,530	57,728	54,702
Tax	6(b)	285	(10,441)	(10,455)
Profit for the period attributable to the equity holders of the parent company		50,815	47,287	44,247
Earnings per share				
Based on profit for the period	10	40.20p	41.17p	38.24p
Diluted profit per share				
Based on profit for the period	10	40.14p	41.17p	38.20p

The notes and information on pages 66 to 79 form part of this supplementary information.

EEV CONSOLIDATED BALANCE SHEET (UNAUDITED)

		Unaudited 30 June		31 December
		2015	2014	2014
Assets	Note	£000	£000	£000
Value of in-force business	5, 8	264,451	279,305	243,671
Deferred acquisition costs arising on unmodelled business		398	447	523
Acquired value of customer relationships		170	323	245
Property and equipment		513	610	477
Investment in associate		4,453	4,367	4,388
Deferred tax asset		802	1,466	1,827
Reinsurers' share of insurance contract provisions		276,340	314,501	295,350
Amounts deposited with reinsurers		34,393	33,049	34,510
Investment properties		9,245	5,173	5,520
Financial assets				
Equity securities at fair value through income		465,350	475,344	475,983
Holdings in collective investment schemes at fair value through income		3,563,740	3,463,411	3,516,424
Debt securities at fair value through income		385,847	344,115	377,193
Insurance and other receivables		73,813	47,201	45,360
Prepayments		5,599	5,155	4,821
Policyholders' funds held by the Group		176,267	158,461	164,858
Derivative financial instruments		2,872	2,424	3,580
Total financial assets		4,673,488	4,496,111	4,588,219
Reinsurers' share of accrued policy claims		19,744	12,457	14,722
Income taxes		4,182	1,917	1,962
Cash and cash equivalents		279,813	219,290	241,699
Total assets		5,567,992	5,369,016	5,433,113
Liabilities				
Insurance contract provisions		2,297,553	2,267,960	2,266,196
Other provisions		3,017	4,052	729
Financial liabilities				
Investment contracts at fair value through income		2,415,260	2,346,550	2,396,953
Borrowings		94,536	101,084	94,323
Derivative financial instruments		656	525	49
Liabilities relating to policyholders' funds held by the Group		176,267	158,461	164,858
Total financial liabilities		2,686,719	2,606,620	2,656,183
Reinsurance payables		8,288	9,613	10,150
Payables related to direct insurance and investment contracts		80,288	47,425	58,789
Deferred income		10,805	–	–
Income taxes		8,704	10,756	4,168
Other payables		28,501	20,631	18,467
Bank overdraft		2,897	1,703	1,189
Total liabilities		5,126,772	4,968,760	5,015,871
Net assets		441,220	400,256	417,242
Equity				
Share capital		42,600	42,024	42,600
Share premium		76,523	42,526	76,523
Treasury shares		(168)	(212)	(168)
Foreign exchange reserve		(15,030)	3,884	(3,335)
Other reserves		50	50	50
Retained earnings		337,245	311,984	301,572
Total shareholders' equity	5, 8	441,220	400,256	417,242

The notes and information on pages 66 to 79 form part of this supplementary information.

Approved by the Board of Directors on 27 August 2015 and signed on its behalf by:

David Rimmington
Finance Director

John Deane
Chief Executive Officer

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

1 Basis of preparation

This section sets out the detailed methodology followed for producing the Group EEV Supplementary Information which is 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. The Supplementary Information has 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 the Supplementary Information 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 an IFRS basis.

Particular segment information

The Group acquired the Waard Group on 19 May 2015 which represents the Group's Dutch life and general insurance business. As a result, a further operating segment has been added in Notes 3 to 7. Furthermore, following the Part VII transfer on 31 December 2014 of the long-term business of Protection Life Company Limited into Countrywide Assured plc, the business of Protection Life (PL) is now reported within the CA segment, effective from 1 January 2015. Previously PL was reported as a separate segment. Comparative information has been restated to reflect this change.

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, Sweden and Netherlands, 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.
- (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 EEV consolidated income statement.
- (iii) for the Dutch Business the covered business comprises the long-term insurance business of Waard Leven and Hollands Welvaren. The general insurance business within Waard Schade is not included in the covered business, with the result relating to this business being established in accordance with IFRS principles and is included within 'other operational result' within the EEV consolidated income statement.
- (iv) The operating expenses of the holding company, Chesnara plc, are allocated across the segments.

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

3 Methodology

(a) Embedded value

Overview

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

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

New business

CA and S&P

Much of the covered business is in run-off and is, accordingly, substantially closed to new business. Up to 31 December 2012 the UK businesses did still sell a small amount of new business but, overall, the contribution from new business to the results established using EEV methodology is not material. Accordingly, not all of those items related to new business values, which are recommended by the EEV guidelines, are reported in this supplementary financial information.

Movestic

New business, in relation to the pensions and savings covered business is taken as all business where contracts are signed and new premiums paid during the reporting period, for both new policies and premium increases on existing business, but excluding standard renewals. New business premium volumes as disclosed in "Enhance value through new business" on pages 14 to 15 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		Year ended
	30 June		31
	2015	2014	December
	£m	£m	2014
			£m
New business premium income	22.1	31.2	47.4
Regular premium increments	9.0	10.0	15.8
Total new business premium income*	31.1	41.2	63.2

* Basis: annualised premium plus 1/10 single premium translated into sterling at the 2015 average rate of SEK 12.7619 = £1 (2014: SEK 11.2989) = £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)

Waard Group

Much of the covered business is in run-off and is, accordingly, substantially closed to new business. Accordingly not all of those items relating to new business values, which are recommended by the EEV guidelines, are reported in this supplementary information.

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. Allowance is made for any announced changes in corporation tax affecting future periods.

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.

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

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

3 Methodology (continued)

(a) Embedded value (continued)

Waard Group

The unit-linked business within Hollands Welvaren contains a minimum return to policyholders, of 20% of the premium. As this guarantee is substantially out of the money, it is ignored on materiality grounds

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 Movestic, 150% of the regulatory solvency requirement as determined by the regulations of the Finansinspektionen in Sweden.
- (iii) for the Waard Group, 200% of the regulatory solvency requirements as determined by the regulations of the De Nederlandsche Bank in the Netherlands.

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;
- (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; and
- (iii) for the Waard Group, by the retained surplus and by share capital and retained earnings within the shareholder funds of the regulated entities.

(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.

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 2014.

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 2014 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			Movestic		Waard Group	
	Unaudited 30 June		31 Dec	Unaudited 30 June		31 Dec	Unaudited 30 June		31 Dec	Unaudited 30 June
	2015	2014	2014	2015	2014	2014	2015	2014	2014	2015
5 year	1.71%	2.21%	1.46%	1.71%	2.21%	1.46%	0.74%	1.35%	0.65%	0.49%
10 year	2.18%	2.86%	1.88%	2.18%	2.86%	1.88%	1.61%	2.07%	1.27%	1.17%
15 year	2.37%	3.19%	2.12%	2.37%	3.19%	2.12%	1.97%	2.40%	1.63%	1.53%
20 year	2.41%	3.34%	2.26%	2.41%	3.34%	2.26%	2.16%	2.55%	1.82%	1.69%
25 year	2.40%	3.38%	2.29%	2.40%	3.38%	2.29%	2.16%	2.55%	1.82%	1.72%
30 year	2.37%	3.38%	2.30%	2.37%	3.38%	2.30%	2.16%	2.55%	1.82%	1.74%
Inflation – RPI	2.70%	2.90%	2.60%	2.70%	2.90%	2.60%	1.81%	1.65%	1.42%	1.50%

*The PL segment is now reported within the CA segment, and as such a single rate of 1.80% is applied for all durations (30 June 2014: 2.60% and 31 December 2014: 1.80%).

(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 8 July 2015, so reflect a reduction from the current rate of 20% to 19% from April 2017 and to 18% from April 2020.

(d) Expenses

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

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

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

For Movestic, these have been determined by reference to:

- (i) an expense analysis in which all expenses were allocated to covered and uncovered business, with expenses for the covered business being allocated to acquisition and maintenance activities; and
- (ii) expense drivers, being, in relation to acquisition costs, the number of policies sold during the period and, in relation to maintenance expenses, the average number of policies in force during the period.

For Waard Group, these have been determined by reference to:

- (i) expenses within the businesses of the covered business excluding those deemed to not relate to ongoing management of the covered business;
- (ii) consideration of a suitable allocation between fixed expenses and those that vary with business volumes; and
- (iii) the agreement in place with Tadas as the Group's internal administration company for the Dutch covered business.

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 2014 and 31 December 2014: 50 basis points), 100 basis points for Movestic (as at 30 June 2014: 100 basis points and 31 December 2014: 100 basis points) and 50 basis points for the Waard Group, gives due recognition to the relative sensitivity of the value of in-force business to the discount rate for the different businesses, and to the fact that:

a) For CA:

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

b) For S&P:

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

c) For Movestic:

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

d) For Waard Group:

- (i) the covered business is substantially closed to new business;
- (ii) reinsurance is used to significantly reduce insurance risks; and
- (III) there are no guarantees or other asymmetrical items within the cash flows.

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

5 Analysis of shareholders' equity

30 June 2015 (unaudited)						
	CA £000	S&P £000	Movestic £000	Waard Group £000	Other Group Activities £000	Total £000
Regulated entities						
Capital required	60,033	38,996	12,927	9,080	–	121,036
Free surplus	13,858	16,213	22,218	45,383	–	97,672
Regulatory capital resource of regulated entities	73,891	55,209	35,145	54,463		218,708
Adjustments to shareholder net worth:						
Deferred acquisition costs	–	–	(49,107)	–	–	(49,107)
Financial reinsurance liability	–	–	(4,937)	–	–	(4,937)
Software asset adjustment	–	–	(3,703)	–	–	(3,703)
Deferred tax	2,132	–	–	–	–	2,132
Adjustment to provisions on insurance contracts	–	3,643	–	–	–	3,643
Policyholder funds	–	(14,361)	–	–	–	(14,361)
Other asset / liability adjustments	(33)	13	5,687	(4,802)	–	865
Adjusted shareholder net worth	75,990	44,504	(16,915)	49,661	–	153,240
In-force value of covered business	88,163	15,347	150,051	10,890	–	264,451
Embedded value of regulated entities	164,153	59,851	133,136	60,551	–	417,691
Less: amount financed by borrowings	(39,023)	(25,408)	–	–	–	(64,431)
Embedded value of regulated entities attributable to shareholders	125,130	34,443	133,136	60,551	–	353,260
Net equity of other Group companies	–	–	1,753	12,764	73,443	87,960
Total shareholders' equity	125,130	34,443	134,889	73,315	73,443	441,220

30 June 2014 (unaudited)					
	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Regulated entities					
Capital required	61,780	43,328	14,514	–	119,622
Free surplus	35,662	13,899	19,320	–	68,881
Regulatory capital resource of regulated entities	97,442	57,227	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	100,363	45,394	(21,101)	–	124,656
In-force value of covered business	99,460	36,731	143,114	–	279,305
Embedded value of regulated entities	199,823	82,125	122,013	–	403,961
Less: amount financed by borrowings	(43,443)	(29,747)	–	–	(73,190)
Embedded value of regulated entities attributable to shareholders	156,380	52,378	122,013	–	330,771
Net equity of other Group companies	–	–	2,032	67,453	69,485
Total shareholders' equity	156,380	52,378	124,045	67,453	400,256

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

5 Analysis of shareholders' equity (continued)

31 December 2014					
	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Regulated entities					
Capital required	60,759	44,225	13,911	–	118,895
Free surplus	61,441	18,211	20,989	–	100,641
Regulatory capital resource of regulated entities	122,200	62,436	34,900		219,536
Adjustments to shareholder net worth:					
Deferred acquisition costs	–	–	(51,210)	–	(51,210)
Financial reinsurance liability	–	–	(5,179)	–	(5,179)
Software asset adjustment	–	–	(3,716)	–	(3,716)
Adjustment to provisions on insurance contracts	–	3,667	–	–	3,667
Deferred tax	2,240	–	–	–	2,240
Policyholder funds	–	(16,319)	–	–	(16,319)
Other asset / liability adjustments	(46)	5	5,644	–	5,603
Adjusted shareholder net worth	124,394	49,789	(19,561)	–	154,622
In-force value of covered business	86,067	11,540	146,064	–	243,671
Embedded value of regulated entities	210,461	61,329	126,503	–	398,293
Less: amount financed by borrowings	(38,960)	(25,367)	–	–	(64,327)
Embedded value of regulated entities attributable to shareholders	171,501	35,962	126,503	–	333,966
Net equity of other Group companies	–	–	1,936	81,340	83,276
Total shareholders' equity	171,501	35,962	128,439	81,340	417,242

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 2015 (unaudited)					
	CA £000	S&P £000	Movestic £000	Waard Group £000	Total £000
Free surplus at beginning of the period	61,441	18,211	20,989		100,641
Dividend paid to parent	(58,000)	(7,000)	–	–	(65,000)
Surplus arising in the period	9,691	1,732	245	640	12,308
Adjustments to required capital	726	5,230	984	44,743	51,683
Decrease in policyholder funds cover for capital requirement	–	(1,960)	–	–	(1,960)
Free surplus at end of the period	13,858	16,213	22,218	45,383	97,672

Six months ended 30 June 2014 (unaudited)				
	CA £000	S&P £000	Movestic £000	Total £000
Free surplus at beginning of the period	33,783	44,750	17,969	96,502
Dividend paid to parent	(17,000)	(31,000)	–	(48,000)
Surplus arising in the period	19,038	209	(998)	18,249
Adjustments to required capital	(159)	119	2,349	2,309
Decrease in policyholder funds cover for capital requirement	–	(179)	–	(179)
Free surplus at end of the period	35,662	13,899	19,320	68,881

Year ended 31 December 2014				
	CA £000	S&P £000	Movestic £000	Total £000
Free surplus at beginning of the year	33,783	44,750	17,969	96,502
Dividend paid to parent	(17,000)	(31,000)	–	(48,000)
Synergies and adjustments arising from Part VII transfer, including adjustments to required capital	(2,902)	–	–	(2,902)
Surplus arising in the year	43,796	3,727	68	47,591
Adjustments to required capital	3,764	(778)	2,952	5,938
Increase in policyholder funds cover for capital requirement	–	1,512	–	1,512
Free surplus at end of the year	61,441	18,211	20,989	100,641

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 2015 (unaudited)					
	CA £000	S&P £000	Movestic £000	Waard Group £000	Total £000
Value at beginning of period	86,067	11,540	146,064	–	243,671
Amount arising on acquisition	–	–	–	10,431	10,431
Amount charged to foreign exchange reserve	–	–	(12,053)	(144)	(12,197)
Amount credited to operating profit	2,096	3,807	16,040	603	22,546
Value at end of period	88,163	15,347	150,051	10,890	264,451

Six months ended 30 June 2014 (unaudited)					
	CA £000	S&P £000	Movestic £000		Total £000
Value at beginning of period	92,678	30,482	139,001		262,161
Amount charged to foreign exchange reserve	–	–	(11,591)		(11,591)
Amount credited to operating profit	6,782	6,249	15,704		28,735
Value at end of period	99,460	36,731	143,114		279,305

Year ended 31 December 2014					
	CA £000	S&P £000	Movestic £000		Total £000
Value at beginning of year	92,678	30,482	139,001		262,161
Amount charged to foreign exchange reserve	–	–	(19,817)		(19,817)
Amount (charged)/credited to operating profit	(6,611)	(18,942)	26,880		1,327
Value at end of period	86,067	11,540	146,064		243,671

S&P

EEV shareholders equity for the S&P segment 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.

Waard Group

The adjusted shareholder net worth of the Waard Group is that of the regulated entities, together with the net worth of the service company. Accordingly, for the Waard Group, the embedded value comprises the embedded value of the regulated entities and the value of the uncovered business, 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)		Year ended 31 December	
	2015 £000	2014 £000	2014 £000	
Shareholders' equity at beginning of the period	417,242	376,370	376,370	
Profit for the period attributable to shareholders before modelling adjustments	44,912	47,287	44,247	
Effect of modelling adjustments	5,903	—	—	
Profit for the period	50,815	47,287	44,247	
Issue of new shares				
Share capital	—	—	576	
Share premium	—	—	33,971	
Sale of treasury shares	—	—	70	
Foreign exchange reserve movement	(11,694)	(10,044)	(17,261)	
Dividends paid	(15,143)	(13,357)	(20,731)	
Shareholders' equity at end of the period	441,220	400,256	417,242	

Effect of modelling adjustments

Period ended 30 June 2015

During the six months to 30 June 2015 an adjustment of £5.9m has been reported relating to a tax error in the EEV model which resulted in the tax charge in the EEV model being overstated at 31 December 2014. This has been corrected in the period.

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

Six months ended 30 June 2015 (unaudited)							
	CA £000	S&P £000	UK Total £000	Movestic £000	Ward Group £000	Other Group Activities £000	Total £000
Covered business							
New business contribution	173	—	173	2,408	—	—	2,581
Return from in-force business							
Expected return	1,675	1,088	2,763	1,462	—	—	4,225
Experience variances	4,098	1,785	5,883	(3,025)	435	—	3,293
Operating assumption changes	390	(999)	(609)	5,446	—	—	4,837
Return on shareholder net worth	177	(139)	38	—	—	—	38
Operating profit of covered business	6,513	1,735	8,248	6,291	435	—	14,974
Variation from longer-term investment return	1,420	236	1,656	11,991	—	—	13,647
Effect of economic assumption changes	(888)	3,570	2,682	(419)	—	—	2,263
Profit of covered business before tax	7,045	5,541	12,586	17,863	435	—	30,884
Tax thereon			(1,197)	—	—	—	(1,197)
Profit of covered business after tax			11,389	17,863	435	—	29,687
Results of non-covered business and of other group companies:							
Profit recognised on business combination			—	—	—	21,630	21,630
(Loss)/profit before tax			—	(609)	205	(7,483)	(7,887)
Tax			—	(34)	—	1,516	1,482
Profit after tax			11,389	17,220	640	15,663	44,912

NOTES TO THE EEV SUPPLEMENTARY INFORMATION (UNAUDITED)

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

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

Six months ended 30 June 2014 (unaudited)						
	CA £000	S&P £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	1,215	129	1,344	2,582	–	3,926
Experience variances	3,487	1,842	5,329	601	–	5,930
Operating assumption changes	24,102	(3,095)	21,007	(3,885)	–	17,122
Return on shareholder net worth	804	3,215	4,019	–	–	4,019
Operating profit of covered business	29,986	2,097	32,083	5,085	–	37,168
Variation from longer-term investment return	7,673	7,600	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	36,348	6,649	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/(loss) after tax			32,691	16,766	(2,170)	47,287

Year ended 31 December 2014						
	CA £000	S&P £000	UK Total £000	Movestic £000	Other Group Activities £000	Total £000
Covered business						
New business contribution	794	–	794	8,904	–	9,698
Return from in-force business						
Expected return	2,552	(548)	2,004	5,145	–	7,149
Experience variances	5,437	(4,803)	634	(93)	–	541
Operating assumption changes	20,851	(4,632)	16,219	(5,219)	–	11,000
Return on shareholder net worth	1,626	7,508	9,134	–	–	9,134
Operating profit/(loss) of covered business	31,260	(2,475)	28,785	8,737	–	37,522
Variation from longer-term investment return	22,458	(8,582)	13,876	18,164	–	32,040
Effect of economic assumption changes	(4,651)	(3,121)	(7,772)	321	–	(7,451)
Profit/(loss) of covered business before tax	49,067	(14,178)	34,889	27,222	–	62,111
Tax thereon			(12,237)	–	–	(12,237)
Profit of covered business after tax			22,652	27,222	–	49,874
Results of non-covered business and of other group companies:						
Profit/(loss) before tax			–	262	(7,671)	(7,409)
Tax			–	894	888	1,782
Profit/(loss) after tax			22,652	28,378	(6,783)	44,247

The results of the non-covered business and of other group companies before tax and before exceptional items 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 2015 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 and the Waard Group for the six months ended 30 June 2015 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	Dutch business	Swedish business
	CA Pre-tax £m	S&P Pre-tax £m	Tax £m	UK Post-tax £m	Post-tax £m	Post-tax £m	£m
Published value as at 30 June 2015	187.2	59.9	(23.1)	224.0	133.1	60.6	2.4
Changes in embedded value/new business contribution arising from:							
Economic sensitivities							
100 basis point increase in yield curve	(3.8)	6.3	(0.9)	1.6	0.5	(0.1)	(0.1)
100 basis point reduction in yield curve	4.4	(8.7)	0.4	(3.9)	(0.5)	(0.5)	0.1
10% decrease in equity and property values	(7.5)	(10.2)	2.2	(15.5)	(13.4)	–	(0.1)
Operating sensitivities							
10% decrease in maintenance expenses	3.1	4.6	(0.9)	6.8	6.8	1.0	0.4
10% decrease in lapse rates	2.4	(1.1)	–	1.3	9.5	–	0.7
5% decrease in mortality/morbidity rates:							
Assurances	2.4	0.4	(0.2)	2.6	0.1	1.3	–
Annuities	(2.0)	(0.6)	–	(2.6)	n/a	–	n/a
Reduction in the required capital to statutory minimum	1.4	0.4	–	1.8	–	0.2	–

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 2015 (unaudited)						
	CA £000	S&P £000	Movestic £000	Waard Group £000	Other Group Activities £000	Total £000
Shareholders' equity on the IFRS basis	99,926	53,308	57,403	67,295	8,748	286,680
Reclassifications:						
Debt finance	(39,023)	(25,408)	–	–	64,431	–
Other	(264)	–	–	–	264	–
Adjustments:						
Deferred acquisition costs	(3,294)	–	(27,963)	–	–	(31,257)
Deferred income	6,024	–	–	–	–	6,024
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(7,542)	–	–	–	–	(7,542)
Adjustments to provisions on insurance contracts, net of reinsurers' share	26	(4,457)	–	–	–	(4,431)
Acquired in-force value	(19,974)	(4,347)	(35,550)	(6,088)	–	(65,959)
Acquired value of customer relationships	–	–	(778)	–	–	(778)
Software assets	–	–	(3,726)	–	–	(3,726)
Adjustment to borrowings	–	–	(6,699)	–	–	(6,699)
Deferred tax	1,088	–	2,151	1,218	–	4,457
Shareholder net worth	36,967	19,096	(15,162)	62,425	73,443	176,769
Value of in-force business	88,163	15,347	150,051	10,890	–	264,451
Shareholders' equity on the EEV basis	125,130	34,443	134,889	73,315	73,443	441,220
Shareholder net worth comprises:						
Shareholder net worth in regulated entities	75,990	44,504	(16,915)	49,661	–	153,240
Shareholders' net equity in other Group companies	–	–	1,753	12,764	73,443	87,960
Debt finance	(39,023)	(25,408)	–	–	–	(64,431)
Total	36,967	19,096	(15,162)	62,425	73,443	176,769

30 June 2014 (unaudited)					
	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Shareholders' equity on the IFRS basis	129,175	69,331	59,405	(5,991)	251,920
Reclassifications:					
Debt finance	(43,443)	(29,747)	–	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	(23,873)	(4,830)	(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	56,920	15,647	(19,069)	67,453	120,951
Value of in-force business	99,460	36,731	143,114	–	279,305
Shareholders' equity on the EEV basis	156,380	52,378	124,045	67,453	400,256
Shareholder net worth comprises:	–				
Shareholder net worth in regulated entities	100,363	45,394	(21,101)	–	124,656
Shareholders' net equity in other Group companies	–	–	2,032	67,453	69,485
Debt finance	(43,443)	(29,747)	–	–	(73,190)
Total	56,920	15,647	(19,069)	67,453	120,951

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 2014					
	CA £000	S&P £000	Movestic £000	Other Group Activities £000	Total £000
Shareholders' equity on the IFRS basis	150,181	53,059	58,840	16,753	278,833
Reclassifications:	–				
Debt finance	(38,960)	(25,367)	–	64,327	–
Other	(260)	–	–	260	–
Adjustments:	–				
Deferred acquisition costs	(3,516)	–	(26,910)	–	(30,426)
Deferred income	6,427	–	–	–	6,427
Adjustment to provisions on investment contracts, net of amounts deposited with reinsurers	(7,582)	–	–	–	(7,582)
Adjustments to provisions on insurance contracts, net of reinsurers' share	(23)	1,284	–	–	1,261
Acquired in-force value	(21,995)	(4,554)	(40,205)	–	(66,754)
Acquired value of customer relationships	–	–	(898)	–	(898)
Software assets	–	–	(3,715)	–	(3,715)
Adjustment to borrowings	–	–	(7,027)	–	(7,027)
Deferred tax	1,162	–	2,290	–	3,452
Shareholder net worth	85,434	24,422	(17,625)	81,340	173,571
Value of in-force business	86,067	11,540	146,064	–	243,671
Shareholders' equity on the EEV basis	171,501	35,962	128,439	81,340	417,242
Shareholder net worth comprises:					
Shareholder net worth in regulated entities	124,394	49,789	(19,561)	–	154,622
Shareholders' net equity in other Group companies	–	–	1,936	81,340	83,276
Debt finance	(38,960)	(25,367)	–	–	(64,327)
Total	85,434	24,422	(17,625)	81,340	173,571

9 Profit recognised on business combination

An EEV profit of £21,630,000 has arisen as a result of the purchase of 100% of the share capital of the Waard Group on 19 May 2015. The profit was measured as the difference between the purchase consideration of £50,123,000 and the European Embedded Value of the Waard Group at the purchase date, being £71,753,000, which was established in accordance with the methodology set out in Note 3 of the EEV supplementary financial information.

10 Earnings per share

	Six months ended 30 June 2015 p	2014 p	Year ended 31 December 2014 p
Basic earnings per share			
Based on profit for the period	40.20	41.17	38.24
Based on profit for the period before exceptional items	18.42	41.17	38.24
Diluted earnings per share			
Based on profit for the period	40.14	41.17	38.20
Based on profit for the period before exceptional items	18.39	41.17	38.20

11 Foreign exchange translation reserve

A foreign exchange translation reserve arises on the translation of the financial statements of Movestic and the Waard Group, the functional currency of which is the Swedish Krona and the Euro respectively, into pounds sterling, which is the presentational currency of the Group financial statements. For Movestic, items in the consolidated income statement are translated at the average exchange rate of SEK 12.7619 = £1 in the six months ended 30 June 2015 (year ended 31 December 2014: SEK 11.2989 = £1), while all items in the balance sheet are stated at the closing rates at the reported balance sheet date, being SEK 13.0522 = £1 at 30 June 2015 (SEK 12.0680 = £1 at 31 December 2014). For the Waard Group, items in the consolidated income statement are translated at the average exchange rate of Euro 1.3919 = £1 in the post acquisition period between 19 May and 30 June 2015. All items in the balance sheet are stated at the closing rate at the reported balance sheet date, being Euro 1.4118 = £1 at 30 June 2015. 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/Euro: £ exchange rate. For Movestic, had the exchange rate as at 30 June 2015 been 10% weaker at SEK 14.3574 = £1, then the reported embedded value of £441.2m as at 30 June 2015 would have been reduced to £428.2m. Had the Euro exchange rate as at 30 June 2015 been 10% weaker at Euro 1.5530 = £1, then the reported embedded value of £441.2m as at 30 June 2015 would have been reduced to £434.7m.

SECTION E

ADDITIONAL INFORMATION

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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 has held several non-executive posts within the industry.

John Deane was appointed as a Director of Chesnara plc on 3 December 2014. He assumed the role of CEO from 1 January 2015 on the resignation of Graham Kettleborough. John is a qualified Actuary and has over 30 years' experience in the life assurance industry. John joined Century Life, a closed book acquisition company in 1993. As CEO, he oversaw the creation of the outsourcing company Adepta in 2000. He joined Old Mutual plc in 2003 becoming their Corporate Development Director later that year. In 2007 he joined the Board of Royal London with responsibility for their open businesses in the UK, Ireland and Isle of Man. Since 2013, John has been leading a financial services consultancy which has been advising UK and overseas companies on a variety of strategic projects. John is a non-executive Director of Crossco (1337) plc, which is seeking to become a challenger bank (Atom).

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.

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 30 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 Oak (née 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 on 17 May 2013. On 16 February 2015, Veronica was appointed to the Board of the Hanley Economic Building Society as a Non-Executive Director and is a former Non-Executive of Family Assurance. 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 is a Non-executive Director at Exeter Friendly Society, where he is Chairman of the Investment Committee and also sits on the Audit, Risk and Compliance and the Nomination and Remuneration Committees. He is a qualified actuary who, prior to his retirement in June 2012, had worked for the Hannover Re Group in the UK, acting as the Managing Director of the UK life reinsurance subsidiary since 2003. David had been with the company since 1988, and a Director since 1990. During his career David has also held various roles with the Institute of Actuaries, including being a member of Council and he also served on the ABI Health Committee from 2006 to 2012.

Mike Evans is an Independent Non-executive Director who was appointed to the Chesnara plc Board on 4 March 2013. He serves on the Audit & Risk, Nomination and Remuneration Committees. Mike became Senior Independent Director on 17 May 2013. He is currently Non-executive Chairman of Hargreaves Lansdown plc, a FTSE 100 listed company, a position he has held since 2009. He 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 the Non-executive Chairman of Zoopla Property Group plc. In this role he also chairs the Nomination Committee and is a member of the Remuneration Committee. Mike is a qualified actuary and served in a number of Director level positions within Skandia UK between 1991 and 2006.

FINANCIAL CALENDAR

28 August 2015

Interim results for the six months ending 30 June 2015 announced.

10 September 2015

Ex dividend date.

11 September 2015

Dividend record date.

15 October 2015

Interim dividend payment date.

19 November 2015

Interim Management Statement for the quarter ending 30 September 2015 announced.

31 March 2016

Results for the year ending 31 December 2015 announced.

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ABI	Association of British Insurers – Represents the collective interests of the UK's insurance industry.	LTICR	Long-Term Insurance Capital Requirement – Capital required to be held for regulatory purposes in respect of investment, expense and insurance risks.
AGM	Annual General Meeting.	LTI	Long-Term Incentive Scheme – A reward system designed to incentivise employees' long-term performance.
ALM	Asset Liability Management – management of risks that arise due to mismatches between assets and liabilities.	MCEV	Market Consistent Embedded Value.
APE	Annual Premium Equivalent – an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.	Movestic	Movestic Livförsäkring AB.
CA	Countrywide Assured plc.	Modernac	Modernac SA , an associated company which is 49% owned by Movestic.
CALH	Countrywide Assured Life Holdings Limited and its subsidiary companies.	Official List	The Official List of the Financial Conduct Authority.
Directors or Board	The Directors of the Company as at the date of this document whose names are set out on page 82 of this document.	Ordinary Shares	Ordinary shares of five pence each in the capital of the Company.
DNB	De Nederlandsche Bank, being the Dutch Financial Supervisory Authority.		
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.	ORSA	Own Risk and Solvency Assessment.
Dutch Business	Waard Group, consisting of Waard Leven N.V., Hollands Welvaren Leven N.V., Waard Schade N.V. and Tadas Verzekeringen B.V.	PRA	Prudential Regulation Authority.
EEV	European Embedded Value.	PL	Protection Life Company Limited.
FCA	Financial Conduct Authority.	QRT	Quantitative Reporting Template.
FI	Finansinspektionen, being the Swedish Financial Supervisory Authority.	RCR	Risk Capital Requirement – additional amounts of capital required to be held for regulatory purposes as a result of two stress tests.
Form of Proxy	The form of proxy relating to the General Meeting being sent to Shareholders with this document.	Resolution	The resolution set out in the notice of General Meeting set out in this document.
FSMA	The Financial Services and Markets Act 2000 of England and Wales, as amended.	RMF	Risk Management Framework.
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.	Shareholder(s)	Holder(s) of Ordinary Shares.
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.	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.
Group	The Company and its existing subsidiary undertakings.	STI	Short-Term Incentive Scheme – A reward system designed to incentivise employees' short-term performance.
Guardian	Guardian Assurance plc.	Swedish Business	Movestic and its subsidiaries and associated companies.
HCL	HCL Insurance BPO Services Limited.	S&P	Save & Prosper Insurance Limited and Save & Prosper Pensions Limited.
IFRS	International Financial Reporting Standards.	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.
IFA	Independent Financial Adviser.	TSR	Total Shareholder Return, measured with reference to both dividends and capital growth.
IGD	Insurance Groups Directive – The European directive setting out the current capital adequacy regime for insurance groups.	UK or United Kingdom	The United Kingdom of Great Britain and Northern Ireland.
KPI	Key performance indicator	UK Business	CA, S&P and CALH
London Stock Exchange	London Stock Exchange plc.	VIF	Value of In-force business.
		Waard Group	Comprising the combined business of Waard Leven N.V., Hollands Welvaren Leven N.V., Waard Schade N.V., and Tadas Verzekeringen

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