

A large, stylized orange shape, resembling a thick, curved arrow or a partial circle, dominates the left and center of the page. It is set against a dark blue, textured background.

HALF YEAR REPORT FOR  
THE SIX MONTHS ENDED  
30 JUNE 2019

**Chesnara**



# WELCOME TO THE CHESNARA HALF YEAR REPORT

for the six months ended 30 June 2019

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# SECTION A:

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# OVERVIEW



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## SECTION A • OVERVIEW

- 04 Highlights
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## HIGHLIGHTS

## FINANCIAL



IFRS

**£66.6M****IFRS PRE-TAX PROFIT**

SIX MONTHS ENDED 30 JUNE 2018 £26.5M

Movement in the period largely arises within the Scildon business which has large IFRS profits due to asset movements which are not offset by reserve movements, as explained on page 28.

**£51.0M****IFRS TOTAL COMPREHENSIVE INCOME**

SIX MONTHS ENDED 30 JUNE 2018 £14.9M

The result includes a foreign exchange loss of £3.5m for the period (2018: loss of £6.9m).

Financial review **p28**

SOLVENCY

**155%****GROUP SOLVENCY**

31 DECEMBER 2018 158%

We are well capitalised at both group and subsidiary level under Solvency II.

Capital management **p24**

ECONOMIC VALUE

**£645.1M****ECONOMIC VALUE**

31 DECEMBER 2018 £626.1M

Movement in the period is stated after dividend distributions of £20.2m and includes a foreign exchange retranslation loss of £7.9m.

Financial review **p31**

ECONOMIC VALUE EARNINGS

**£47.1M****ECONOMIC VALUE EARNINGS**

SIX MONTHS ENDED 30 JUNE 2018 £13.6M

Financial review **p30****£3.8M****NEW BUSINESS PROFIT**

SIX MONTHS ENDED 30 JUNE 2018 £5.3M

Business review pages **18 and 21**

These financial highlights include the use of Alternative Performance Measures (APMs) that are not required to be reported under International Financial Reporting Standards. The definition for each of these items has been included in page 6 and in further detail within the Financial Review section on pages 26 to 27.

Note 1 – Symmetric adjustment: the Solvency II capital requirement calculation includes an adjusting factor that reduces or increases the level of the equity capital required depending on historical market conditions. Following periods of market growth, the factor tends to increase the level of capital required and conversely, in falling markets the capital requirement becomes less onerous.



CASH GENERATION

**£13.4M****GROUP CASH GENERATION**

SIX MONTHS ENDED 30 JUNE 2018 £48.6M

The 2019 result includes a cash strain of £13.1m from the symmetric adjustment impact <sup>Note 1</sup>. The prior year comparison benefited from £20m of net releases from the with-profits fund.

Financial review **p29****£2.4M****DIVISIONAL CASH GENERATION**

SIX MONTHS ENDED 30 JUNE 2018 £53.1M

The impact of equity growth and interest rate reductions on Own Funds and SCR resulted in cash utilisation in our European divisions, while the UK business continued to deliver solid cash generation. In Sweden and the UK, we saw a material negative symmetric adjustment impact <sup>Note 1</sup> broadly offsetting a corresponding gain in 2018.

Financial review **p29**

## HIGHLIGHTS

## OPERATIONAL &amp; STRATEGIC



## DIVIDEND

## INTERIM DIVIDEND INCREASE

Interim dividend increased by 3% to 7.43p per share (2018: 7.21p interim and 13.46p final).



## ECONOMIC BACKDROP

## EQUITY MARKET GROWTH, FALLING INTEREST RATES, WEAKENING SWEDISH KRONA

Rising equity markets and narrowing bond spreads since the turn of the year have supported significant investment returns and economic earnings. The economic conditions, including further downward pressure on interest rates, have been less beneficial for cash generation. A weakening of the krona against sterling has led to foreign exchange retranslation losses.

## 17

## IFRS 17

## GROUP-WIDE IFRS 17 PROGRAMME IS PROGRESSING TO PLAN

Following completion of the impact assessment and implementation plan in 2018, considerable progress has been made on the application of the technical aspects of the standard.

## SYMBOL GUIDE

Throughout the Half Year Report the following symbols are used to help distinguish between the various financial and non-financial measures reported:



IFRS



Cash generation



Economic Value



Economic Value earnings



Solvency



Dividend / Total Shareholder Return



Part VII



Operational performance



Compliance



New business market share



Acquisitions



Risk appetite



IFRS 17

# MEASURING OUR PERFORMANCE

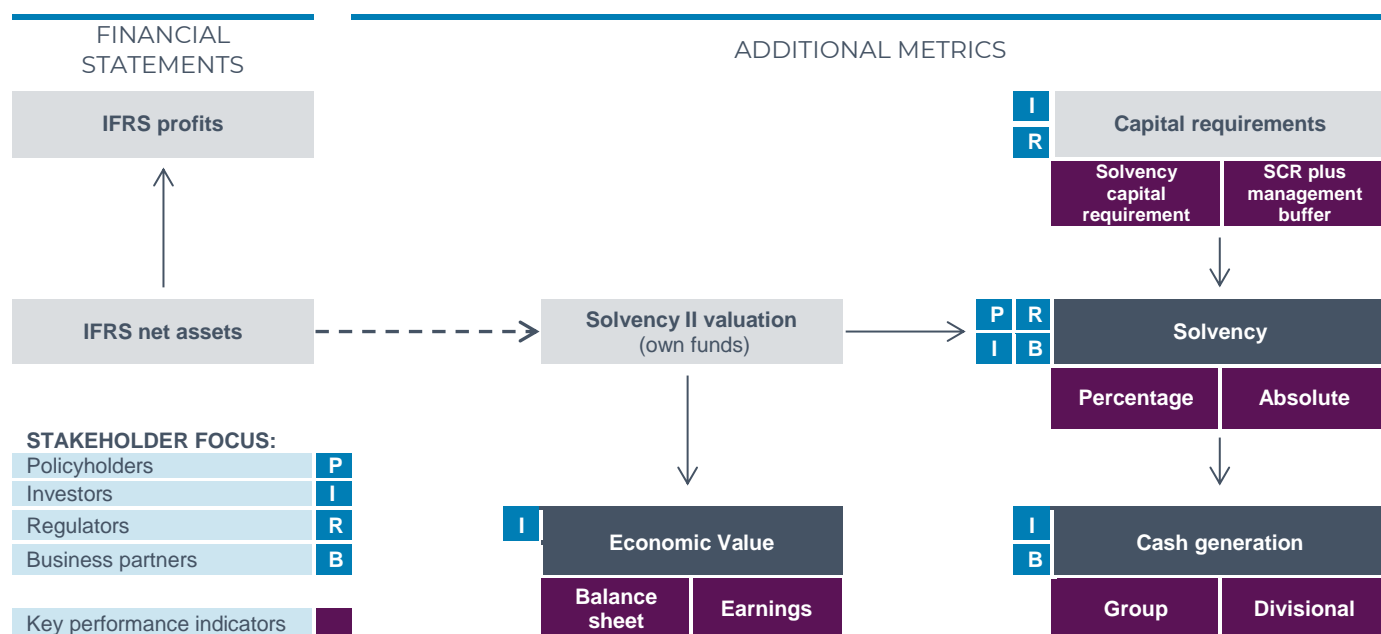
## HOW WE MEASURE PERFORMANCE WITHIN THIS HALF YEAR REPORT

Throughout this Half Year Report, we use measures to assess and report how well we have performed. The range of measures is broad and includes many measures that are not based on IFRS. The financial analysis of a life and pensions business also needs to recognise the importance of Solvency II figures, the basis of regulatory solvency. In addition, the measures aim to assess performance from the perspective of all stakeholders.

### FINANCIAL ANALYSIS OF A LIFE AND PENSION BUSINESS

Whilst the IFRS results form the core of the Half Year Report and hence retain prominence as a key financial performance metric, there is a general acceptance that the IFRS results in isolation do not adequately recognise the wider financial performance of a typical life and pensions business.

In light of the limitations of IFRS reporting, this Half Year Report adopts several Alternative Performance Measures (APMs) to present a more meaningful view of the financial position and performance. The non-IFRS APMs have at their heart the Solvency II valuation known as Own Funds and as such, all major financial APMs are derived from a defined rules-based regime. The diagram below shows the core financial metrics that sit alongside the IFRS results, together with their associated KPIs and interested parties.



### SOLVENCY

Solvency is a fundamental financial measure which is of paramount importance to investors and policyholders. It represents the relationship between the value of the business as measured on a Solvency II basis and the capital the business is required to hold - the Solvency Capital Requirement (SCR). Solvency can be reported as an absolute surplus value or as a ratio.

Solvency gives policyholders comfort regarding the security of their provider. This is also the case for investors together with giving them a sense of the level of potential surplus available to invest in the business or distribute as dividends (subject to other considerations and approvals).

Further detail on p23 to 25

### ECONOMIC VALUE

Economic Value (EcV) is deemed a more meaningful measure of the long-term value of the group and it generally approximates to Embedded Value reporting, which was used before the introduction of SII. In essence, the IFRS balance sheet is not generally deemed to represent a fair commercial value of our business, as it does not fully recognise the impact of future profit expectations of long-term policies.

EcV is derived from Solvency II Own Funds and recognises the impact of future profit expectations from existing business.

Further detail on p30 to 31

### CASH GENERATION

Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.

Group cash generation is calculated as the movement in the group's surplus own funds above the group's internally required capital, as determined by applying the group's capital management policy, which has Solvency II rules at its heart.

Divisional cash generation represents the movement in surplus own funds above local capital management policies within the three operating divisions of Chesnara. Divisional cash generation is used as a measure of how much dividend potential a division has generated, subject to ensuring other constraints are managed.

Further detail on p29

## MEASURING OUR PERFORMANCE

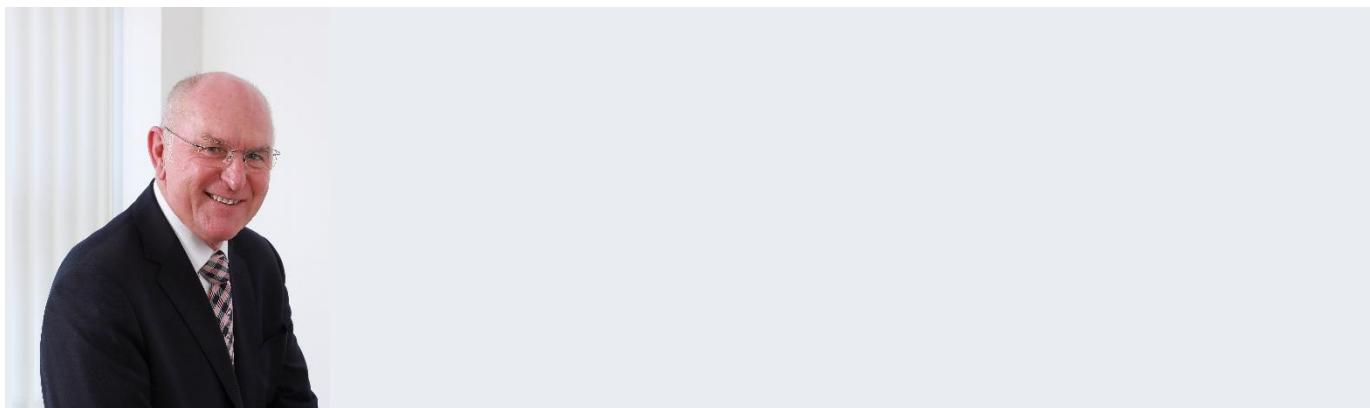
### OPERATIONAL AND OTHER PERFORMANCE MEASURES

In addition to the financial performance measures, this Half Year Report includes measures that consider and assess the performance of all of our key stakeholder groups. The diagram below summarises the performance measures adopted throughout this report.

KEY STAKEHOLDERS					What is it and why is it important?	
Measure	Policyholder	Investor	Regulators	Business Partner *		
Customer service levels	●	●	●	●	How well we service our customers is of paramount importance and so through various means we aim to assess customer service levels. The business reviews within the Report & Accounts refer to a number of indicators of customer service levels.	Pages 16-21
Broker satisfaction	●	●	●	●	Broker satisfaction is important because they sell new policies, provide ongoing service to their customers and influence book persistency. We include several measures within the Report & Accounts, including direct broker assessment ratings for Movestic and general assessment of how our brands fare in industry performance awards in the Netherlands.	Pages 18-21
Policy investment performance	●	●	●	●	This is a measure of how the assets are performing that underpin policyholder returns. It is important as it indicates to the customer the returns that their contributions are generating.	Pages 16-21
Industry performance assessments	●	●	●	●	This is a comparative measure of how well our investments are performing against the rest of the industry, which provides valuable context to our performance.	Pages 16-21
Funds under management	●	●	●	●	This shows the value of the investments that the business manages. This is important because scale influences operational sustainability in run-off books and operational efficiency in growing books. Funds under management are also a strong indicator of fee income.	Pages 18-21
Policy count	●	●	●	●	Policy count is the number of policies that the group manages on behalf of customers. This is important to show the scale of the business, particularly to provide context to the rate at which the closed book business is maturing. In our open businesses, the policy count shows the net impact of new business versus policy attrition.	See annual Report & Accounts
Total shareholder returns	●	●	●	●	This includes dividend growth and yield and shows the return that an investor is generating on the shares that they hold. It is highly important as it shows the success of the business in translating its operations into a return for shareholders.	See annual Report & Accounts
New business profitability	●	●	●	●	This shows our ability to write profitable new business which increases the value of the group. This is an important indicator given one of our core objectives is to "enhance value through profitable new business".	Pages 18-21
New business market share	●	●	●	●	This shows our success at writing new business relative to the rest of the market and is important context for considering our success at writing new business against our target market shares.	Pages 18-21
Gearing ratio	●	●	●	●	Gearing is a ratio of debt to IFRS net assets and shows the extent to which the business is funded by external debt versus internal resources. The appropriate use of debt is an efficient source of funding but in general, Chesnara seeks to avoid becoming overly dependent on permanent debt on the balance sheet.	See annual Report & Accounts
Knowledge, skills and experience of the Board of Directors	●	●	●	●	This is a key measure given our view that the quality, balance and effectiveness of the Board of Directors has a direct bearing on delivering positive outcomes to all stakeholders.	See annual Report & Accounts

\* For the purposes of this key performance indicator assessment business partners refers to major suppliers and outsource partners.

## CHAIRMAN'S STATEMENT



I am pleased to report that during the first half of 2019 we delivered good growth in Economic Value. The closing Economic Value of £645.1m is 3% higher than at the end of 2018, after payment of the 2018 final dividend of £20.2m, despite the negative impact of a weakening Swedish krona.

Falls in interest rates, a recovering equity market and the impact in Sweden and the UK of the Solvency II symmetric adjustment, created generally adverse conditions for cash generation. However, our strong cash balance at group along with the half year performance supports the increase of our interim dividend.

Operationally the business continues to make progress. In Sweden, funds under management, which are the core source of income for Movestic, have increased by 15% during the first half of the year. At a total group level, despite the closed nature of the UK book, the total funds under management have also increased during the period. The robustness of the total funds is a strong indicator of the sustainability of the Chesnara business and financial model.

The Scildon development programme work is beginning to have a positive impact with total acquisition costs being 18% lower compared to the first half of 2018, with stable new business levels. There is more to do but it is encouraging to see positive signs from the hard work being undertaken.

While Brexit is dominating the news headlines, we do not need to make any immediate changes to the structure of the company irrespective of the possible form of Brexit. Management will remain focused on the performance of the component businesses in our three territories, where their strong solvency provides security for our customers and investors and opportunity to continue the cash generation that supports the Chesnara dividend delivery.

A handwritten signature in black ink, appearing to read 'P. Mason'.

PETER MASON,  
CHAIRMAN

Against a backdrop of continuing political uncertainty, further downward pressure on interest rates and during a period of significant operational development, the Chesnara business model has held up well.

Economic Value has increased with earnings of £47.1m significantly exceeding the payment of the final 2018 dividend and contributing to an £19.0m increase in total Economic Value. From an IFRS results perspective, the profit before tax of £66.6m is significantly up on the comparative result in 2018 of £26.5m. This is predominantly due to the strong Scildon results, which benefited from valuation gains in its bond portfolio as a result of narrowing spreads, not offset by corresponding movements to reserves

At the heart of Chesnara's proposition as a reliable income stock, the UK book has continued to generate sufficient cash to support the Chesnara dividend. The total group cash results have however been suppressed by continued downward pressure on interest rates. In addition, the Solvency II standard formula capital model is more onerous regarding capital requirements for equity exposure during a period of strong equity market recovery. This dynamic, termed the "symmetric adjustment" has increased capital requirements during the period, with a corresponding cash strain of £13.1m, but does not compromise the future cash generation potential of the business. During the final quarter of 2018 when equity markets fell sharply we experienced an almost equal and opposite positive impact from the "symmetric adjustment".

Despite the strain from the symmetric adjustment we have generated £13.4m of cash during the period (6 months to 30 June 2018: £48.6m). In the absence of the symmetric adjustment strain during the second half of the year, we would expect the full year cash outcome to more than cover the annual dividend.

Total new business profits of £3.8m are down compared to the first half of 2018 (£5.3m) although in light of the first signs of improvements from the Scildon change programme, we retain our expectation to replace a meaningful proportion of the value lost from payment of the dividend through writing new business.

As we have previously reported, Scildon remains in transition. In a competitive market, it is pleasing to report that sales volumes remain stable. There has been a modest improvement in the profitability of Scildon's new business, predominately as a result of an 18% reduction in acquisition costs, which is an encouraging initial indication of positive rewards from the change programme.

The resilience of the established business units creates a strong foundation to support the continued improvement programme in Scildon.

## 01

## MAXIMISE VALUE FROM EXISTING BUSINESS

**Economic value earnings of £47.1m represent over 300% coverage of the dividend based on our historic dividend strategy on an annualised basis.**

See pages 16 to 21 for further information.

All divisions have made material positive contributions to the overall Economic Value earnings of £47.1m. Much of the improvement is driven by an increase in equity and fixed interest investment valuations. It is pleasing to see a good proportion of market driven losses in 2018 being recovered. Movestic has delivered 2% growth despite fully recognising the adverse future impact of regulatory changes regarding policy transfer processes and charges. The total Economic Value movement includes foreign exchange losses of £7.9m.

Cash generated is somewhat muted in the period but is in line with the levels we would expect during a period of strong equity market recovery. In particular, the results include the aforementioned negative impact from the "symmetric adjustment" which reverses out a similar positive impact in 2018. This equity dynamic is most prominent in the Swedish business and hence the Movestic cash utilisation of £8.0m does not compromise the future cash generation potential of the business.

Much of the Scildon cash utilisation of £7.4m is caused by downward pressure on long-term interest rates and a slight shift in mix of the underlying assets, which have led to an increase in the capital requirement. Due to the movement in interest rates, the Scildon cash utilisation includes an £8.3m strain as a result of an increase in lapse capital requirement. This reverses out in the consolidated group capital requirement. During the second half of 2019, proposed changes in Scildon's asset mix are expected to have a positive impact on cash generation.

The UK business has generated £16.2m of cash, which on an annualised basis, excluding the short-term impacts from the equity market growth, continues to more than fund the dividend strategy.

## 02

## ACQUIRE LIFE AND PENSIONS BUSINESSES

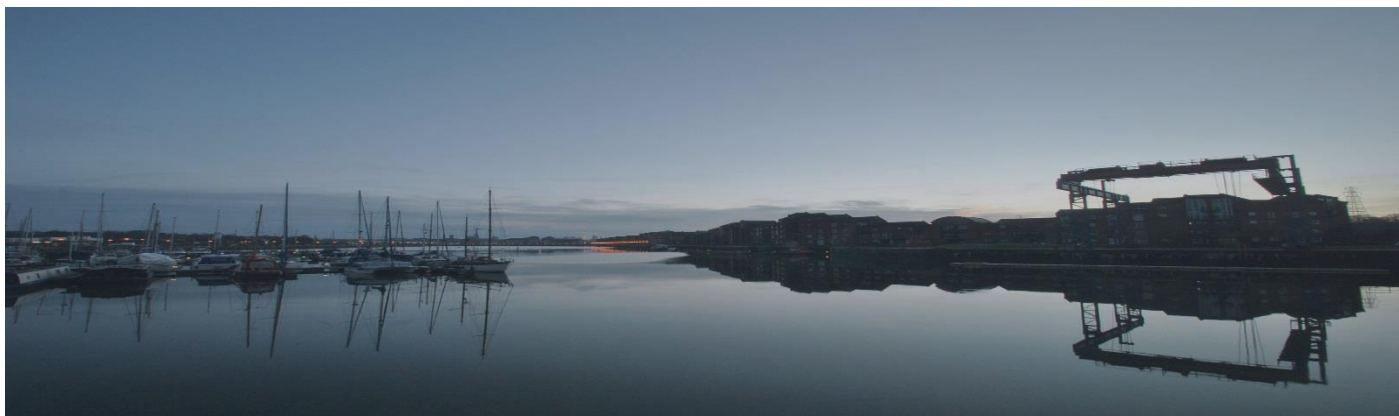
**We have continued to see activity in our target markets.**

See page 22 for further information.

## ACQUISITION ACTIVITY CONTINUES TO TAKE PLACE IN OUR TARGET MARKETS, WITH OPPORTUNITIES CONTINUING TO EMERGE.

We have witnessed an increase in activity in the territories in which Chesnara currently operates and also those where we do not have operations. We believe we have also seen a rise in seller's valuations and prices paid for potential targets. We have continued to measure potential targets against our stringent acquisition assessment, focusing on the price compared to the EcV, the cash generation capability, the strategic fit and the risks within the target.

## CHAIRMAN'S STATEMENT (CONTINUED)



We are committed to maintaining our discipline when assessing potential acquisitions and ensuring that any offer we make is in the interests of all of our stakeholders, with suitable reward for the additional risks taken on. Chesnara has strong support from shareholders and lending institutions to progress our acquisition strategy. We also believe that our operating model has the flexibility to accommodate a wide range of potential target books. We believe our good network of contacts in the adviser community, who understand the Chesnara acquisition model, ensures that we are aware of most viable opportunities in the UK and Western Europe. With this in mind, we are confident that we are well positioned to continue the successful acquisition track record in the future.

03

### ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

**New business profits of £3.8m**

See pages 18 to 21 for further information.

Chesnara writes new business in both Sweden and the Netherlands. The ultimate aim is to create sufficient annual profits, either through returns on the existing business, or through writing new business, to replace a significant proportion of the Economic Value lost by way of dividend payments. Movestic continues to deliver within its target volume range although profits of £2.3m for the six months to 30 June 2019 have decreased compared to the first half of 2018 (£4.6m). This is due to a number of factors including a shift away from single premium transfers, pressure on fee levels and legislative changes regarding transfer-out charges and processes. The shift from single premium transfers appears to be a temporary issue and during the second quarter the profile recovered to a more expected level. Several other initiatives are due to commence during the second half of the year which are expected to further enhance profitability levels. These include:

- Further roll-out of the ongoing digitalisation programme with the specific objective to enhance the broker experience e.g. extending access to robot advice functionality to brokers;
- New funds and functionality, including the recent launch of funds with protected return features and the plan to launch further products to broaden the customer offering; and
- Structural changes to simplify the corporate structure.

Scildon are not currently generating sufficient new business profits although the profit for the period of £1.5m has improved by 150% from the first 6 months of 2018 with an encouraging 18% reduction in acquisition expenses. There remains much to do but seeing some real rewards from the hard work to date gives cause for optimism that more meaningful new business profits are attainable.

We expect the change programmes in both Sweden and the Netherlands to have an increasingly positive impact through the rest of the year and beyond.

**NEW BUSINESS PROFITS HAVE CONTINUED TO EMERGE FROM MOVESTIC IN A CHANGING MARKET. SCILDON'S NEW BUSINESS OPERATION IS SHOWING PROMISE, ALTHOUGH THERE REMAINS WORK TO BE DONE.**

#### Solvency

The group continues to show a robust solvency ratio of 155% at 30 June 2019 (31 December 2018: 158%). To continue to manage capital effectively and as a result of the ongoing volatility that has been witnessed in bond spreads over recent periods, we have applied the Volatility Adjustment for the first time within Scildon's results, which has had a modest positive impact. The closing solvency position is stated after recognising the £11.1m cost of the interim dividend, which will be paid in October 2019.

#### Regulation and governance

##### IFRS 17

The delivery of the new insurance accounting standard, IFRS 17, continues to be a focus of Chesnara ahead of the implementation of the standard in 2022. Our programme continues to progress well and 2019 has seen a focus across the group on the assessment of the application of the technical aspects of the standard and initial considerations of the operational design. We have previously provided for the cost of delivering the programme within our actuarial expense reserves and these estimates have remained unchanged.

We continue to be of the view that IFRS 17 should not have any significant bearing on the commercial assessment of Chesnara, with our expectation that capital management decision making will continue to be driven by regulatory solvency and Economic Value as opposed to our IFRS results and position.

##### Regulatory compliance

Compliance with regulation remains a priority for the group. We have continued to maintain a positive and constructive relationship with regulatory bodies across the group.

##### Governance framework

We continue to place great importance on ensuring our risk and governance system is fit for purpose. Work has continued to progress on ensuring that Scildon's risk and governance monitoring and reporting routines are in line with the wider group's.

AT CHESNARA WE HAVE ALWAYS MANAGED OUR BUSINESS IN A RESPONSIBLE WAY AND HAVE A STRONG SENSE OF ACTING IN A FAIR MANNER, GIVING FULL REGARD TO THE RELATIVE INTERESTS OF ALL STAKEHOLDERS.

#### Corporate purpose

We assess our corporate purpose by considering the following eight aspects of our business and by looking at the business from the perspective of all stakeholders.

#### Business model

- Our acquisition strategy is built upon long-term commitments to any markets in which we operate. Our consolidation model therefore offers a genuine solution to the challenges certain insurance markets face.

#### The products and services we provide

- We help protect people and their dependants through the provision of life, health and disability cover or by providing savings and pensions, which help customers with their financial needs in the future. We seek to provide customers and their advisers with helpful and reliable support.

#### Sustainability

- Driven in part by consumer demand, especially in our Dutch and Swedish operations, there is a continued positive shift towards an increased focus of sustainable fund investments.
- The nature of our business is such that in general we have a relatively low carbon footprint.

#### Shareholder proposition

- Investors, especially in a low interest rate environment do have a genuine need for income and hence our investor proposition, track record and responsible approach provides an investment opportunity for individuals seeking sustainable equity based income.

I AM PLEASED TO REPORT A 3% INCREASE IN THE INTERIM DIVIDEND.

#### Taxation

- As detailed in our tax strategy, we adopt a responsible and open approach to taxation and, as a consequence, pay the appropriate taxes throughout the group.

#### Staff

- We provide high quality jobs with competitive remuneration and good working conditions both directly and through outsourced arrangements.

#### Suppliers and partners

- We seek mutually respectful and sustainable relationships with our suppliers. We believe that supplier relationships only work in the long term if the terms and conditions are mutually beneficial. Our instinct and natural preference is to maintain established long-term supplier relationships where they remain commercially competitive and operationally viable.

#### Local community

- In the UK our investment and continued commitment to the North West and Preston in particular creates high quality financial services roles outside of London.
- All divisions support local community initiatives to the extent deemed appropriate given our financial responsibilities as a PLC.

OUR VIEW IS THAT CHESNARA FULFILS A POSITIVE CORPORATE PURPOSE.

#### Outlook and Brexit

I remain optimistic that Chesnara can continue to deliver against its strategic objectives, which in turn fund our well established dividend strategy. The notable increase in Economic Value supports my optimism.

Looking forward, we foresee a sustained period of low interest rates and this will continue to put a degree of downward pressure on our cash generation. That said, even in the current low interest environment we believe the core business results together with the potential to initiate a range of management actions, means our future cash potential supports our dividend strategy for many years. In particular, the UK business remains a robust source of cash, with additional potential to take management actions to enhance the core cash. The nature of the cash utilisation in our overseas divisions together with the potential for future capital reduction actions, particularly in Scildon (analysed in more detail on page 21), means we retain a positive outlook regarding cash contributions in the future.

We now have sufficient scale and presence in both the UK and the Netherlands to continue our focus on acquisition activity in those territories in a disciplined manner. That discipline means we will not do a deal if the price does not offer the appropriate value to our shareholders. We also remain open minded about new territories but the benefits would need to outweigh the inherent challenge of adding another regulatory environment into our business model. Our balance sheet has further capacity for debt and having completed a debt syndication process last year, we are in a strong position to take advantage of that balance sheet capacity. We have significant levels of surplus capital and recent experience suggests we retain shareholder support for further equity for the right deal. This, together with operational capacity, means we remain well positioned to act should an opportunity arise that meets our stringent price and risk profile criteria.

We remain committed to writing new business in both Sweden and the Netherlands with a view to replacing a meaningful proportion of the dividend strain through our new business operations. This is a material dampener to any run-off strain. Movestic has become an established profitable new business operation and, despite the current pricing pressures in the market, we continue to expect the division to deliver meaningful levels of profit in the future. We recognise that current new business profits from Scildon are not sufficient; however, the sustained volumes and reducing cost base do create a degree of encouragement that more meaningful profits can be delivered in the future.

The structure of the group, with established regulated entities in three European countries, together with the fact we do not trade or share resource across territories, means I remain of the view that whatever the outcome from the Brexit negotiations, we expect it to have little direct impact on our business model. In the event that Brexit has a negative impact on the value of sterling, relative to the euro and Swedish krona, as has been the case since the 30 June 2019, then the value of Chesnara would increase.

In light of the above, I remain confident that Chesnara is well positioned to continue to provide value to policyholders and shareholders.



Peter Mason  
Chairman  
29 August 2019

SECTION B:

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# MANAGEMENT REPORT



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## SECTION B • MANAGEMENT REPORT

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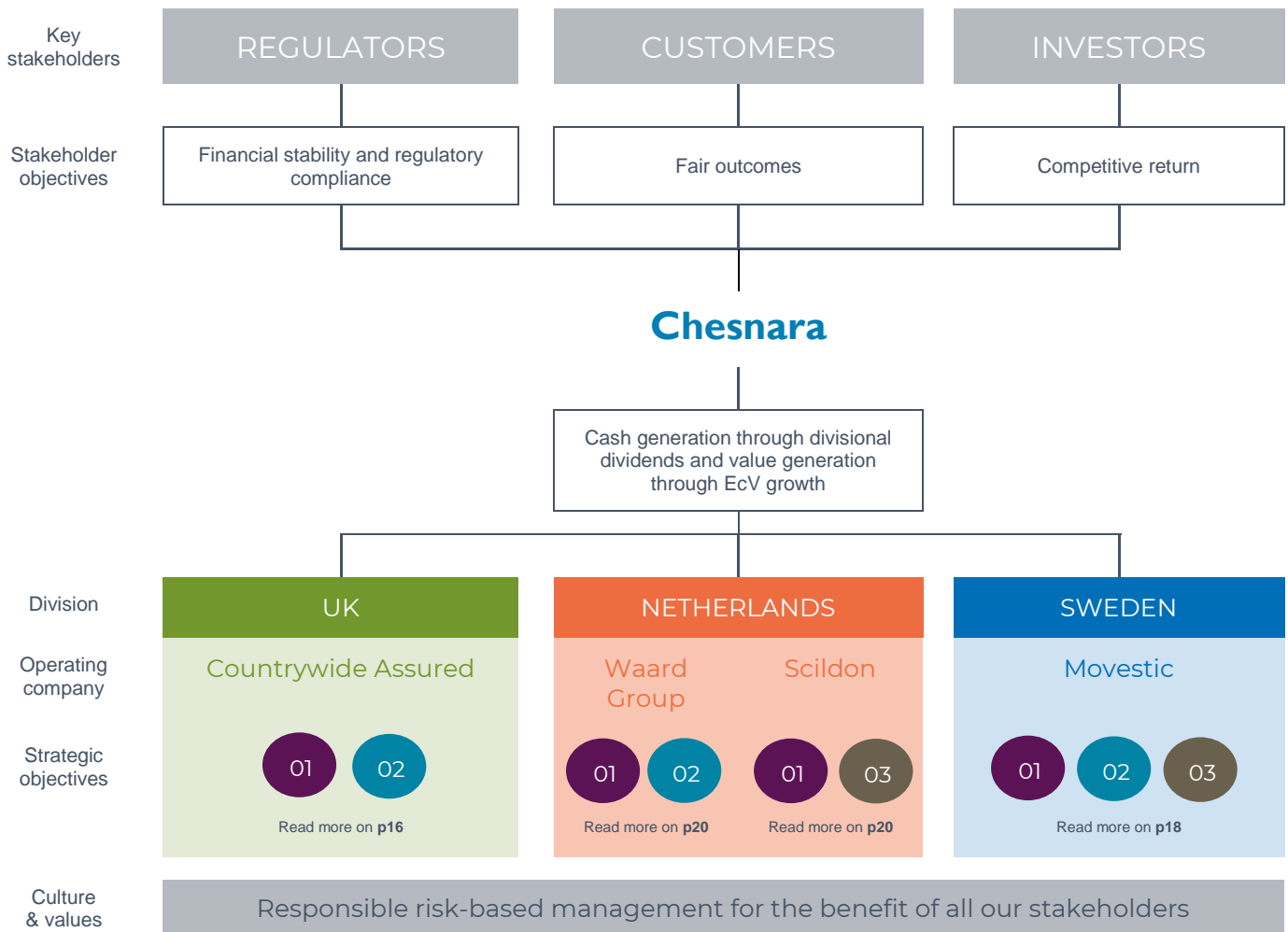


## BUSINESS REVIEW • INTRODUCTION

### OVERVIEW OF OUR STRATEGY, CULTURE & VALUES AND BUSINESS MODEL

Our strategy focuses on delivering value to policyholders and shareholders. The strategy is delivered through a proven business model underpinned by a robust risk management and governance framework and our established culture & values.

### OUR BUSINESS MODEL



### OUR STRATEGIC OBJECTIVES

01

#### MAXIMISE THE VALUE FROM EXISTING BUSINESS

Managing our existing customers fairly and efficiently is core to delivering our overall strategic aims.

02

#### ACQUIRE LIFE AND PENSIONS BUSINESSES

Acquiring and integrating companies into our business model is key to continuing our growth journey.

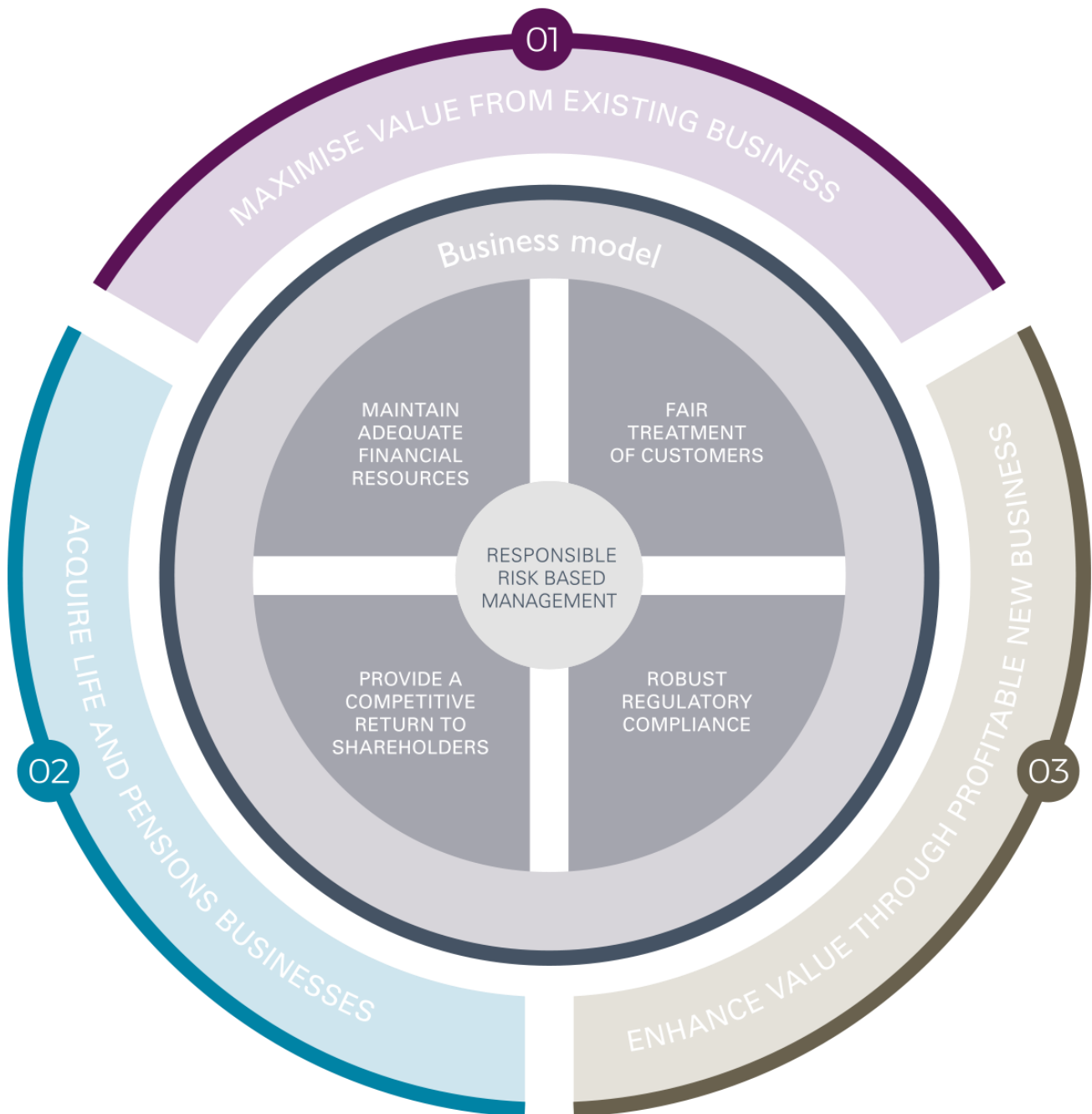
03

#### ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

Writing profitable new business supports the growth of our group and helps mitigate the natural run-off of our book.

## BUSINESS REVIEW • INTRODUCTION

OVERVIEW OF OUR STRATEGY, CULTURE & VALUES AND BUSINESS MODEL



## BUSINESS REVIEW • UK

The UK division is principally made up of the insurance company Countrywide Assured plc. The company manages c270,000 policies and is in run-off. Countrywide Assured follows an outsourcer-based operating model, with functions such as customer services, investment management and accounting and actuarial services being outsourced. A central governance team is responsible for managing all outsourced operations.

MAXIMISE VALUE FROM EXISTING BUSINESS

### BACKGROUND INFORMATION

#### CAPITAL & VALUE MANAGEMENT

- As a closed book, the division creates value through managing the following key value drivers: costs; policy attrition; investment return; and reinsurance strategy.
- In general, surplus regulatory capital emerges as the book runs off. The level of required capital is closely linked to the level of risk to which the division is exposed. Management's risk-based decision-making process seeks to continually manage and monitor the balance of making value enhancing decisions whilst maintaining a risk profile in line with the board's risk appetite.
- At the heart of maintaining value is ensuring that the division is governed well from a regulatory and customer perspective.

### INITIATIVES & PROGRESS IN 2019

- The results for the first six months of the year have been driven in large by investment market factors, notably equity price increases coupled with falls in risk-free yields. The results are analysed further on pages 23 to 31.
- EcV earnings of £25.2m in the period.
- Cash of £16.2m has been generated in the period, continuing to support the dividend strategy of the division.
- IFRS profit of £25.8m has been generated in the period.
- Progress has been made in reviewing the operating model used to deliver the investment management of our unit linked policyholder funds.

#### CUSTOMER OUTCOMES

- Treating customers fairly is one of our primary responsibilities. We seek to do this by having effective customer service operations together with competitive fund performance whilst giving full regard to all regulatory matters. This supports our aim to ensure policyholders receive good returns, appropriate communication, and service in line with customer expectations.
- The division's multi-year customer strategy implementation programme is nearing its completion, having delivered further enhanced customer communications in the period, including further improvements to the CA website.
- Our customer tracing process has continued. This seeks to ensure that we have the most up to date contact information for our customers and, where contact had been lost, we can reunite them with their policies.
- Following the completion of the programme, the division expects that it will have enhanced processes and procedures in place that continue to deliver fair customer outcomes and meet our obligations under the FCA's Final Guidance 16/8 regarding long-standing customers.
- We closely monitor regulatory developments to ensure we continue to treat our customers fairly in accordance with our business model and regulatory requirements.

#### GOVERNANCE

- Maintaining effective governance and a constructive relationship with regulators underpins the delivery of the division's strategic plans.
- Having robust governance processes provides management with a platform to deliver the other aspects of the business strategy. As a result, a significant proportion of management's time and attention continues to be focused on ensuring that both the existing governance processes, coupled with future developments, are delivered.
- Progressed the IFRS 17 "Insurance contracts" development programme, focusing on the technical application of the accounting standard, which was revised during the year.
- The division's operational resilience review programme over critical business services has continued. This focuses on ensuring we continue to operate to the high standards that are expected of us even under stressed conditions.
- Positive engagement with all regulators has continued.

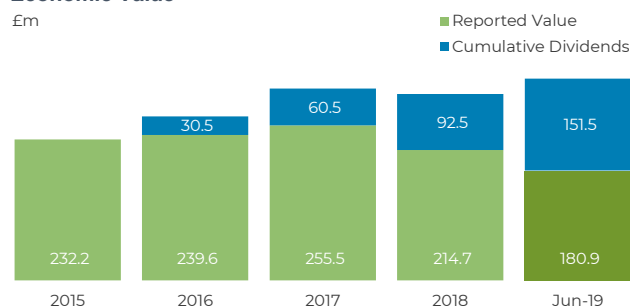
The UK has continued to progress its objectives in line with plans. The customer strategy implementation plan is nearly complete and the division remains focused on good governance of the business. Management will continue to focus on these areas, coupled with identifying and delivering capital management initiatives and supporting the group in relation to any UK-based acquisitions.

## FUTURE PRIORITIES

- Conclude the review of the operating model to deliver the investment management of our unit linked policyholder funds.
- Continue to ensure that we are managing the cost base of the business efficiently.
- Focus on wider initiatives to optimise the balance between value growth and surplus capital availability.

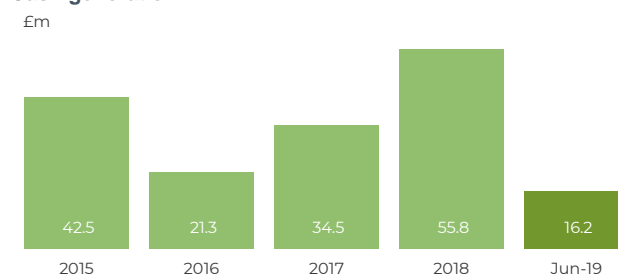
## KPIs

## Economic Value



Underlying growth has continued to be delivered, with rising equity markets being a key driver.

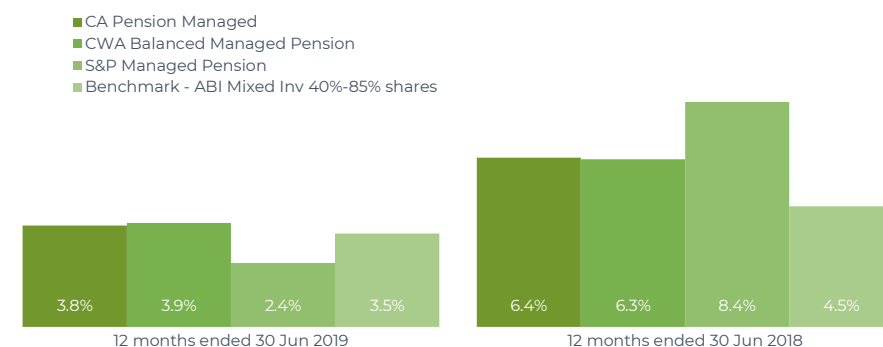
## Cash generation



Cash generation of £16.2m has been generated in the period, supporting the ongoing dividend strategy of the division and group.

- Complete the customer strategy implementation programme, and embed into business as usual routines.
- Continue the cycle of reuniting customers with their policies, where we have lost contact.

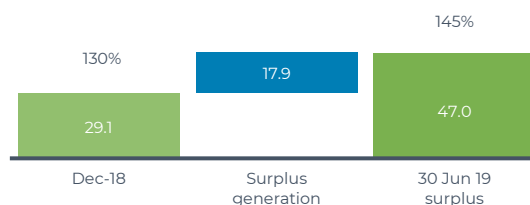
## Policyholder fund performance



Our main managed funds continue to generally perform well against their benchmarks although the rolling 12 month return in the S&P managed pension fund is currently below benchmark. This is driven by the disappointing returns in the last quarter of 2018 as a result of its higher relative exposure to equities. The S&P performance over a longer-term period compares favourably to benchmark.

- Continue with the delivery of the IFRS 17 programme, with an increasing focus on the operational aspects of the implementation.
- Progress the division's operational resilience programme.

## SOLVENCY RATIO: 145%



Solvency remains robust. Surplus generated in the period increases the solvency position from 130% to 145%.

BUSINESS REVIEW • SWEDEN 

Movestic is a life and pensions business based in Sweden, and is open to new business. From its Stockholm base, Movestic operates as an innovative brand in the Swedish life insurance market. It offers personalised unit-linked pension and savings solutions through brokers and is well-rated within the broker community.

## MAXIMISE VALUE FROM EXISTING BUSINESS

## BACKGROUND INFORMATION

## CAPITAL &amp; VALUE MANAGEMENT

- Movestic creates value predominantly by generating growth in the unit-linked assets under management (AuM), whilst assuring a high quality customer proposition and maintaining an efficient operating model. AuM growth is dependent upon positive client cash flows and positive investment performance. Capital surplus is a factor of both the value and capital requirements and hence surplus can also be optimised by effective management of capital.

## INITIATIVES &amp; PROGRESS IN 2019

- EcV earnings of £13.9m in the period.
- Cash utilisation of £5.8m in the period on constant exchange rates.
- IFRS profit of £6.5m.
- Assets under management have grown by 15% in the period, on constant exchange rates, supported by positive net client cash flows. This has resulted in EcV growth in the period.
- The assumptions for the rate of transfers out were strengthened during the period in light of some process changes that were required to meet new rules regarding customers transferring funds to another provider.
- The level of assumed investment management income has been reduced during the period owing to increased competition.
- The number of policies has reduced compared with the prior year, largely due to the Akademikerförsäkring contract for protection business not being renewed. This was low margin business and has not materially impacted the 2019 results.
- The Swedish krona weakened by 4.4% during the period, resulting in retranslation losses reported in EcV and cash generation.

## CUSTOMER OUTCOMES

- Movestic provides personalised long-term savings, insurance policies and occupational pensions for individuals and business owners. We believe that recurring independent financial advice increases the likelihood of a solid and well-planned financial status, hence we are offering our products and services through advisors, licenced brokers.

- Policyholder average investment return of 11.7% in the year to date (H1 2018: 3.5%).
- Policy transfers process has been updated to ensure full compliance with new regulations.
- A new customer offering has been launched with our new funds, Avancera, which contains protected return features.
- Digital processes with improved functionality, for increased administrative efficiency, have been delivered during the period, including investment allocation tool functionality available for brokers. Further launches are planned throughout 2019.

## GOVERNANCE

- Movestic operates to exacting regulatory standards and adopts a robust approach to risk management.
- Maintaining strong governance is a critical platform to delivering the various value-enhancing initiatives planned by the division.

- New claims handling system and digital invoicing software implemented in the period.
- Where necessary, processes have been refined in order to comply with the insurance distribution directive.
- IFRS17 work has continued.
- Projects initiated to simplify corporate structure, which will be beneficial to both governance and future cost base development.

## PROFITABLE NEW BUSINESS

- As an “open” business, Movestic not only adds value from sales but as it gains scale, it will become increasingly cash generative which will fund further growth or contribute towards the group's dividend strategy. Movestic has a clear sales focus and targets a market share of 6% -10% of the advised occupational pension market. This focus ensures we are able to adopt a profitable pricing strategy.

- During Q1 Movestic has continued to operate within its target market share range of between 6% and 10%. Q2 market data is not available at this time.
- New business profits of £2.3m for the period compare to £4.7m for H1 2018. Lower transfers in during the first quarter are a key contributor to this reduction, coupled with pressure on investment management income that have been witnessed in the period.
- Business transferred in has increased in Q2 compared with Q1 of this year.

## ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

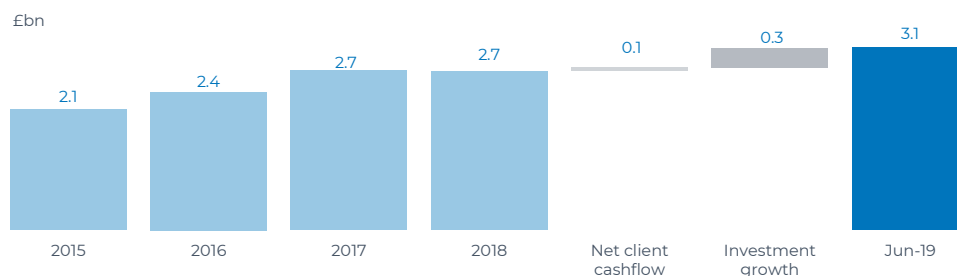
Movestic has continued to focus on delivering its strategic initiatives, including its front and back office IT streamlining plans. These are anticipated to bring cost efficiencies and improvements in broker and policyholder experience. From a financial perspective Movestic has delivered growth in the period despite the headwinds arising from a very competitive market and the impact of updating processes to ensure compliance with changes in regulations.

## FUTURE PRIORITIES

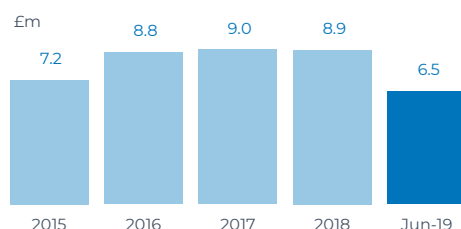
KPIs ALL COMPARATIVES HAVE BEEN PRESENTED USING 2019 EXCHANGE RATES

- Continue the journey of digitising and automating processes, with a view to improving both efficiency and control.
- Continue to develop more digitised and individualised customer proposition and experience.
- Provide a predictable and sustainable dividend to Chesnara.
- Continue to develop the operating and product proposition plans to reflect the fast changing market environment and consumer servicing preferences.

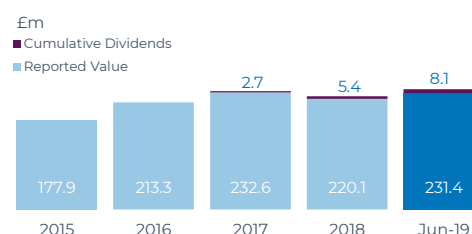
### Growth in assets under management:



### IFRS profit

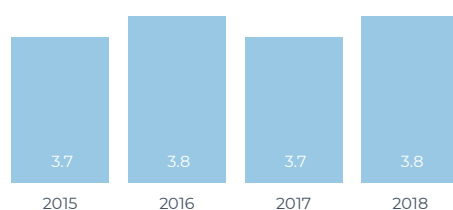


### Economic Value



- Continue to develop new solutions and tools to support the brokers' value-enhancing customer proposition.

### Broker assessment rating

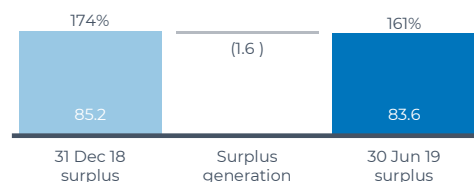


### POLICYHOLDER AVERAGE INVESTMENT RETURN:

11.7%

- Deliver IFRS 17 implementation plans.

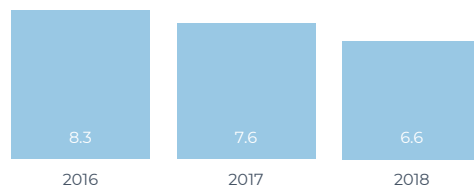
### SOLVENCY RATIO: 161%



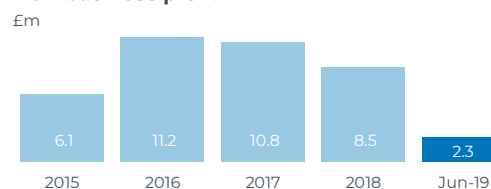
Solvency remains strong at 161%. Solvency surplus has reduced by £1.6m in the period (see page 24 for further detail).

- Continue to focus on writing new business within our target range.
- Ongoing digitalisation of processes to improve broker and customer experience.
- Focus on increasing brand awareness.

### Occupational pension market share %



### New business profit



## BUSINESS REVIEW • NETHERLANDS

Our Dutch division consists of two separate businesses; Scildon and Waard. Scildon is an open business, writing new policies focusing on three product markets via a broker network. Scildon is a well-established player in the term assurance market, the current market leader in unit-linked savings insurance and is a challenger brand in the Dutch defined contribution pension insurance market. Waard is in run-off, focusing on the efficient administration of its existing book of business.

### MAXIMISE VALUE FROM EXISTING BUSINESS

#### BACKGROUND INFORMATION

#### INITIATIVES & PROGRESS IN 2019

##### CAPITAL & VALUE MANAGEMENT

- Both Waard and Scildon have a common aim to make capital available to the Chesnara group to fund further acquisitions or to contribute to the dividend funding. Whilst their aims are common, the dynamics by which the businesses add value differ:
  - Waard is in run-off and has the benefit that the capital requirements reduce in-line with the attrition of the book.
  - As an “open business”, Scildon’s capital position does not benefit from book run-off. It therefore adds value and creates surplus capital through writing new business and by efficient operational management and capital optimisation.
- Acquisition of a small book of policies to be transferred into Waard upon completion of regulatory approvals, expected later in 2019.
- Restructured the Scildon business. The new streamlined structure has a lower cost base and supports product alignment and strategic flexibility
- Waard and Scildon paid combined dividends of £8.4m to Chesnara in respect of 2018. The businesses ended the period with solvency ratios of 649% and 194% respectively, with Scildon having applied the volatility adjustment in the period.
- Whilst Scildon remains well capitalised, it has gone below its current internal management solvency target of 200%, primarily due to increased SCR in Scildon due to interest rate reductions and increased exposure to corporate bonds.
- Scildon has reported an EcV gain of £6.5m with Waard delivering a profit of £1.6m.
- Cash of £5.7m has been utilised in the period due to the SCR movements noted above.
- IFRS pre-tax profits of £39.6m primarily arising in Scildon due to asset value movements which are not offset by reserve movements.
- Continued work on aligning some functions between the two Dutch businesses to provide operational efficiencies.

##### CUSTOMER OUTCOMES

- Great importance is placed on providing customers with high quality service and positive outcomes.
- Whilst the ultimate priority is the end customer, in Scildon we also see the brokers who distribute our products as being customers and hence developing processes to best support their needs is a key focus.
- Scildon launched a digitised new business application for its investment product.
- Scildon continues to be rated highly, having received awards in 2018 for “Best occupational pension insurer” and was second for term insurance from the broker organisation (Adfiz).
- The annual performance research for consumers shows high scores.

##### GOVERNANCE

- Waard and Scildon operate in a regulated environment and comply with rules and regulations both from a prudential and from a financial conduct point of view.
- The businesses further strengthened their governance framework during the first half of 2019 through appointments to the Supervisory Boards and implementation of changes in Scildon’s management structure and personnel.
- The IFRS 17 project continues for both companies.

##### PROFITABLE NEW BUSINESS

- Scildon brings a “New business” dimension to the Dutch division. Scildon sell protection, individual savings and group pensions contracts via a broker-led distribution model. The aim is to deliver meaningful value growth from realistic market share. Having realistic aspirations regarding volumes means we are able to adopt a profitable pricing strategy. New business also helps the business maintain scale and hence contributes to unit cost management.
- Scildon generated half year new business profits of £1.5m, compared to £0.6m in 2018. This improvement reflects the initial impact of actions taken and further development remains a key focus of management.
- The number of policies continues to increase and are up by 2.4% compared to 2018 year end.
- Market share for the core protection business is within the 5-10% target range but we have further work to do to strengthen the proposition and reduce costs.

### ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

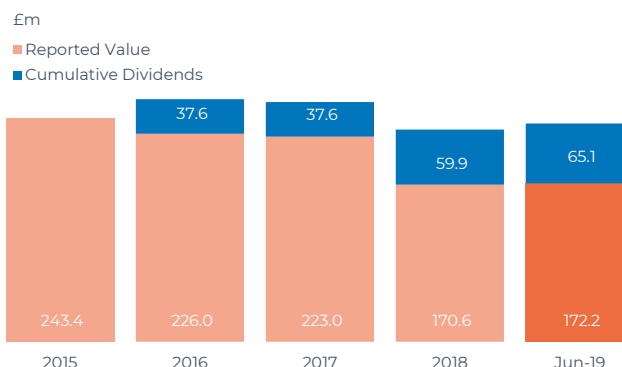
2019 has seen further dividends received from both of our Dutch businesses and key actions being taken to strengthen the position of the Scildon new business operation whilst maintaining its market share. A small portfolio of policies has been acquired and will be transferred into Waard during the second half of 2019. Financial results have been impacted by market movements through interest and spread movements with a significant IFRS profit and EcV earnings reported but reductions in Scildon solvency and cash generation.

## FUTURE PRIORITIES

- Active management of capital to facilitate continued dividends from both divisions.
- Continuation of the Scildon improvement plan which will strengthen future cash generation and value growth.
- Review asset mix to optimise capital efficiency.
- Reduce the capital buffer from 100% to 85% from 1 January 2020 and 75% from 1 January 2021 thereafter, in line with the capital management plan that was agreed with the Dutch regulator at the point of acquisition.
- Agreement has been reached with trustees to transfer the Scildon staff pension scheme from a defined benefit to a defined contribution scheme. This will be enacted during the second half of the year.

## KPIs ALL COMPARATIVES HAVE BEEN PRESENTED USING 2019 EXCHANGE RATES

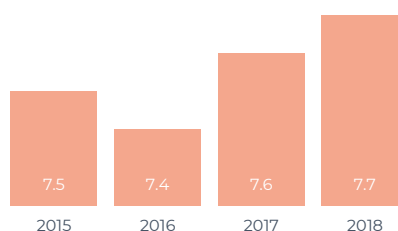
### Scildon Economic Value



Scildon has delivered underlying growth over the first six months of the year.

- Continuing to enhance and develop existing processes, customer experiences and the underlying infrastructure.
- Engage with brokers to support the development of our processes in conjunction with their requirements.
- Regular customer assessment, with the outcome used to improve service quality.

### Client satisfaction rating

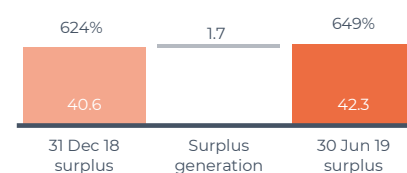
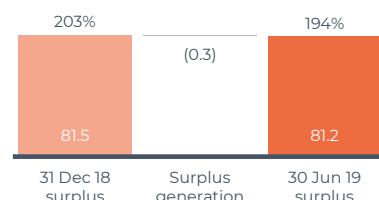


- The focus during the second half of the year is to deliver continuous improvement of the control environment and the governance and risk management framework.
- Continue to deliver IFRS 17 implementation plans.

### SOLVENCY RATIO: SCILDON 194%

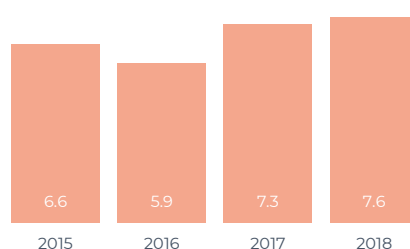
### WAARD 649%

Solvency is strong in both businesses. Scildon has reported a marginal reduction in surplus of £0.3m and Waard has generated surplus capital of £1.7m (see page 24 for further detail).

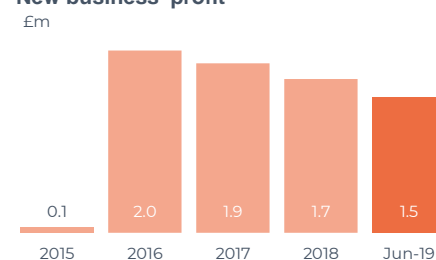


- Management actions, including a focus on costs and product mix, are ongoing in order to generate a more commercially meaningful level of new business profits.

### Term assurance market share %



### New business profit



Note: 2015 and 2016 are as reported under previous ownership.

## ACQUIRE LIFE & PENSIONS BUSINESSES

Well considered and appropriately priced acquisitions maintain the effectiveness of the operating model, create a source of value enhancement and sustain the cash generation potential of the group.

### HOW WE DELIVER OUR ACQUISITION STRATEGY

- Identify potential deals through an effective network of advisers and industry associates, utilising both group and divisional management expertise as appropriate.
- We primarily focus on acquisitions in the UK and Netherlands, although will consider other territories should the opportunity arise.
- We assess deals applying well established criteria which consider the impact on cash generation and Economic Value under best estimate and stressed scenarios.
- We work cooperatively with regulators.
- The financial benefits are viewed in the context of the impact the deal will have on the enlarged group's risk profile.
- Transaction risk is minimised through stringent risk-based due diligence procedures and the senior management team's acquisition experience and positive track record.
- We fund deals with a combination of debt, equity or cash depending on the size and cash flows of each opportunity.

### HOW WE ASSESS DEALS



Cash generation

- Collectively our future acquisitions must be suitably cash generative to continue to fund the Chesnara dividend strategy.



Value enhancement

- Acquisitions are required to have a positive impact on the Economic Value per share under best estimate and certain more adverse scenarios.



Customer outcomes

- Acquisitions must ensure we protect, or ideally enhance, customer interests.



Risk appetite

- Acquisitions should normally align with the group's documented risk appetite. If a deal is deemed to sit outside our risk appetite the financial returns must be suitably compelling.

### RISKS

- There is the risk that if a lack of suitable acquisition opportunities come to market at a realistic valuation, the investment case for Chesnara diminishes over time.
- There is the risk that we make an inappropriate acquisition that adversely impacts the financial strength of the group.

### WHAT WE CAN DO ABOUT THIS

- Operating in three territories increases our options thereby reducing the risk that no further value adding deals are done.
- A broader target market also increases the potential for deals that meet our strategic objectives.
- Flexibility over the timing of subsequent capital extractions and dividend flows provide an element of management control over the sterling value of cash inflows.
- Each acquisition is supported by a financial deal assessment model which includes high quality financial analysis. This is reviewed and challenged by management and the board, mitigating the risk of a bad deal being pursued.

### ACQUISITION OUTLOOK

- Overall, we have witnessed an increase in activity in the territories in which Chesnara currently operates and also in those territories outside where Chesnara exists. This increase has coincided with, what we perceive to be, a rise in seller's valuations and prices paid for potential targets.
- In light of the rising prices, it is worth reiterating that Chesnara continues to measure potential targets against its stringent acquisition assessment model which takes into account of (a) the price compared to the EcV, (b) the cash generation capability, (c) the strategic fit and (d) the risks within the target. We are committed to maintaining our discipline when assessing potential acquisitions and ensuring that any offer we make is in the interests of all of our stakeholders, with suitable reward for the additional risks taken on.
- The increase in the UK closed book market activity during 2019, is driven largely by strategic developments but also by uncertainty in the economic environment. We expect that these factors will continue to drive further opportunities going forward.
- In the Netherlands, the gradual increase in market activity has continued, with regulatory and strategic developments being the key drivers. Again, we see these themes continuing in the future. Chesnara is well positioned to take advantage of any opportunities.
- We continue to assess opportunities within Western Europe that are outside of our current territories. These opportunities are assessed against our acquisition assessment model, with particular consideration given to understanding the wider consolidation market that may be available and to the regulatory approach that exists in the territory.
- The environment in which European life insurance companies operate continues to increase in complexity. For example, "IFRS 17 Insurance Contracts" was issued in 2017, which is a fundamental overhaul of the way in which insurance contracts are accounted for. We believe this additional complexity will potentially drive further consolidation as institutions seek to remove operational complexity and potentially release capital or generate funds from capital intensive life and pension businesses.
- Chesnara has strong support from shareholder and lending institutions to progress our acquisition strategy. We also believe that our operating model has the flexibility to accommodate a wide range of potential target books. We assess our operating model on a regular basis, in light of expected acquisition trends, to ensure that we are able to provide a model which allows Chesnara to be competitive in the market and to meet the needs of all our stakeholders.
- We regularly assess our financing model to ensure that this aligned with our future cash generation expectations and to ensure that this continues to support our acquisition strategy.
- Our good network of contacts in the adviser community, who understand the Chesnara acquisition model, ensures that we are aware of most viable opportunities in the UK and Western Europe. With this in mind, we are confident that we are well positioned to continue the successful acquisition track record in the future.

## CAPITAL MANAGEMENT • SOLVENCY II

### WHAT IS SOLVENCY AND CAPITAL SURPLUS?

- Solvency is a measure of how much the value of the company exceeds the level of capital it is required to hold.
- The value of the company is referred to as its “Own Funds” (OF) and this is measured in accordance with the rules of the Solvency II regime.
- The capital requirement is also defined by Solvency II rules and the primary requirement is referred to as the solvency capital requirement (SCR).
- Solvency is expressed as either a ratio: **OF/SCR %**; or as an absolute surplus: **OF LESS SCR**.

SOLVENCY  
SURPLUS



CASH  
GENERATION

Subject to ensuring other constraints are managed, surplus capital is a useful proxy measure for liquid resources available to fund items such as dividends, acquisitions or business investment. As such, Chesnara defines cash generation as the movement in surplus, above management buffers, during the period.

### MORE ABOUT OWN FUNDS

#### WHAT ARE OWN FUNDS?

A valuation which reflects the net assets of the company and includes a value for future profits expected to arise from in-force policies.

**The Own Funds valuation is deemed to represent a commercially meaningful figure with the exception of:**

#### Contract boundaries

Solvency II rules do not allow for the recognition of future cash flows on certain policies despite a high probability of receipt.

#### Risk margin

The Solvency II rules require a 'risk margin' liability which is deemed to be above the realistic cost.

#### Restricted with profit surpluses

Surpluses in the group's with-profit funds are not recognised in Solvency II Own Funds despite their commercial value.

We define Economic Value (EcV) as being the Own Funds adjusted for the items above. As such our Own Funds and EcV have many common characteristics and tend to be impacted by the same factors.

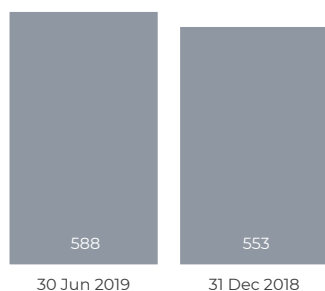
Transitional measures, introduced as part of the long-term guarantee package when Solvency II was introduced, are available to temporarily increase Own Funds. We are well capitalised at both a group and subsidiary level. We have applied the volatility adjustment in Scildon for the first time in this period, but have not used any other elements of the long-term guarantee package within the rest of the group.

#### HOW DO OWN FUNDS CHANGE?

Own Funds (and Economic Value) are sensitive to economic conditions. In general, positive equity markets and increasing yields lead to OF growth and vice versa. Other factors that improve Own Funds include writing profitable new business, reducing the expense base and improvements to lapse rates.

### CHESNARA GROUP OWN FUNDS

£m



	Group solvency ratio	Group solvency surplus
30 Jun 2019	155%	£208.3m
31 Dec 2018	158%	£202.4m

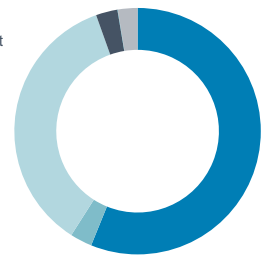
### MORE ABOUT THE CAPITAL REQUIREMENT

#### WHAT IS CAPITAL REQUIREMENT?

The Solvency Capital Requirement can be calculated using a 'standard formula' or 'internal model'. Chesnara adopts the 'standard formula'.

The standard formula requires capital to be held against a range of risk categories. The following chart shows the categories and their relative weighting for Chesnara:

- Total Market Risk
- Counterparty Default Risk
- Total Life Underwriting Risk
- Total Health Underwriting Risk
- Capital requirement for other sub
- Operational Risk



#### There are three levels of capital requirement:

##### Minimum dividend paying requirement

The board sets a solvency level above the SCR which means a more prudent level is applied when making dividend decisions.

##### Solvency capital requirement

Amount of capital required to withstand a 1 in 200 event. The SCR acts as an intervention point for supervisory action including cancellation or the deferral of distributions to investors.

##### Minimum capital requirement (MCR)

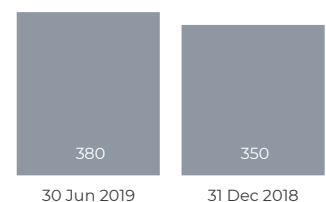
The MCR is between 45% and 25% of the SCR. At this point Chesnara would need to submit a recovery plan which if not effective within three months may result in authorisation being withdrawn.

#### HOW DOES THE SCR CHANGE?

Given the largest component of Chesnara's SCR is market risk, changes in investment mix or changes in the overall value of our assets has the greatest impact on the SCR. For example, equity assets require more capital than low risk bonds. Also, positive investment growth in general creates an increase in SCR. Book run-off will tend to reduce SCR but this will be partially offset by an increase as a result of new business.

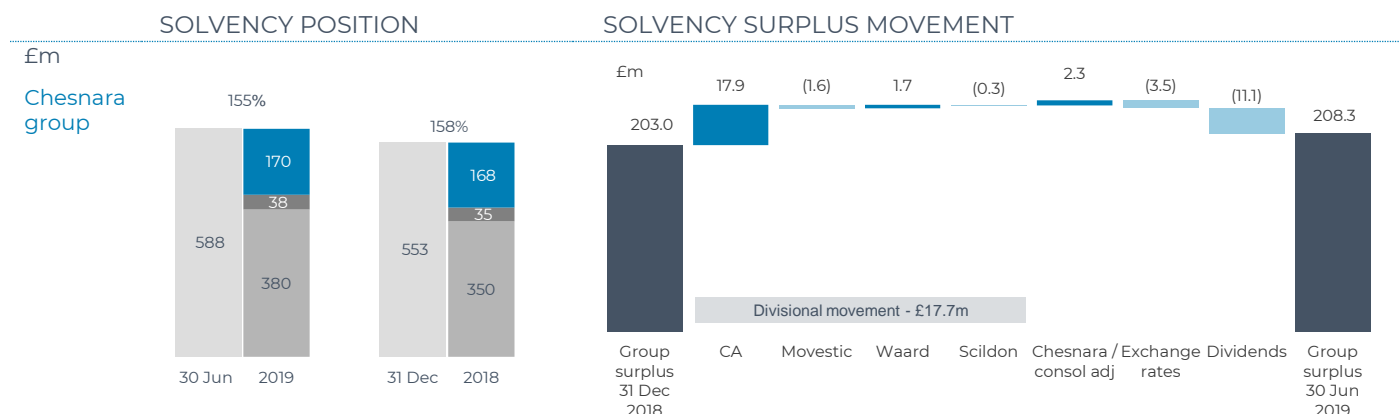
### CHESNARA GROUP SCR

£m



## CAPITAL MANAGEMENT • SOLVENCY II

We are well capitalised at both a group and subsidiary level. We have applied the Volatility Adjustment in Scildon for the first time in this period, but have not used any other elements of the long-term guarantee package within the group.



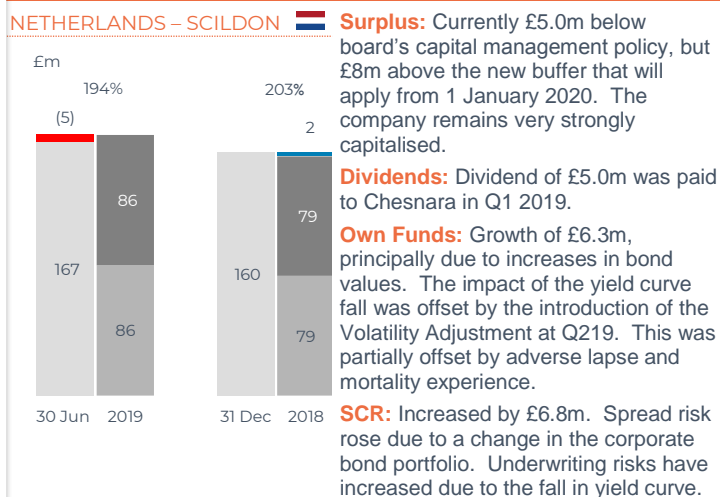
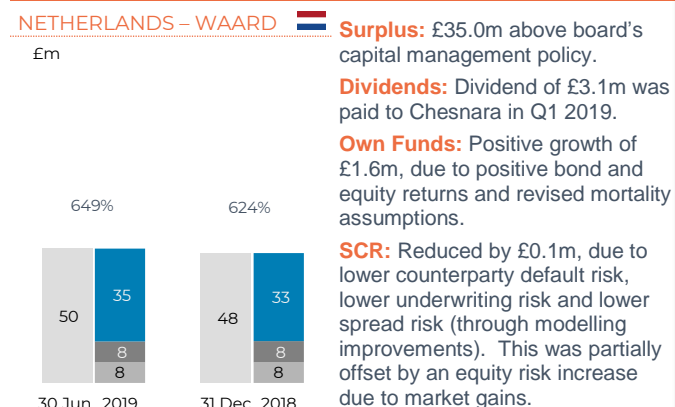
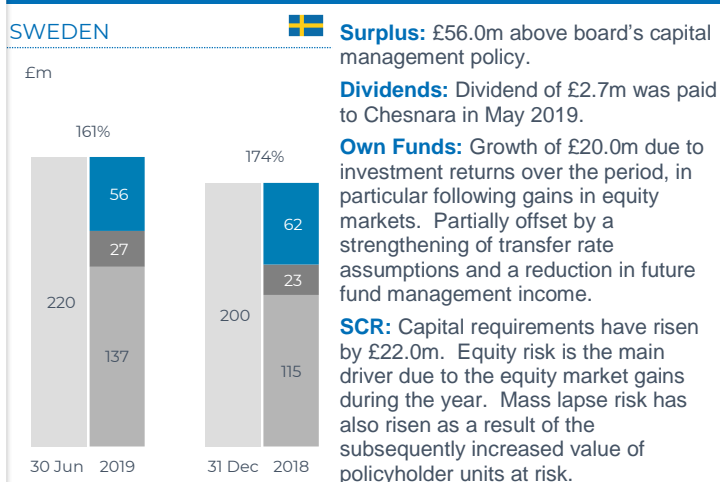
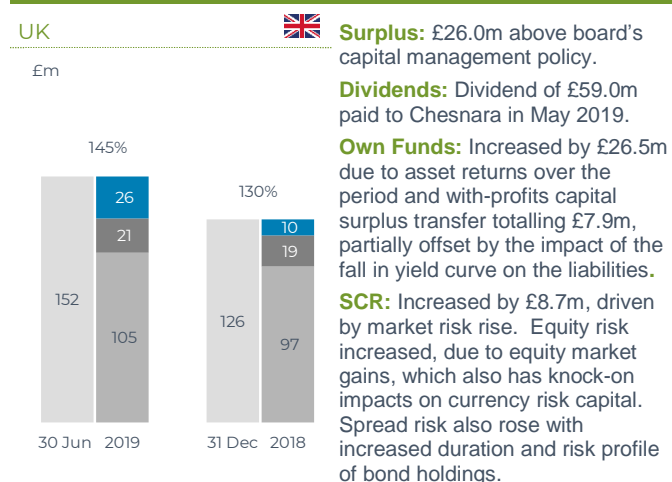
**Surplus:** The group has £170m of surplus over and above the internal capital management policy, compared to £168m at the end of 2018. The growth in surplus has arisen from an increase in Own Funds, which have risen more than the increase in capital requirements. The solvency position of the group has reduced slightly from 158% to 155%.

**Dividends:** The closing solvency position is stated after deducting the £11.1m proposed interim dividend (31 December 2018: £20.2m).

**Own Funds:** Own Funds have risen by £35.6m, net of the £11.1m proposed interim dividend. This growth is driven by positive investment returns so far this year for Movestic and CA, particularly following significant gains in equity markets. In addition, £7.9m capital was transferred from the with-profits funds within the UK division. A decrease in spreads has also increased the value of Scildon's bond holdings.

**SCR:** The SCR has risen by £30.2m, with the overarching feature being an increase in equity risk capital, due to the impact of positive equity returns in the group's unit linked funds.

The graphs on this page present a divisional view of the solvency position which may differ to the position of the individual insurance company(ies) within that division. Note that year end 2018 figures have been restated using 30 June 2019 exchange rates in order to aid comparison at a divisional level.



**KEY** Own Funds (post Div) SCR Buffer Surplus Shortfall to buffer

## CAPITAL MANAGEMENT • SENSITIVITIES

The group's solvency position can be affected by a number of factors over time. As a consequence, the group's EcV and cash generation, both of which are derived from the group's solvency calculations, are also sensitive to these factors.

The diagram below provides some insight into the immediate and longer term impact of certain sensitivities that the group is exposed to, covering solvency, cash generation and Economic Value. As can be seen, EcV tends to take the 'full force' of adverse conditions whereas cash generation is often protected in the short term and, to an extent, in the longer term due to compensating impacts on our required capital.



### INSIGHT\*

**20% Sterling appreciation:** A material Sterling appreciation reduces the value of surplus in our overseas divisions, and hence has an immediate impact on group cash generation. It also reduces the value of projected Own Funds growth in our overseas divisions and also reduces the value of overseas investments in CA.

**Equity sensitivities:** The equity rise sensitivities cause both the Own Funds and SCR to rise, as the value of the funds exposed to risk is higher. The increase in SCR is larger than Own Funds, resulting in an immediate impact on surplus. Conversely, in an equity fall, the Own Funds and SCR both fall. The extent to which the SCR reduction offsets the Own Funds movement depends on the stress applied. The impacts are not symmetrical due to the use of management actions and differences in the application of tax depending on the direction of the stress. The EcV impacts are more intuitive as they are more directly linked to the Own Funds impact. CA and Movestic contribute the most due to their large amounts of unit-linked business.

**1% interest rate rise:** An interest rate rise is generally positive across the group. CA, Movestic and Scildon all contribute significantly towards the total group cash generation impact.

**50bps credit spread rise:** A credit spread rise has an adverse impact on surplus and cash generation, particularly in Scildon due to corporate bond holdings that form part of the asset portfolios backing non-linked insurance liabilities. The impact on the other divisions is less severe.

**25bps swap rate fall:** This sensitivity measures the impact of a fall in the swap discount curve with no change in the value of assets. The result is that liability values increase in isolation. The most material impacts are on CA and Scildon due to the size of the non-linked book.

**10% mass lapse:** This sensitivity has a small impact on surplus as the reduction in Own Funds is largely offset by the SCR fall. However, with fewer policies on the books there is less potential for future profits. The division most affected is Movestic; the loss in future fee income following a mass lapse hits Own Funds by more than the associated reduction in SCR.

**10% expense rise + 1% inflation rise:** The expense sensitivity hits the solvency position immediately as the increase in future expenses and inflation is capitalised into the balance sheet.

**10% mortality:** This sensitivity has an adverse impact on surplus and cash generation, particularly for Scildon due to their term products.

### \*BASIS OF PREPARATION ON REPORTING

Although it is not a precise exercise, the general aim is that the sensitivities modelled are deemed to be broadly similar (with the exception that the 10% equity movements are naturally more likely to arise) in terms of likelihood. Whilst the sensitivities provide a useful guide, in practice, how our results react to changing conditions is complex and the exact level of impact can vary due to the interactions of events and starting position.

## FINANCIAL REVIEW

The key performance indicators are a reflection of how we have performed in delivering our three strategic objectives and our core culture and values. The first half of 2019 has been characterised by the growth in equity markets, principally in the first quarter of the year. This is generally good for IFRS and EcV results, but is more muted on solvency, and hence cash generation, due to the consequential rise in equity risk capital that is required to be held. In addition, a narrowing of spreads has been beneficial to our Dutch business.



## IFRS PRE-TAX PROFIT

**£66.6M** 30 JUNE 2018: £26.5M

**What is it?**

Presentation of the results in accordance with International Financial Reporting Standards (IFRS) aims to recognise the profit arising from the longer-term insurance and investment contracts over the life of the policy.

**Why is it important?**

IFRS profit is a statutory measure used both internally and by our external stakeholders in assessing the performance of the business. IFRS profit is an indicator of how we are performing against our stated strategic objective of 'maximising value from the existing business' and can also be impacted by one-off gains arising from delivering against our stated objective of 'acquiring life and pensions businesses'. Whilst the IFRS results form the core of reporting and hence retain prominence as a key financial performance metric, there is a general acceptance that the IFRS results in isolation do not adequately recognise the wider financial performance of a typical life and pensions business.

**Risks**

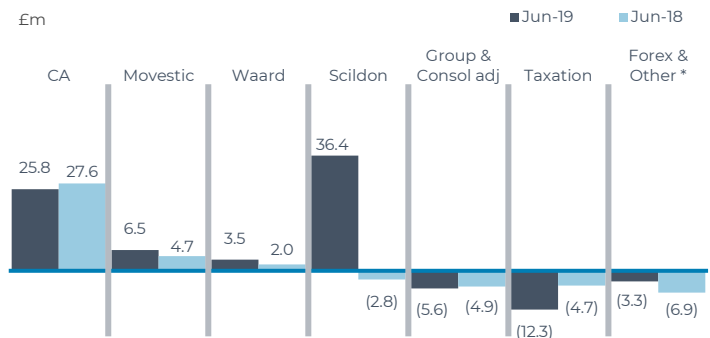
The IFRS profit can be affected by a number of our principal risks and uncertainties as set out on pages 33 to 34. In particular, volatility in equity markets and bond yields can result in volatility in the IFRS pre-tax profit, and foreign currency fluctuations can affect total comprehensive income. The IFRS results of Scildon are potentially relatively volatile, in part, due to the different approach used by the division for valuing assets and liabilities, as permitted under IFRS 4.

## TOTAL COMPREHENSIVE INCOME:

**£51.0M** 30 JUNE 2018: £14.9M

Further detail on

p28

**Highlights**

\*includes other comprehensive income

- Strong results in Scildon and the UK drive substantial profits for the period, with positive contributions from all operating businesses.
- Both the Scildon and the UK benefited from improved investment market conditions compared to the prior year, with the group generating economic profits of £43.2m for the first half of 2019.
- Significant operating profits of £23.4m have also been delivered.
- Total comprehensive income includes a foreign exchange loss of £3.5m predominantly relating to sterling's appreciation against the Swedish krona.



## CASH GENERATION

**£13.4M** 30 JUNE 2018: £48.6M

**What is it?**

Cash generation is a measure of how much distributable cash has been generated in the period. Cash generation is driven by the change in solvency surplus in the period, taking into account board-approved capital management policies.

**Why is it important?**

Cash generation is a key measure, because it is the net cash flows to Chesnara from its life and pensions businesses which support Chesnara's dividend-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 existing business'. 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.

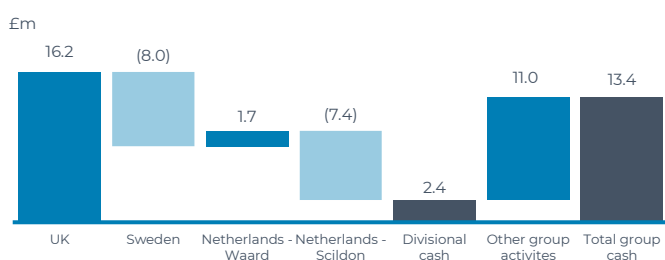
**Risks**

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 33 to 34. Whilst cash generation is a function of the regulatory surplus, as opposed to the IFRS surplus, they are impacted by similar drivers, 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.

## DIVISIONAL CASH GENERATION

**£2.4M** 30 JUNE 2018: £53.1M

Further detail on p29

**Highlights****Divisional cash generation**

- Cash generation from the UK supports a muted divisional result, following cash utilisation in Sweden and Scildon.
- Whilst both Movestic and Scildon delivered substantial growth in Own Funds, there were increases in capital requirements for each division, resulting in cash utilisation for the period.
- Waard continued to contribute modest but stable cash generation.
- The result also includes the non-recurring benefit of a £7.9m capital transfer from restricted with profit funds in the UK.

**Total cash generation**

- Total group cash generation includes the impact of other group activities, primarily the impact of group expenses on own funds and a reduction in capital requirements upon consolidation of divisions.

These two pages provide a “snapshot” of our key financial measures and some insight into what’s driving the outcome in the first half of the year. Further analysis can be found on pages 28 to 31.

## ECONOMIC VALUE (EcV)

**£645.1m** 31 DECEMBER 2018: £626.1m

Further detail on p31

### What is it?

Economic value (EcV) was introduced following the introduction of Solvency II at the start of 2016, with EcV being derived from Solvency II Own Funds. Conceptually, EcV is broadly similar to EEV in that both reflect a market-consistent assessment of the value of existing insurance business, plus adjusted net asset value of the non-insurance business within the group.

### Why is it important?

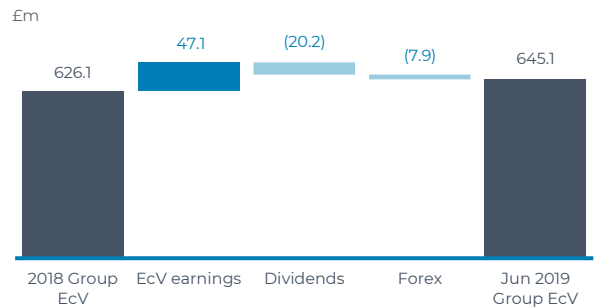
EcV aims to reflect the market-related value of in-force business and net assets of the non-insurance business and hence is an important reference point by which to assess Chesnara's intrinsic value. A life and pensions group may typically be characterised as trading at a discount or premium to its Economic Value. Analysis of EcV provides additional insight into the development of the business over time.

The EcV 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 writing profitable new business. It ignores the potential of new business to be written in the future (the franchise value of our Swedish and Dutch businesses) and the value of the company's ability to acquire further businesses.

### Risks

The Economic Value of the group is affected by economic factors such as equity and property markets and yields on fixed interest securities. In addition, the EcV position of the group can be materially affected by exchange rate fluctuations. For example a 20.0% weakening of the Swedish krona and euro against sterling would reduce the EcV of the group by 14.5%, based on the composition of the group's EcV at 30 June 2019.

### Highlights



- Economic Value at the end of the June has risen to £645.1m.
- Earnings of £47.1m have been generated in the first half of the year, supported by favourable investment market conditions and economic returns.
- The increase in EcV during the period includes the impact of the payment of the year end 2018 dividend (£20.2m).
- Foreign exchange losses, arising on re-translating of the Dutch and Swedish divisions, have contributed to the overall reduction, primarily representing the strengthening of sterling against the Swedish krona since the start of the year.

## EcV EARNINGS

**£47.1m** 30 JUNE 2018: £13.6m

Further detail on p30

### What is it?

In recognition of the longer-term nature of the group's insurance and investment contracts, supplementary information is presented that provides information on the Economic Value of our business.

### The principal underlying components of the Economic Value 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; and
- The impact of acquisitions.

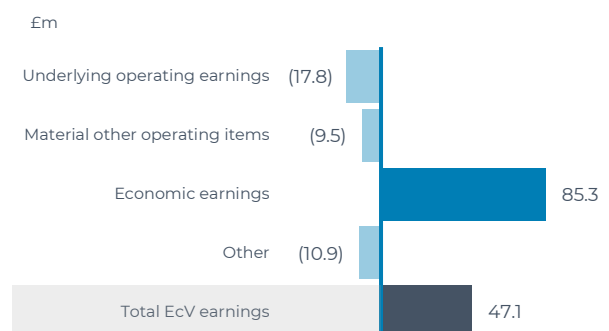
### Why is it important?

By recognising the market-related value of in-force business (in-force value), a different perspective is provided in the performance of the group and on the valuation of the business. Economic Value earnings are an important KPI as they provide a longer-term measure of the value generated during a period. The Economic Value earnings of the group can be a strong indicator of how we have delivered against all three of our core strategic objectives. This includes new business profits generated from writing profitable new business, Economic Value profit emergence from our existing businesses, and the Economic Value impact of acquisitions.

### Risks

The EcV earnings of the group can be affected by a number of factors, including those highlighted within our principal risks and uncertainties and sensitivities analysis as set out on pages 33 to 34. In addition to the factors that affect the IFRS pre-tax profit and cash generation of the group, the EcV 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 EcV affect our long-term view of the future cash flows arising from our books of business.

### Highlights



- EcV earnings of £47.1m have been generated in the first half of the year.
- Economic earnings drive the result following an upturn in market conditions since the start of the year, primarily equity market returns and the narrowing of bond spreads.
- Underlying operating activities were loss making, suffering from the impact of the strengthening of assumptions in Movestic and operating experience in Scildon. The UK and Waard delivered positive operating earnings.
- Material other operating items relate to one-off strengthening of assumptions in Movestic, following changes to the transfer process and upcoming changes to local transfer legislation.

## FINANCIAL REVIEW • IFRS



## IFRS PRE-TAX PROFIT

**£66.6M** 30 JUNE 2018: £26.5M

## IFRS TOTAL COMPREHENSIVE INCOME

**£51.0M** 30 JUNE 2018: £14.9M

**Executive summary**

The group IFRS results reflect the natural dynamics of the segments of the group, which can be characterised in three major components:

**(1) Stable core:** At the heart of surplus, and hence cash generation, are the core CA and 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 below show that the stable core continues to deliver against these requirements.

**(2) Variable element:** Included within the CA segment is the Save & Prosper book. This can bring an element of short-term earnings volatility to the group, with the results being particularly sensitive to investment market movements due to product guarantees. The IFRS results of Scildon are potentially relatively volatile although this is, in part, due to reserving methodology rather than 'real world' value movements.

**(3) Growth operation:** The long-term financial models of Movestic and Scildon are based on growth, with levels of new business and premiums from existing business being targeted to more than offset the impact of policy attrition, leading to a general increase in assets under management and, hence, management fee income.

**IFRS results**

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

	Unaudited 6 months ended		Year ended	Note
	30 Jun 19	30 Jun 18	31 Dec 18	
	£m	£m	£m	
CA	25.8	27.6	28.2	1
Movestic	6.5	4.6	9.3	2
Waard Group	3.5	2.0	3.5	3
Scildon	36.4	(2.8)	(1.1)	4
Chesnara	(2.9)	(2.0)	(5.5)	5
Consolidation adjustments	(2.7)	(2.9)	(7.4)	6
<b>Profit before tax</b>	<b>66.6</b>	<b>26.5</b>	<b>27.0</b>	

**Note 1:** The CA segment has reported strong results for the half-year, marginally behind those for the same period in 2018. Positive economic conditions contributed £10.3m to the result, of which £3.4m related to a reduction in the cost of guarantees within the S&P book. This was mainly driven by favourable equity market movements in the period. Operating profits at £15.4m were also strong in the period, reflecting the positive impact of tax charges arising on unrealised gains.

**Note 2:** Movestic continues to contribute positively to the overall group IFRS result and has out performed against the same period in 2018. Higher transfer related fees, positive claims performance and reduced operating expenses were the main drivers.

**Note 3:** The Waard Group result is in line with expectations, with profits emerging in line with the run-off book profile.

**Note 4:** Scildon has delivered a strong result predominantly due to favourable market movements in the company's bond portfolio. This arises from the fact that Scildon measures the majority of its insurance contract liabilities using historical rates of interest, as is customary in the Netherlands. This can lead to increased volatility in IFRS profits by virtue of the assets that back the liabilities being reported and measured on a fair value basis.

**Note 5:** The Chesnara result represents holding company expenses. It includes a foreign exchange gain in the period of £0.7m in respect of our euro denominated debt. Operating expenses are slightly higher than expected, due to one-off project related expenditure in the period.

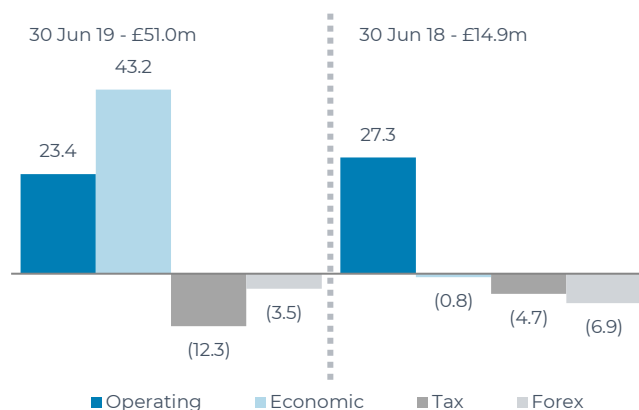
**Note 6:** Consolidation adjustments relate to items such as the amortisation of intangible assets and are broadly in line with the same period in 2018.

**Note 7:** Sterling strengthened against both the euro and Swedish krona in the period, resulting in an exchange loss of £3.5m year to date.

	Unaudited 6 months ended		Year ended	Note
	30 Jun 19	30 Jun 18	31 Dec 18	
	£m	£m	£m	
Operating profit	23.4	27.3	42.5	8
Economic profit	43.2	(0.8)	(15.5)	9
<b>Profit before tax</b>	<b>66.6</b>	<b>26.5</b>	<b>27.0</b>	
Tax	(12.3)	(4.7)	(2.9)	
<b>Profit after tax</b>	<b>54.3</b>	<b>21.8</b>	<b>24.1</b>	
Foreign exchange	(3.5)	(6.9)	(0.8)	7
Other comprehensive income	0.2	-	0.3	
<b>Total comprehensive income</b>	<b>51.0</b>	<b>14.9</b>	<b>23.7</b>	

**Note 8:** The operating result demonstrates the strength and stability of the underlying business, driving the generation of profit. Product based income and favourable movements in operating experience in the UK, were offset slightly by the marginal strengthening of expense reserves. Lower premiums, offset by favourable claims experience and higher transfer fees in the period supported the Movestic operating result. Whilst the Waard operating results were in line with expectation, the Scildon operating result was slightly lower than the corresponding period in 2018.

**Note 9:** Economic profit represents the components of the earnings that are directly driven by movements in economic variables. During 2019, the recovery in equity markets from the 2018 closing position has resulted in a strong economic performance across all divisions. Additionally, Scildon has also benefitted significantly from the narrowing of credit spreads on corporate and government debt securities.

**Analysis of IFRS total comprehensive income (£m)**

## FINANCIAL REVIEW • CASH GENERATION



## GROUP CASH GENERATION

**£13.4m** 30 JUNE 2018: £48.6m

## DIVISIONAL CASH GENERATION

**£2.4m** 30 JUNE 2018: £53.1m

Cash in the business is generated from increases in the group's surplus funds. Surplus funds represent the excess of net assets held over management's internal capital needs, as reflected in the capital management policies across the group. These are based on regulatory capital requirements, with the inclusion of additional "management buffers".

## GROUP

- Group cash generation is slightly muted compared to the same period in 2018. Whilst there are a number of moving parts, the main contributing factor is the capital requirement impact of the growth in equity markets during the period. The Solvency II equity risk capital requirement rules include a concept called the symmetric adjustment, which requires proportionally more equity risk capital to be held in rising markets, which subsequently unwinds over time. It is estimated that the symmetric adjustment movement in the period has suppressed cash generation by some £13.1m, and mainly impacted the UK and Swedish divisions.
- Other group activities reflect group expenses and the impact of consolidation routines, specifically movements in capital requirements determined at a group level. From a capital requirement perspective, this is driven by movements in required capital at a Chesnara holding company level coupled with consolidation adjustments. At a Chesnara holding company level, additional capital is principally required to be held for the currency risk associated with the Movestic, Scildon and Waard Group surplus assets.

£m	June 2019				June 2018
	Movement in Own Funds	Movement in management's capital requirement	Forex impact	Cash generated / (utilised)	Cash generated / (utilised)
UK	26.5	(10.4)	-	16.2	42.9
Sweden	19.3	(25.1)	(2.2)	(8.0)	7.3
Netherlands – Waard Group	1.6	0.1	(0.1)	1.7	5.2
Netherlands – Scildon	6.6	(13.7)	(0.2)	(7.4)	(2.3)
<b>Divisional cash generation / (utilisation)</b>	<b>54.0</b>	<b>(49.1)</b>	<b>(2.5)</b>	<b>2.4</b>	<b>53.1</b>
Other group activities	(0.4)	12.0	(0.6)	11.1	(4.5)
<b>Group cash generation / (utilisation)</b>	<b>53.6</b>	<b>(37.1)</b>	<b>(3.2)</b>	<b>13.4</b>	<b>48.6</b>

## UK



- The UK has delivered a healthy cash contribution to the group in the first half of 2019.
- Own Funds growth was the driver of cash generation for the division, underpinned by investment market gains coupled with the benefit of a £7.9m transfer of surplus from the with-profits funds.
- The improved investment market conditions have also had a negative impact on cash generation, driving an increase in capital requirements, off-setting the positive own funds growth. Key components included increases in equity and currency risk (following equity market gains) and a rise in spread risk (owing to greater corporate bond exposure).

## SWEDEN



- Sweden has utilised cash of £8.0m in the first half of the year, with growth in own funds being more than offset by increasing capital requirements.
- Own Funds have benefitted from growth in assets under management, and hence growth in future fee income, driven by rising equity markets. This growth was partially offset by a strengthening of assumptions relating to transfers and fund rebates. A more prudent outlook on future rebates and fees has been assumed due to the competitive market expectations.
- Conversely, asset growth also demanded a higher level of capital to be held within the business. Equity gains have led to increased exposure to equity risk and currency risk, with the knock-on effect of rising lapse risk, due to higher future returns.
- SEK depreciation against sterling resulted in an exchange loss of £2.2m.

## NETHERLANDS – WAARD



- The Waard Group has continued to supply modest but stable cash generation, with positive movements in both Own Funds and capital requirements.
- Positive movements in Own Funds were, in the main, derived from economic sources following investment market improvements, specifically reductions on bond interest and an upward trend in equities.
- This was also supported by favourable mortality experience and subsequent assumption changes.
- Capital requirements have not changed materially in the period, whilst the impact of foreign exchange movements was also marginal.

## NETHERLANDS – SCILDON



- Scildon has reported cash utilisation in the period, with the increase in required capital exceeding the growth in Own Funds.
- Economic gains, principally owing to the narrowing of bond spreads in the early stages of the year, were the primary factor behind the increase in Own Funds, offsetting some operating losses.
- The increase in capital requirements was also largely due to economic factors, in particular spread risk capital, driven by rising bond values. The movement also includes an adverse impact of c£8.3m due to increases in lapse risk capital.
- Whilst the lapse strain is reported locally, it does reverse out at a consolidated group capital level which is a major part of the positive group capital movement reported above.

## FINANCIAL REVIEW • EcV EARNINGS

 EcV EARNINGS

**£47.1m** 30 JUNE 2018: £13.6m

The group delivered strong EcV earnings in the period, aided by improved economic conditions since the start of the year, offset by some one-off operating losses.

## Analysis of the EcV result in the period by earnings source:

	30 Jun 2019 £m	30 Jun 2018 £m	31 Dec 2018 £m	Note
Expected movement in period	(0.1)	3.8	(0.8)	
New business	3.8	5.3	10.6	
Operating variances	(5.7)	(7.0)	(9.0)	
Operating assumption changes	(13.3)	8.9	-	
Other operating variances	(2.4)	(1.3)	(0.8)	
<b>Total underlying operating earnings</b>	<b>(17.8)</b>	<b>9.6</b>	<b>-</b>	
Material other operating items	(9.5)	-	(22.8)	2
<b>Total operating earnings</b>	<b>(27.3)</b>	<b>9.6</b>	<b>(22.8)</b>	
Economic experience variances	98.8	0.6	(50.3)	1
Economic assumption changes	(13.5)	5.9	0.6	
<b>Total economic earnings</b>	<b>85.3</b>	<b>6.6</b>	<b>(49.7)</b>	
Other non-operating variances	(0.1)	(0.3)	1.5	
Risk margin movement	(3.0)	(0.5)	(1.9)	
Tax	(7.8)	(1.8)	12.0	
<b>Total EcV earnings</b>	<b>47.1</b>	<b>13.6</b>	<b>(60.9)</b>	

## Analysis of the EcV result in the year by business segment:

	30 Jun 2019 £m	30 Jun 2018 £m	31 Dec 2018 £m	Note
UK	25.2	8.4	(8.7)	3
Sweden	13.9	10.6	(11.6)	4
Netherlands	8.1	(4.6)	(27.7)	5
Group and group adjustments	(0.1)	(0.8)	(12.9)	6
<b>EcV earnings</b>	<b>47.1</b>	<b>13.6</b>	<b>(60.9)</b>	

**Note 1 – Economic conditions:** The EcV result is sensitive to investment market conditions, as reflected by the £85.3m of economic earnings achieved in the period. A significant proportion of these earnings were driven by favourable movement in equities and corporate bonds. Key movements in investment market conditions during the period are as follows:

- The FTSE All share index has increased by 10.4% in the 6 months to 30 Jun 2019 (6m to 30 Jun 2018: decreased by 0.5%; - 12m to 31 Dec 2018: decreased by 13.0%)
- The Swedish OMX all share index has increased by 16.9% in 6 months to 30 Jun 2019 (6m to 30 Jun 2018: increased by 0.9%; 12m to 31 Dec 2018, decreased by 7.7%)
- The Netherlands AEX all share index has increased by 15.7% in 6 months to 30 Jun 2019 (6m to 30 Jun 2018: decreased by 0.2%; 12m to 31 Dec 2018, decreased by 11.7%), and
- 10 year UK gilt yields have decreased from 1.32% to 0.91% in the 6 months to 30 Jun 2019.

**Note 2 – Material other operating items:** This includes operating items that were individually material and have therefore been separately analysed to aid an understanding of the operating result. There are two components to the number, both of which relate to operations in Movestic. A strengthening of assumed transfer rates (£6.0m) was undertaken to reflect recent changes in the transfer out process and to align with upcoming changes to local legislation. The remaining element relates to a one-off adjustment in transfer fee modelling (£3.5m), also a consequence of the changes to transfer legislation.

**Note 3 – UK:** The UK delivered earnings of £25.2m in the first half of the year. Solid operating earnings of £2.8m were driven by favourable movements in both mortality experience and fee income. Lower than expected rates of attrition across the books of business, resulted in higher assumed future fee income. Economic profits of £26.4m underpin the result, supported by market conditions. The key component driving the economic result being investment returns achieved, predominantly, on equity holdings within the unit linked funds. A fall in the yield curve had an adverse impact on the result, due to the subsequent strengthening of economic assumptions, partially offsetting the equity driven gains.

**Note 4 – Sweden:** Movestic reported earnings of £13.9m for the period, with the result underpinned by investment market returns. Economic earnings of £36.8m predominantly arose from growth in equity investments. This was reflected by the closing policyholder average investment return of 11.7% (2018: -6.0%). While operating experiences were favourable, the strengthening of other assumptions resulted in operating losses. The main assumption changes include increased lapse rates resulting from legislative changes regarding procedures for processing transfers, regulatory changes to transfer-out charges and reductions in assumed future performance fees and fund rebates. New business profits were modest (£2.3m) and reflective of the challenging market, with lower sales volumes of transfers-in during the early stages of the year.

**Note 5 – Netherlands:** The Dutch division has reported earnings of £8.1m in the period. Scildon contributed earnings of £6.5m following valuation gains in its bond portfolio, offsetting operational losses driven by lapse and mortality experience. Waard delivered earnings of £1.6m, with operating profits benefitting from favourable mortality experience and subsequent assumption changes, whilst economic earnings stemmed from bond performance and equity market returns.

**Note 6 – Group:** In line with expectations, a small loss has been reported in the group component. This includes costs incurred at group level, dividend payments and the impact of consolidation activities.

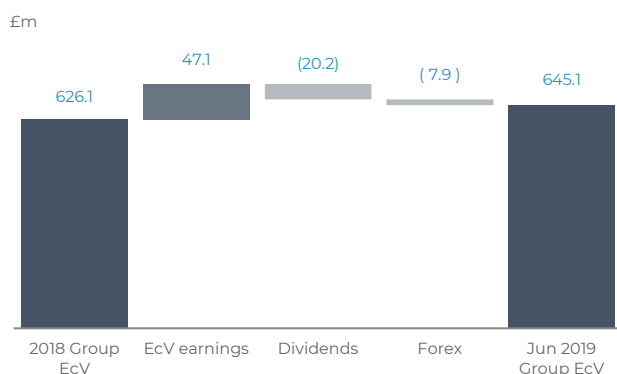
## FINANCIAL REVIEW • EcV



**£645.1m** 31 DECEMBER 2018: £626.1m

The Economic Value of Chesnara represents the present value of future profits of the existing insurance business, plus the adjusted net asset value of the non-insurance business within the group. EcV is an important reference point by which to assess Chesnara's intrinsic value.

## Value movement: 1 Jan 2019 to 30 Jun 2019

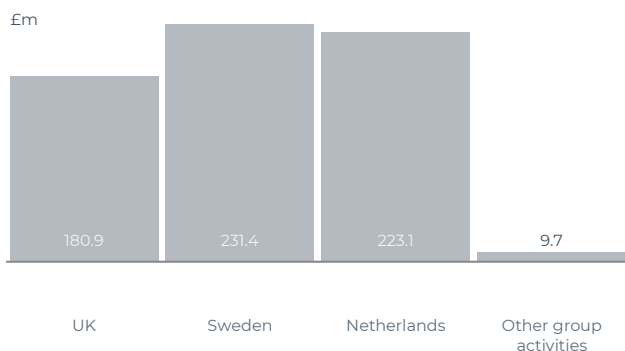


**EcV earnings:** EcV earnings of £47.1m have been reported in the first half of the year. Further detail can be found on page 30.

**Dividends:** Under EcV, dividends are recognised in the period in which they are paid. Dividends of £20.2m were paid during the period, being the final dividend from 2018.

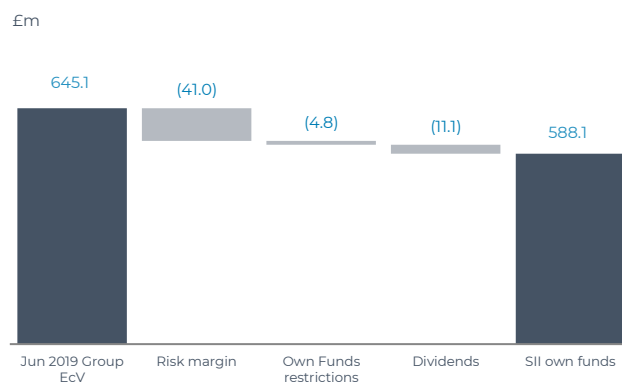
**Foreign exchange:** The EcV movement includes a foreign exchange loss in the period, largely driven by the strengthening of sterling against the Swedish krona.

## EcV by segment at 30 Jun 2019



The above chart shows that the EcV of the group is diversified across its different markets, demonstrating that we are well-balanced and not over-exposed to one particular geographic market.

## EcV to Solvency II



Our reported EcV is based on a Solvency II assessment of the value of the business, but adjusted for certain items where it is deemed that Solvency II does not reflect the commercial value of the business. The above waterfall shows the key differences between EcV and SII, with explanations for each item below.

**Risk margin:** Solvency II rules require a significant 'risk margin' which is held on the Solvency II balance sheet as a liability, and this is considered to be materially above a realistic cost. We therefore reduce this margin for risk for EcV valuation purposes from being based on a 6% cost of capital to a 3.25% cost of capital.

**Contract boundaries:** Solvency II rules do not allow for the recognition of future cash flows on certain in-force contracts, despite the high probability of receipt. We therefore make an adjustment to reflect the realistic value of the cash flows under EcV.

**Own Funds restrictions:** Solvency II rules require a restriction to be placed on the value of certain ring-fenced funds. These restrictions are reversed for EcV valuation purposes as they are deemed to be temporary in nature.

**Dividends:** The proposed interim dividend of £11.1m has been recognised for SII regulatory reporting purposes. It is not recognised within EcV until it is actually paid.

## RISK MANAGEMENT

Managing risk is a key part of our business model. We achieve this by understanding the current and emerging risks to the business, mitigating them where appropriate and ensuring they are appropriately monitored and managed at all times.

### HOW WE MANAGE RISK

#### RISK MANAGEMENT SYSTEM

The risk management system supports the identification, assessment, and reporting of risks along with coordinated and economical application of resources to monitor and control the probability and/ or impact of adverse outcomes within the board's risk appetite or to maximise realisation of opportunities.

RISK MANAGEMENT SYSTEM REVIEW AND DEVELOPMENT

CLEAR ACCOUNTABILITIES AND RESPONSIBILITIES



The risk management strategy contains the objectives and principles of risk management, the risk appetite, risk preferences and risk tolerance limits.

The risk management policies implement the risk management strategy and provide a set of principles (and mandated activities) for control mechanisms that take into account the materiality of risks.

The risk management processes ensure that risks are identified, measured/ assessed, monitored and reported to support decision making.

The risk management reports deliver information on the material risks faced by the business and evidence that principal risks are actively monitored and analysed and managed against risk appetite.

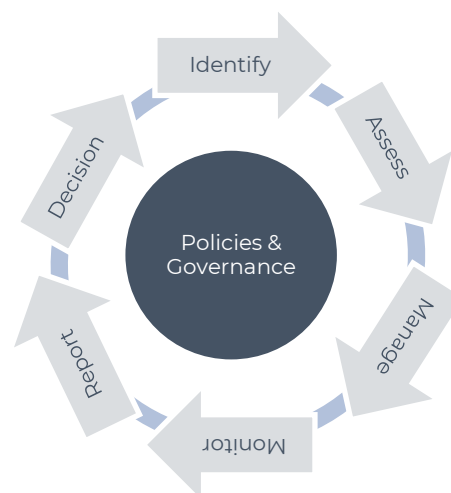
#### RISK PROCESSES

Risk management processes are applied at a group, divisional and business unit level and are documented within a set of board approved risk policies, for each category of risk.

**Chesnara adopts the “three lines of defence” model across the group taking into account size, nature and complexity, with a single set of risk and governance principles applied consistently across the business.**

In all divisions we maintain processes for identifying, evaluating and managing all material risks faced by the group, which are regularly reviewed by the divisional and group Audit & Risk Committees. Our risk assessment processes have regard to the significance of risks, the likelihood of their occurrence and take account of the controls in place to manage them. The processes are designed to manage the risk profile within the board's approved risk appetite.

Group and divisional 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. The results, conclusions and any recommended actions are included within divisional and group ORSA Reports to the relevant boards. There is a strong correlation between these adverse events and the risks identified in 'Principal risks and uncertainties' (see pages 33 to 34). The outcome of this testing provides context against which the group can assess whether any changes to its risk appetite or to its management processes are required.



## CHESNARA RISK PREFERENCES

The Chesnara board has approved a set of risk preferences which articulate, in simple terms, the desire to increase, maintain, or reduce the level of risk taking for each main category of risk. The risk position of the business is monitored against these preferences using risk tolerance limits, where appropriate, and they are taken into account by the management teams across the group when taking strategic or operational decisions that affect the risk profile.

## PRINCIPAL RISKS AND UNCERTAINTIES

The following table outlines the principal risks and uncertainties of the group. It has been drawn together following regular assessment performed by the Audit and Risk Committee of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.

The impacts are not quantified in the table. However, by virtue of the risks being defined as principal, the impacts are potentially significant

RISK	IMPACT
<b>Exposure to financial losses or value reduction arising from adverse movements in investment markets, counterparty defaults, or through inadequate asset liability matching</b>	<p>Market risk results from fluctuations in asset values, foreign exchange rates and interest rates and has the potential to affect the group's ability to fund its commitments to customers and other creditors, as well as pay a return to shareholders.</p> <p>Chesnara and each of its subsidiaries have obligations to make future payments, which are not always known with certainty in terms of timing or amounts, prior to the payment date. This includes primarily the payment of policyholder claims, reinsurance premiums, debt repayments and dividends. The uncertainty of timing and amounts to be paid gives rise to potential liquidity risk, should the funds not be available to make payment.</p> <p>Other liquidity issues could arise from counterparty failures/credit defaults, a large spike in the level of claims or other significant unexpected expenses.</p>
<b>Adverse changes in industry practice/ regulation, or inconsistent application of regulation across territories</b>	<p>Chesnara currently operates in four regulatory domains (including Movestic's asset management company in Luxembourg) and is therefore exposed to inconsistent application of regulatory standards across divisions, such as the imposition of higher capital buffers over and above regulatory minimum requirements. Potential consequences of this risk for Chesnara is the constraining of efficient and fluid use of capital within the group, or creating a non-level playing field with respect to future new business/acquisitions.</p> <p>The jurisdictions which Chesnara operates in are currently subject to significant change arising from political, regulatory and legal change. These may either be localised or may apply more widely, following from EU-based regulation and law, or the potential unwinding of this following the UK's decision to leave the EU.</p> <p>The group is therefore exposed to the risk of:</p> <ul style="list-style-type: none"> <li>– incurring one-off costs of addressing regulatory change as well as any permanent increases in the cost base in order to meet enhanced standards;</li> <li>– erosion in value arising from pressure or enforcement to reduce future policy charges;</li> <li>– erosion in value arising from pressure or enforcement to financially compensate for past practice; and</li> <li>– regulatory fines or censure in the event that it is considered to have breached standards, or fails to deliver changes to the required regulatory standards on a timely basis.</li> </ul>

## RISK MANAGEMENT

RISK	IMPACT
<b>Failure to source acquisitions that meet Chesnara's criteria or the execution of acquisitions with subsequent unexpected financial losses or value reduction</b>	<p>The acquisition element of Chesnara's growth strategy is dependent on the availability of attractive future acquisition opportunities. Hence, the business is exposed to the risk of a reduction in the availability of suitable acquisition opportunities within Chesnara's current target markets, for example arising as a result of a change in competition in the consolidation market or from regulatory change influencing the extent of life company strategic restructuring.</p> <p>Through the execution of acquisitions, Chesnara is also exposed to the risk of erosion of value or financial losses arising from risks inherent within businesses or funds acquired which are not adequately priced for or mitigated as part of the transaction.</p>
<b>Adverse demographic experience compared with assumptions</b>	<p>In the event that demographic experience (rates of mortality, morbidity, persistency etc.) varies from the assumptions underlying product pricing and subsequent reserving, more or less profit will accrue to the group.</p> <p>If mortality or morbidity experience is higher than that assumed in pricing contracts (i.e. more death and sickness claims are made than expected), this will typically result in less profit accruing to the group.</p> <p>If persistency is significantly lower than that assumed in product pricing and subsequent reserving, this will typically lead to reduced group profitability in the medium to long-term, as a result of a reduction in future income arising from charges on those products. The effects of this could be more severe in the case of a one-off event resulting in multiple withdrawals over a short period of time (a "mass lapse" event).</p>
<b>Significant operational failure / business continuity event</b>	<p>The group and its subsidiaries are exposed to operational risks which arise through daily activities and running of the business. Operational risks may, for example, arise due to technical or human errors, failed internal processes, insufficient personnel resources or fraud caused by internal or external persons. As a result the group may suffer financial losses, poor customer outcomes, reputational damage, regulatory intervention or business plan failure.</p> <p>Part of the group's operating model is to outsource support activities to specialist service providers. Consequently, a significant element of the operational risk arises within its outsourced providers.</p>
<b>Expense overruns and unsustainable unit cost growth</b>	<p>The Company is exposed to expenses being higher than expected as a result of one-off increases in the underlying cost of performing key functions, or through higher inflation of variable expenses.</p> <p>For the closed funds, the group is exposed to the impact on profitability of fixed and semi-fixed expenses, in conjunction with a diminishing policy base.</p> <p>For the companies open to new businesses, the group is exposed to the impact of expense levels varying adversely from those assumed in product pricing.</p>
<b>IT/data security failures or cyber crime</b>	<p>Cyber risk is a growing risk affecting all companies, particularly those who are custodians of customer data. The most pertinent risk exposure relates to information security (i.e. protecting business sensitive and personal data) and can arise from failure of internal processes and standards, but increasingly companies are becoming exposed to potential malicious cyber-attacks, organisation specific malware designed to exploit vulnerabilities, phishing attacks etc. The extent of Chesnara's exposure to such threats also includes third party service providers.</p> <p>The potential impact of this risk includes financial losses, inability to perform critical functions, disruption to policyholder services, loss of sensitive data and corresponding reputational damage or fines.</p>

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## GOING CONCERN

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The directors have considered the ability of the group to continue on a going concern basis. As such the board has performed an assessment as to whether the group can meet its liabilities as they fall due for a period of at least 12 months from which this half year report has been signed.

In performing this work, the board has considered the current cash position of the group and company, coupled with the group's and company's expected cash generation as highlighted in its most recent business plan, which covers a three year period. The business plan considers the financial projections of the group and its subsidiaries on both a base case and a range of stressed scenarios, covering projected IFRS, EcV and solvency positions. These projections also focus on the cash generation of the life insurance divisions and how these flow up into the Chesnara parent company balance sheet, with these cash flows being used to fund debt repayments, shareholder dividends and the head office function of the parent company.

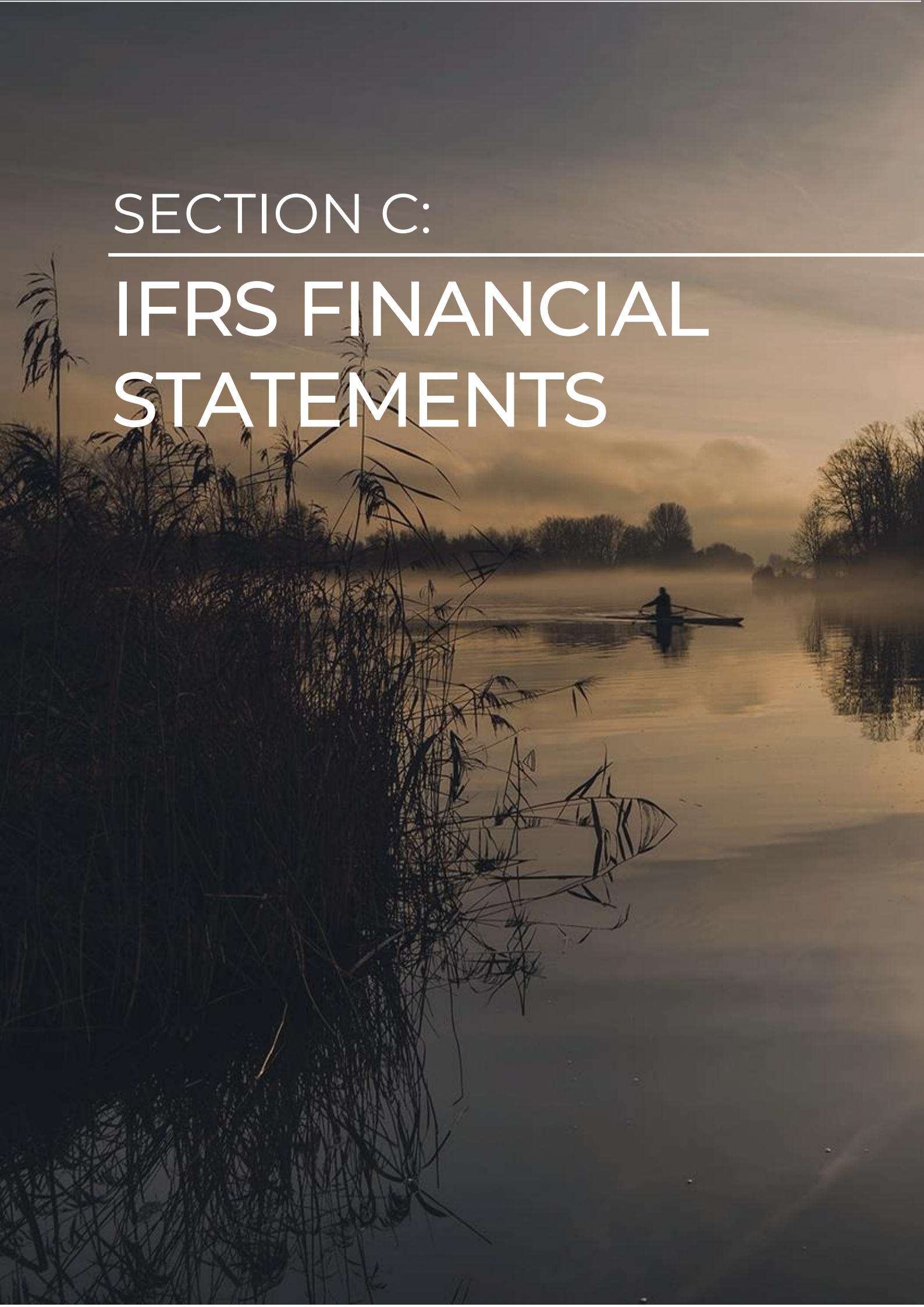
The information set out on pages 23 to 24 indicates a strong Solvency II position as at 30 June 2019 as measured at both the individual regulated life company levels and at the group level. As well as being well-capitalised the group also has a healthy level of cash reserves to be able to meet its debt obligations as they fall due, and does not rely on the renewal or extension of bank facilities to continue trading. The group's subsidiaries do, however, rely on cash flows 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.

In light of this information, the board has concluded that the group and company has adequate resources to continue in operational existence for at least 12 months from the date of approval of this half year report, and as a result the IFRS Financial Statements have been prepared on a going concern basis.

SECTION C:

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# IFRS FINANCIAL STATEMENTS





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## SECTION C • IFRS FINANCIAL STATEMENTS

38	Directors' Responsibilities Statement
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43	Condensed Consolidated Statement of Changes in Equity
44	Notes to the Condensed Consolidated Financial Statements

## DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';
- the 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 management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the board



Peter Mason

Chairman

28 August 2019



John Deane

Chief Executive Officer

28 August 2019

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

We have been engaged by the company to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2019 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 & 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 & 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 2019 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.

A handwritten signature in dark ink that reads "Deloitte LLP" followed by a long horizontal line.

Deloitte LLP  
Statutory Auditor  
Edinburgh  
United Kingdom

28 August 2019

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(UNAUDITED)

		Unaudited Six months ended 30 June		Year ended 31 December
		2019	2018	2018
	Note	£000	£000	£000
Insurance premium revenue		134,493	144,422	274,916
Insurance premium ceded to reinsurers		(22,814)	(28,372)	(55,536)
<b>Net insurance premium revenue</b>		<b>111,679</b>	<b>116,050</b>	<b>219,380</b>
Fee and commission income		48,676	62,353	101,783
Net investment return		710,201	139,185	(335,035)
<b>Total revenue net of reinsurance payable</b>		<b>870,556</b>	<b>317,588</b>	<b>(13,872)</b>
Other operating income		19,412	9,524	41,236
<b>Total income net of investment return</b>		<b>889,968</b>	<b>327,112</b>	<b>27,364</b>
Insurance contract claims and benefits incurred				
Claims and benefits paid to insurance contract holders		(212,435)	(246,130)	(471,205)
Net increase in insurance contract provisions		(172,360)	91,276	351,812
Reinsurers' share of claims and benefits		19,765	26,137	43,648
Net insurance contract claims and benefits		(365,030)	(128,717)	(75,745)
Change in investment contract liabilities		(408,031)	(114,931)	196,940
Reinsurers' share of investment contract liabilities		3,824	1,016	(1,611)
Net change in investment contract liabilities		(404,207)	(113,915)	195,329
Fees, commission and other acquisition costs		(10,571)	(12,396)	(28,158)
Administrative expenses		(34,743)	(33,584)	(69,795)
Other operating expenses				
Charge for amortisation of acquired value of in-force business		(5,216)	(6,298)	(12,093)
Charge for amortisation of acquired value of customer relationships		(35)	(42)	(83)
Other		(3,129)	(3,366)	(4,840)
<b>Total expenses net of change in insurance contract provisions and investment contract liabilities</b>		<b>(822,931)</b>	<b>(298,318)</b>	<b>4,615</b>
<b>Total income less expenses</b>		<b>67,037</b>	<b>28,794</b>	<b>31,979</b>
Share of (loss)/profit of associate		801	(13)	(616)
Financing costs		(1,212)	(2,269)	(4,351)
<b>Profit before income taxes</b>	<b>4</b>	<b>66,626</b>	<b>26,512</b>	<b>27,012</b>
Income tax expense		(12,301)	(4,718)	(2,888)
<b>Profit for the period</b>	<b>3,4</b>	<b>54,325</b>	<b>21,794</b>	<b>24,124</b>
Foreign exchange translation differences arising on the revaluation of foreign operations		(3,505)	(6,920)	(783)
Revaluation of pension obligations		188	47	56
Revaluation of investment property		–	–	277
<b>Total comprehensive income for the period</b>		<b>51,008</b>	<b>14,921</b>	<b>23,674</b>
Basic earnings per share (based on profit for the period)	<b>2</b>	36.24p	14.55p	16.10p
Diluted earnings per share (based on profit for the period)	<b>2</b>	36.01p	14.46p	16.01p

The notes and information on pages 44 to 55 form part of these financial statements.

## CONDENSED CONSOLIDATED BALANCE SHEET

(UNAUDITED)

		Unaudited as at 30 June	Year ended 31 December	
	Note	2019 £000	2018 £000	2018 £000
<b>Assets</b>				
Intangible assets				
Deferred acquisition costs		65,132	63,115	65,039
Acquired value of in-force business		100,229	110,493	106,609
Acquired value of customer relationships		484	561	537
Goodwill		756	756	781
Software assets		6,103	6,080	5,711
Property and equipment		6,801	4,102	4,293
Investment in associates		6,448	6,247	5,840
Investment properties		1,296	1,196	1,299
Reinsurers' share of insurance contract provisions		211,534	221,223	213,369
Amounts deposited with reinsurers		36,930	38,185	34,349
Financial assets				
Equity securities at fair value through income		392,000	506,221	413,851
Holdings in collective investment schemes at fair value through income		5,399,550	5,158,002	4,835,621
Debt securities at fair value through income		1,515,771	1,533,256	1,521,616
Policyholders' funds held by the group		276,838	271,461	259,836
Mortgage loan portfolio		37,160	43,754	41,191
Insurance and other receivables		68,965	74,185	55,849
Prepayments		6,464	5,891	7,309
Derivative financial instruments		896	897	446
Total financial assets		7,697,644	7,593,667	7,135,719
Defined benefit pension scheme funding prepayment	7	1,007	1,019	–
Reinsurers' share of accrued policyholder claims		18,476	29,937	17,640
Income taxes		8,345	9,931	10,702
Cash and cash equivalents		194,304	200,031	215,212
<b>Total assets</b>	<b>4</b>	<b>8,355,489</b>	<b>8,286,543</b>	<b>7,817,100</b>
<b>Liabilities</b>				
Insurance contract provisions		3,705,623	3,831,118	3,569,014
Other provisions		695	1,463	882
Financial liabilities				
Investment contracts at fair value through income		3,575,724	3,404,364	3,235,519
Liabilities relating to policyholders' funds held by the group		276,838	271,461	259,836
Lease contract liabilities		2,631	–	–
Borrowings	5	99,800	114,482	109,202
Derivative financial instruments		24,353	22,598	22,714
Total financial liabilities		3,979,346	3,812,905	3,627,271
Deferred tax liabilities		26,187	21,552	19,463
Reinsurance payables		8,183	13,845	10,535
Payables related to direct insurance and investment contracts		87,541	90,046	91,229
Deferred income		3,564	4,336	3,948
Income taxes		5,465	8,640	3,428
Other payables		60,571	53,076	44,756
Bank overdrafts		1,462	2,194	958
<b>Total liabilities</b>	<b>4</b>	<b>7,878,637</b>	<b>7,839,175</b>	<b>7,371,484</b>
<b>Net assets</b>		<b>476,852</b>	<b>447,368</b>	<b>445,616</b>
<b>Shareholders' equity</b>				
Share capital		43,769	43,766	43,767
Share premium		142,150	141,993	142,053
Treasury shares		–	(92)	–
Other reserves		23,653	20,744	27,158
Retained earnings	3	267,280	240,957	232,638
<b>Total shareholders' equity</b>		<b>476,852</b>	<b>447,368</b>	<b>445,616</b>

The notes and information on pages 44 to 55 form part of these financial statements.

Approved by the Board of Directors and authorised for issue on 28 August 2019 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	
	2019	2018	2018
	£000	£000	£000
<b>Profit for the period</b>	<b>54,325</b>	<b>21,794</b>	<b>24,124</b>
Adjustments for:			
Depreciation of property and equipment	509	366	647
Amortisation of deferred acquisition costs	5,783	7,806	13,629
Amortisation of acquired value of in-force business	5,216	6,298	12,093
Amortisation of acquired value of customer relationships	35	42	83
Amortisation of software assets	846	738	1,671
Share based payment	307	354	501
Tax paid	12,290	4,842	2,888
Interest receivable	(190)	(392)	(4,796)
Dividends receivable	(2,876)	(3,606)	(2,939)
Interest expense	1,273	2,269	4,351
Fair value gains on financial assets	(201,850)	(205,869)	(205,410)
Share of loss/(profit) of associate	(801)	13	616
Interest received	1,568	899	5,360
Dividends received	2,666	3,468	1,579
Increase in intangible assets related to insurance and investment contracts	(7,617)	(12,814)	(18,457)
Changes in operating assets and liabilities (excluding the effect of acquisitions)	55	47	56
Changes in operating assets and liabilities:			
(Increase)/decrease in financial assets	(436,520)	153,160	715,390
(Increase)/decrease in reinsurers share of insurance contract provisions	(828)	4,405	26,462
(Increase)/decrease in amounts deposited with reinsurers	(2,581)	591	4,427
(Increase)/decrease in insurance and other receivables	(9,274)	(11,450)	11,937
(Increase)/decrease in prepayments	(287)	1,172	(86)
Increase/(decrease) in insurance contract provisions	141,579	(119,257)	(409,405)
Increase/(decrease) in investment contract liabilities	442,003	173,664	(102,577)
Increase/(decrease) in provisions	(157)	442	(180)
Increase/(decrease) in reinsurance payables	(2,151)	2,778	(792)
Decrease in payables related to direct insurance and investment contracts	(3,429)	(6,590)	(5,947)
Increase/(decrease) in other payables	20,218	8,573	(2,549)
<b>Cash generated from operations</b>	<b>20,112</b>	<b>33,743</b>	<b>72,676</b>
Income tax paid	(8,484)	(7,602)	(12,104)
<b>Net cash generated from operating activities</b>	<b>11,628</b>	<b>26,141</b>	<b>60,572</b>
<b>Cash flows from investing activities</b>			
Development of software	(1,390)	(807)	(1,839)
(Purchases)/disposal of property and equipment	(114)	(168)	71
<b>Net cash utilised by investing activities</b>	<b>(1,504)</b>	<b>(975)</b>	<b>(1,768)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of share premium	99	10	1
Proceeds from borrowings	–	–	70
Repayment of borrowings	(8,298)	(12,240)	(18,974)
Repayment of principal under lease liabilities	(348)	–	–
Sale of treasury shares	–	6	98
Dividends paid	(20,178)	(19,579)	(30,384)
Interest paid	(1,035)	(2,269)	(4,174)
<b>Net cash utilised by from financing activities</b>	<b>(29,760)</b>	<b>(34,072)</b>	<b>(53,363)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(19,636)</b>	<b>(8,906)</b>	<b>5,441</b>
Cash and cash equivalents at beginning of period	214,254	209,556	209,556
Effect of exchange rate changes on cash and cash equivalents	(1,776)	(2,813)	(743)
<b>Cash and cash equivalents at end of the period</b>	<b>192,842</b>	<b>197,837</b>	<b>214,254</b>

The notes and information on pages 44 to 55 form part of these financial statements.

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(UNAUDITED)

## Unaudited six months ended 30 June 2019

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
<b>Equity shareholders' funds at 1 January 2019</b>	<b>43,767</b>	<b>142,053</b>	<b>27,158</b>	<b>–</b>	<b>232,638</b>	<b>445,616</b>
Profit for the period	–	–	–	–	54,325	54,325
Dividends paid	–	–	–	–	(20,178)	(20,178)
Foreign exchange translation differences	–	–	(3,505)	–	–	(3,505)
Revaluation of pension obligations	–	–	–	–	188	188
Issue of share capital	2	–	–	–	–	2
Issue of share premium	–	97	–	–	–	97
Share based payment	–	–	–	–	307	307
<b>Equity shareholders' funds at 30 June 2019</b>	<b>43,769</b>	<b>142,150</b>	<b>23,653</b>	<b>–</b>	<b>267,280</b>	<b>476,852</b>

## Unaudited six months ended 30 June 2018

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
<b>Equity shareholders' funds at 1 January 2018</b>	<b>43,766</b>	<b>141,983</b>	<b>27,664</b>	<b>(98)</b>	<b>238,341</b>	<b>451,656</b>
Profit for the period	–	–	–	–	21,794	21,794
Dividends paid	–	–	–	–	(19,579)	(19,579)
Foreign exchange translation differences	–	–	(6,920)	–	–	(6,920)
Revaluation of pension obligations	–	–	–	–	47	47
Sale of treasury shares	–	10	–	6	–	16
Share based payment	–	–	–	–	354	354
<b>Equity shareholders' funds at 30 June 2018</b>	<b>43,766</b>	<b>141,993</b>	<b>20,744</b>	<b>(92)</b>	<b>240,957</b>	<b>447,368</b>

## Year ended 31 December 2018

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
<b>Equity shareholders' funds at 1 January 2018</b>	<b>43,766</b>	<b>141,983</b>	<b>27,664</b>	<b>(98)</b>	<b>238,341</b>	<b>451,656</b>
Profit for the year	–	–	–	–	24,124	24,124
Dividends paid	–	–	–	–	(30,384)	(30,384)
Foreign exchange translation differences (note 4)	–	–	(783)	–	–	(783)
Revaluation of pension obligations	–	–	–	–	56	56
Revaluation of investment property	–	–	277	–	–	277
Share based payment	–	–	–	–	501	501
Issue of share capital	1	–	–	–	–	1
Issue of share premium	–	70	–	–	–	70
Sale of treasury shares	–	–	–	98	–	98
<b>Equity shareholders' funds at 31 December 2018</b>	<b>43,767</b>	<b>142,053</b>	<b>27,158</b>	<b>–</b>	<b>232,638</b>	<b>445,616</b>

The notes and information on page 44 to 55 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 2018, with the exception of IFRS 16 Leases, which has been adopted for the first time in these financial statements.

The group's published consolidated financial statements for the year ended 31 December 2018 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 2018.

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 2018 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.

Critical accounting judgements and key sources of estimation and uncertainty remain unchanged from those described in Note 3 of the 2018 Annual Report and Accounts.

**IFRS 16 Leases:**

IFRS 16 Leases became effective from 1 January 2019. IFRS 16 replaces IAS 17 Leases. The new standard removes the classification of leases as either operating or finance leases for the lessee, thereby treating all leases as finance leases. This results in the recognition of a right of use asset and a lease liability for all of the group's previously classified operating leases. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements.

The group has initially adopted the IFRS 16 Leases from 1 January 2019 using the modified retrospective approach, under which the cumulative effect of initial applications is recognised in the retained earnings as at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated. The details of the change in accounting policy are disclosed below.

The group has a number of lease arrangements in place, predominantly in relation to rented office space and equipment used within the business operations. The group has a single investment property where it acts as a lessor.

The group assesses whether a contract is or contains a lease, at inception of the contract. The group recognises a right-of-use asset and a corresponding lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the group use an incremental borrowing rate, appropriate for each division.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments
- Variable lease payments
- The amount expected to be payable by the lessee under residual value guarantees
- The exercise price of purchase options
- The payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liability is presented as a separate line in the consolidated balance sheet.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**1 Basis of preparation (continued)**  
**IFRS 16 Leases (continued):**

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use-asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the lease payment change is due to a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is measured by discounting the revised lease payments using a revised discount rate.

The group did not make any such adjustments during the periods presented.

The right-of-use-assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

The right-of-use-assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfer's ownership of the underlying asset or the cost of the right-of-use-asset reflects that the group expects to exercise a purchase option, the related right-of-use-asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The group does not have any leases that include purchase options or transfer ownership of the underlying asset.

The right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if these were owned. For the group this is "Property and Equipment".

For short-term leases (lease of than 12 months or less) and leases of low-value assets (such as personal computers and office furniture) the group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expenses is presented within "Other operating expenses" in the consolidated income statement.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The group has not used this practical expedient.

**Transition**

The group has applied IFRS 16 using a modified retrospective approach without restatement of the comparative information. In respect of those leases the group previously treated as operating lease, the group has elected to measure its right-of-use-assets using the approach set out in IFRS 16.C8(b)(ii). Under IFRS 16.C8(b)(ii) right-of-use-assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet immediately before the date of initial application.

The groups' weighted average incremental borrowing rate applied to lease liabilities as at 1 January 2019 is 2.8% for the UK and Swedish division and 2.0% for the Netherlands division.

The group has not made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease.

As part of the groups' adoption of IFRS 16 and applications of the modified retrospective approach to transition, the group also elected to use the following practical expedients:

- A single discount rate has been applied to portfolios of leases with reasonable similar characteristics; and
- Hindsight has been used in determining the lease term.

**Lessee accounting**

IFRS 16 changes how the group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. Applying IFRS 16, for all leases, the group now recognises right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments.

Lease incentives are recognised as part of the measurement of the right-of-use-assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight line bases.

Under IFRS 16, right-of-use-assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

Under IFRS 16, the group recognised depreciation of right-of-use-assets and interest on lease liabilities in the consolidated income statement, whereas under IAS 17 operating leases previously gave rise to a straight-line expenses in other expenses.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**1 Basis of preparation (continued)**  
**IFRS 16 Leases (continued):**

Under IFRS 16 the group separates the total amount of cash paid for leases that are on the balance sheet into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement. Under IAS 17 operating lease payments were presented as operating cash outflows.

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required but IAS 17. This change did not have a material effect on the group consolidated financial statements.

**Financial impact**

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities.

The group has chosen to use the table below to set out the adjustment recognised at the date of initial application of IFRS 16.

	As previously reported at 31 December 2018	Impact of IFRS 16	As restated at 1 January 2019
	£'000	£'000	£'000
Property and equipment	4,293	3,016	7,309
Deferred tax asset	–	(513)	(513)
Other assets	7,812,807	–	7,812,807
<b>Total assets</b>	<b>7,817,100</b>	<b>2,503</b>	<b>7,819,603</b>
Lease liabilities	–	(3,016)	(3,016)
Deferred tax liability	(19,463)	513	(18,950)
Other liabilities	(7,352,021)	–	(7,352,021)
<b>Total liabilities</b>	<b>(7,371,484)</b>	<b>(2,503)</b>	<b>(7,373,987)</b>
<b>Net assets</b>	<b>445,616</b>	<b>–</b>	<b>445,616</b>

Of the total right-of-use–assets of £3.1m recognised at 1 January 2019, £2.7m related to leases of property and £0.4m to leases on equipment. The table below presents a reconciliation from operating lease commitments disclosed on 31 December 2018 to lease liabilities recognised at 1 January 2019.

	As at 1 January 2019 £000
<b>Operating lease commitments disclosed under IAS 17 at 31 December 2018</b>	<b>3,486</b>
Short-term and low value lease commitments straight-line expensed under IFRS 16	64
Effect of discounting	(534)
Payments due in periods covered by extension options that are included in the lease term	–
Finance lease liabilities recognised under IAS 17 at 31 December 2018	–
<b>Lease liabilities recognised at 1 January 2019</b>	<b>3,016</b>

In terms of the income statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expenses compared to IAS 17. During the six months ended 30 June 2019, in relation to leases under IFRS 16 the group recognised the following amounts in the consolidated income statement:

	As at 1 January 2019 £000
Depreciation charge	(358)
Interest expenses	(30)
Variable lease payments	317
Short-term lease expense	31
Low-value lease expenses	–

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**2 Earnings per share**

Earnings per share are based on the following:

	Unaudited Six months ended 30 June		Year ended 31 December
	2019	2018	2018
Profit for the period attributable to shareholders (£000)	54,325	21,794	24,124
Weighted average number of ordinary shares	149,919,130	149,820,942	149,847,736
Basic earnings per share	36.24p	14.55p	16.10p
Diluted earnings per share	36.01p	14.46p	16.01p

The weighted average number of ordinary shares in respect of the six months ended 30 June 2019 is based upon 149,961,626 shares in issue. No shares were held in treasury.

The six months ended 30 June 2018 is based upon 149,885,761 shares in issue, less 24,980 own shares held in treasury at the beginning of the period, and 149,885,761 shares in issue less 24,980 own shares held in treasury at the end of the period.

The weighted average number of ordinary shares in respect of the year ended 31 December 2018 is based upon 149,908,956 shares. No shares were held in treasury.

There were 949,373 share options outstanding at 30 June 2019 (30 June 2018: 948,003). Accordingly, there is dilution of the average number of ordinary shares in issue in respect of 2018. There were 845,346 share options outstanding as at 31 December 2018.

**3 Retained earnings**

	Unaudited Six months ended 30 June		Year ended 31 December
	2019 £000	2018 £000	2018 £000
Retained earnings attributable to equity holders of the parent company comprise:			
<b>Balance at 1 January</b>	<b>232,638</b>	<b>238,341</b>	<b>238,341</b>
Profit for the period	54,325	21,794	24,124
Revaluation of pension obligations	188	47	56
Share based payment	307	354	501
Dividends:			
Final approved and paid for 2017	–	(19,579)	(19,579)
Interim approved and paid for 2018	–	–	(10,805)
Final approved and paid for 2018	(20,178)	–	–
<b>Balance at period end</b>	<b>267,280</b>	<b>240,957</b>	<b>232,638</b>

The interim dividend in respect of 2018, approved and paid in 2018 was paid at the rate of 7.21p per share.

The final dividend in respect of 2018, approved and paid in 2019, was paid at the rate of 13.46p per share so that the total dividend paid to the equity shareholders of the company in respect of the year ended 31 December 2018 was made at the rate of 20.67p per share.

An interim dividend of 7.43p per share in respect of the year ending 31 December 2019 payable on 11 October 2019 to equity shareholders of the company registered at the close of business on 6 September 2019, the dividend record date, was approved by the Directors after the balance sheet date. The resulting dividend of £11.1m 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 2019 and the year ended 31 December 2018:

	Six months ended 30 June 2019 Pence	Year ended 31 December 2018 Pence
Interim – approved/paid	7.43	7.21
Final – proposed/paid	–	13.46
<b>Total</b>	<b>7.43</b>	<b>20.67</b>

## 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 2019 comprise:

**CA:** This segment represents the group's UK life insurance and pensions run-off portfolio and comprises the original business of Countrywide Assured plc, the group's principal UK operating subsidiary, and of City of Westminster Assurance Company Limited which was acquired in 2005 and the long-term business of which was transferred to Countrywide Assured plc during 2006. This segment also contains Save & Prosper Insurance Limited which was acquired on 20 December 2010 and its then subsidiary Save & Prosper Pensions Limited. The S&P business was transferred to CA during 2011. This segment also contains the business of Protection Life, which was purchased on 28 November 2013 and the business of which was transferred to CA effective from 1 January 2015. CA is responsible for conducting 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' of the 2018 Annual Report and Accounts.

**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 first Dutch life and general insurance business, which was acquired on 19 May 2015 and comprises the two insurance companies Waard Leven N.V. and Waard Schade N.V., and a servicing company, Waard Verzekeringen B.V.. 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. This segment is closed to new business.

**Scildon:** This segment represents the group's latest Dutch life insurance business, which was acquired on 5 April 2017. Scildon's policy base is predominantly made up of individual protection and savings contracts. It is open to new business and sells protection, individual savings and group pension contracts via a broker-led distribution model.

**Other group activities:** The functions performed by the ultimate holding company within the group, 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 2019.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

4 Operating segments (continued)  
 (i) Segmental income statement for the six months ended 30 June 2019

	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other Group Activities £000	Total £000
Net insurance premium revenue	14,997	4,644	902	91,136	–	111,679
Fee and commission income	12,988	9,759	9	25,920	–	48,676
Net investment return	226,475	334,731	5,668	143,098	229	710,201
<b>Total revenue (net of reinsurance payable)</b>	<b>254,460</b>	<b>349,134</b>	<b>6,579</b>	<b>260,154</b>	<b>229</b>	<b>870,556</b>
Other operating income	5,786	13,626	–	–	–	19,412
<b>Segmental income</b>	<b>260,246</b>	<b>362,760</b>	<b>6,579</b>	<b>260,154</b>	<b>229</b>	<b>889,968</b>
Net insurance contract claims and benefits incurred	(153,247)	(1,810)	(1,469)	(208,504)	–	(365,030)
Net change in investment contract liabilities	(69,736)	(334,471)	–	–	–	(404,207)
Fees, commission and other acquisition costs	(547)	(11,278)	(122)	(1,130)	–	(13,077)
Administrative expenses:						
Amortisation charge on software assets	–	(1,408)	–	(205)	–	(1,613)
Depreciation charge on property and equipment	–	(121)	(52)	(462)	–	(635)
Other	(10,594)	(4,702)	(1,427)	(13,438)	(2,334)	(32,495)
Operating expenses	(345)	(2,782)	–	–	(2)	(3,129)
Financing costs	(1)	(447)	–	–	(764)	(1,212)
Share of profit from associates	–	801	–	–	–	801
<b>Profit/(loss) before tax and consolidation adjustments</b>	<b>25,776</b>	<b>6,542</b>	<b>3,509</b>	<b>36,415</b>	<b>(2,871)</b>	<b>69,371</b>
Consolidation adjustments:						
Charge for amortisation of acquired value of in-force business	(1,613)	(1,388)	(330)	(1,885)	–	(5,216)
Charge for amortisation of acquired value of customer relationships	–	(35)	–	–	–	(35)
Fees, commission and other acquisition costs	–	1,242	–	1,264	–	2,506
<b>Profit/(loss) before tax</b>	<b>24,163</b>	<b>6,361</b>	<b>3,179</b>	<b>35,794</b>	<b>(2,871)</b>	<b>66,626</b>
Income tax (expense)/credit	(4,576)	5	(821)	(7,397)	488	(12,301)
<b>Profit/(loss) after tax</b>	<b>19,587</b>	<b>6,366</b>	<b>2,358</b>	<b>28,397</b>	<b>(2,383)</b>	<b>54,325</b>

(ii) Segmental balance sheet as at 30 June 2019

	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other Group Activities £000	Total £000
Total assets	2,706,085	3,336,180	131,437	2,081,240	100,547	8,355,489
Total liabilities	(2,585,926)	(3,244,073)	(85,309)	(1,898,821)	(64,508)	(7,878,637)
<b>Net assets</b>	<b>120,159</b>	<b>92,107</b>	<b>46,128</b>	<b>182,419</b>	<b>36,039</b>	<b>476,852</b>
Investment in associates	–	6,448	–	–	–	6,448
Additions to non-current assets	–	9,343	325	2,737	–	12,405

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 4 Operating segments (continued)

## (iii) Segmental income statement for the six months ended 30 June 2018

	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other Group Activities £000	Total £000
Net insurance premium revenue	17,753	6,711	756	90,830	–	116,050
Fee and commission income	13,981	24,834	10	23,528	–	62,353
Net investment return	34,673	101,124	1,870	1,440	78	139,185
<b>Total revenue (net of reinsurance payable)</b>	<b>66,407</b>	<b>132,669</b>	<b>2,636</b>	<b>115,798</b>	<b>78</b>	<b>317,588</b>
Other operating income	6,536	2,988	–	–	–	9,524
<b>Segmental income</b>	<b>72,943</b>	<b>135,657</b>	<b>2,636</b>	<b>115,798</b>	<b>78</b>	<b>327,112</b>
Net insurance contract claims and benefits incurred	(20,428)	(4,299)	964	(104,954)	–	(128,717)
Net change in investment contract liabilities	(12,538)	(101,377)	–	–	–	(113,915)
Fees, commission and other acquisition costs	(649)	(14,064)	(150)	(880)	–	(15,743)
Administrative expenses:						
Amortisation charge on software assets	–	(1,955)	–	(124)	–	(2,079)
Depreciation charge on property and equipment	–	(278)	(52)	(230)	–	(560)
Other	(11,313)	(5,228)	(1,426)	(12,382)	(596)	(30,945)
Operating (expenses)/income	(422)	(2,938)	–	1	(7)	(3,366)
Financing costs	(2)	(851)	–	–	(1,416)	(2,269)
Share of loss from associates	–	(13)	–	–	–	(13)
<b>Profit/(loss) before tax and consolidation adjustments</b>	<b>27,591</b>	<b>4,654</b>	<b>1,972</b>	<b>(2,771)</b>	<b>(1,941)</b>	<b>29,505</b>
Consolidation adjustments:						
Charge for amortisation of acquired value of in-force business	(2,507)	(1,560)	(332)	(1,899)	–	(6,298)
Charge for amortisation of acquired value of customer relationships	–	(42)	–	–	–	(42)
Fees, commission and other acquisition costs	–	1,609	–	1,738	–	3,347
<b>Profit/(loss) before tax</b>	<b>25,084</b>	<b>4,661</b>	<b>1,640</b>	<b>(2,932)</b>	<b>(1,941)</b>	<b>26,512</b>
Income tax (expense)/credit	(4,890)	(436)	(401)	707	302	(4,718)
<b>Profit/(loss) after tax</b>	<b>20,194</b>	<b>4,225</b>	<b>1,239</b>	<b>(2,225)</b>	<b>(1,639)</b>	<b>21,794</b>

## (iv) Segmental balance sheet as at 30 June 2018

	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other Group Activities £000	Total £000
Total assets	2,907,606	3,138,624	143,041	2,016,417	80,855	8,286,543
Total liabilities	(2,748,480)	(3,052,314)	(97,609)	(1,862,051)	(78,721)	(7,839,175)
<b>Net assets</b>	<b>159,126</b>	<b>86,310</b>	<b>45,432</b>	<b>154,366</b>	<b>2,134</b>	<b>447,368</b>
Investment in associates	–	6,247	–	–	–	6,247
Additions to non-current assets	–	10,233	–	3,287	–	13,520

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 4 Operating segments (continued)

## (v) Segmental income statement for the year ended 31 December 2018

	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other Group Activities £000	Total £000
Net insurance premium revenue	34,028	13,663	1,698	169,991	–	219,380
Fee and commission income	28,143	23,567	19	50,054	–	101,783
Net investment return	(112,960)	(165,091)	629	(57,870)	257	(335,035)
<b>Total revenue (net of reinsurance payable)</b>	<b>(50,789)</b>	<b>(127,861)</b>	<b>2,346</b>	<b>162,175</b>	<b>257</b>	<b>(13,872)</b>
Other operating income/(expense)	12,792	28,444	–	–	–	41,236
<b>Segmental income</b>	<b>(37,997)</b>	<b>(99,417)</b>	<b>2,346</b>	<b>162,175</b>	<b>257</b>	<b>27,364</b>
Net insurance contract claims and benefits incurred	59,945	(5,018)	4,419	(135,091)	–	(75,745)
Net change in investment contract liabilities	30,321	165,008	–	–	–	195,329
Fees, commission and other acquisition costs	(1,215)	(29,563)	(293)	(1,907)	–	(32,978)
Administrative expenses:						
Amortisation charge on software assets	–	(1,463)	–	(208)	–	(1,671)
Depreciation charge on property and equipment	–	(126)	(52)	(468)	–	(646)
Other	(22,034)	(13,578)	(2,903)	(25,607)	(3,356)	(67,478)
Operating (expenses)/income	(838)	(3,991)	–	–	(11)	(4,840)
Financing costs	(4)	(1,953)	–	–	(2,394)	(4,351)
Share of loss from associates	–	(616)	–	–	–	(616)
<b>Profit/(loss) before tax and consolidation adjustments</b>	<b>28,178</b>	<b>9,283</b>	<b>3,517</b>	<b>(1,106)</b>	<b>(5,504)</b>	<b>34,368</b>
Consolidation adjustments:						
Charge for amortisation of acquired value of in-force business	(4,497)	(3,106)	(669)	(3,821)	–	(12,093)
Charge for amortisation of acquired value of customer relationships	–	(83)	–	–	–	(83)
Fees, commission and other acquisition costs	–	1,137	–	3,683	–	4,820
<b>Profit before tax</b>	<b>23,681</b>	<b>7,231</b>	<b>2,848</b>	<b>(1,244)</b>	<b>(5,504)</b>	<b>27,012</b>
Income tax (expense)/credit	(3,125)	(944)	(642)	779	1,044	(2,888)
<b>Profit after tax</b>	<b>20,556</b>	<b>6,287</b>	<b>2,206</b>	<b>(465)</b>	<b>(4,460)</b>	<b>24,124</b>

## (vi) Segmental balance sheet as at 31 December 2018

	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other Group Activities £000	Total £000
Total assets	2,636,499	3,033,654	137,640	1,948,490	60,817	7,817,100
Total liabilities	(2,476,949)	(2,942,300)	(90,585)	(1,789,841)	(71,809)	(7,371,484)
<b>Net assets</b>	<b>159,550</b>	<b>91,354</b>	<b>47,055</b>	<b>158,649</b>	<b>(10,992)</b>	<b>445,616</b>
Investment in associates	–	5,840	–	–	–	5,840
Additions to non-current assets	–	14,480	21	6,140	–	20,641

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

## 5 Borrowings

	Unaudited 30 June 2019 £000	31 December 2018 £000	2018 £000
Bank loan	61,837	76,491	69,580
Amount due in relation to financial reinsurance	37,963	37,991	39,622
<b>Total</b>	<b>99,800</b>	<b>114,482</b>	<b>109,202</b>

The bank loan subsisting at 30 June 2019 comprises the following:

- On 3 April 2017 tranche one of a new facility was drawn down, amounting to £40.0m. This facility is unsecured and is repayable in ten six-monthly instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.00 percentage points above the London Inter-Bank Offer Rate and is repayable over a period which varies between one and six months at the option of the borrower. The amount outstanding is £24.0m.
- On 3 April 2017 tranche two of the new loan facility was drawn down, amounting to €71.0m. As with tranche one, this facility is unsecured and is repayable in ten six-monthly instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.00 percentage points above the European Inter-Bank Offer Rate and is repayable over a period which varies between one and six months at the option of the borrower. The amount outstanding is £38.0m.

The fair value of the sterling bank loan at 30 June 2019 was £24.0m (31 December 2018: £27.0m).

The fair value of the euro denominated bank loan at 30 June 2019 was £38.0m (31 December 2018: £42.8m).

The fair value of amounts due in relation to financial reinsurance was £40.1m (31 December 2018: £42.2m).

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)

## 6 Financial instruments fair value disclosures

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

The group held the following financial instruments at fair value at 30 June 2019. 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 2019				
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial assets</b>				
Equities				
Listed	392,000	–	–	392,000
Holdings in collective investment schemes	5,389,988	9,562	–	5,399,550
Debt securities - fixed rate				
Government Bonds	864,481	35,195	–	899,676
Corporate Bonds	615,512	583	–	616,095
Debt securities - floating rate				
Listed	–	–	–	–
Total debt securities	1,479,993	35,778	–	1,515,771
Policyholders' funds held by the group	276,838	–	–	276,838
Derivative financial instruments	–	896	–	896
<b>Total</b>	<b>7,538,819</b>	<b>46,236</b>	<b>–</b>	<b>7,585,055</b>
Current				2,232,082
Non-current				5,352,973
<b>Total</b>				<b>7,585,055</b>
<b>Financial liabilities</b>				
Investment contracts at fair value through income	–	3,575,724	–	3,575,724
Liabilities related to policyholders' funds held by the group	276,838	–	–	276,838
Derivative financial instruments	–	24,353	–	24,353
<b>Total</b>	<b>276,838</b>	<b>3,600,077</b>	<b>–</b>	<b>3,876,915</b>

*Holdings in collective investment schemes*

The fair value of holdings in collective investment schemes classified as Level 2 are related to our Scildon operation and do not meet the classification as Level 1, as their fair value is determined using valuation techniques with observable market inputs.

*Debt securities*

The debt securities classified as Level 2 are traded in active markets with less depth or wider-bid ask spreads. This does not meet the classification as Level 1 inputs. The fair values of debt securities not traded in active markets are determined using broker quotes or valuation techniques with observable market inputs. Financial instruments valued using broker quotes are classified at Level 2, only where there is a sufficient range of available quotes.

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

*Derivative financial instruments*

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 derivative balance classified as a Level 2 liability, predominantly relates to interest rate swaps held within our Scildon operation, to hedge some of the risk of changes in the value of its obligations under insurance contract liabilities. The valuation of these derivatives is modelled using market observable variables and are hence classified as Level 2.

*Investment contract liabilities*

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)

**6 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 2019 £000	30 June 2018 £000	31 December 2018 £000	30 June 2019 £000	30 June 2018 £000	31 December 2018 £000
Financial liabilities:						
Borrowings	99,800	114,482	109,202	102,099	117,072	111,456

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.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

**7 Defined benefit pension scheme obligations**

Scildon has a defined benefit plan, the costs of which are calculated using the projected unit credit method. This means that the cost of providing pensions charged to the profit and loss account are placed over the service lives of employees, according to actuarial calculations. The obligations are calculated as the difference between the present value of pension obligations, net of the fair value of the existing plan assets. The present value of pension liabilities is determined by discounting the expected future retirement benefits at the rate of return on high quality corporate bonds in euros, which have a similar remaining period to when the pension payments are expected to be incurred. Any deficiency is recognised as a liability in the consolidated balance sheet, and any surplus is recognised as an asset. Actuarial gains and losses arising from deviations from expected outcomes are recognised as revaluations through other comprehensive income and are recognised directly in equity.

Scildon is required to contribute a cost covering premium. This cost covering premium contains the actuarial cost of newly arising unconditional benefits (using the pension fund's assumptions), the related administration cost and related buffer requirements. The pension fund does not guarantee the nominal benefits. In case of underfunding the nominal benefits can be reduced. Scildon is not obliged to pay for:

- Past service benefit increases due to wage increases;
- Past service benefit increases due to (full) indexation of past service benefits to active participants;
- Past service benefit increases due to (full) indexation of past service benefits to deferred participants and participants receiving benefits;
- Catch up contributions (e.g. for a transitory plan); and
- Fund deficits.

Vested benefits have been funded with the pension fund which manages the assets. Newly arising benefits are funded through contributions to the pension fund. The agreement between Scildon and the pension fund contains provisions that the pension fund may grant discounts and/or restitutions to Scildon, if the funding position of the pension fund exceeds a certain level and outlooks are positive.

The assets and liabilities of the defined benefit scheme are shown below.

	Unaudited 30 June 2019 £000	2018 £000	31 December 2018 £000
Total fair value of assets	60,063	50,096	50,886
Present value of scheme liabilities	(59,056)	(48,125)	(50,781)
Surplus of scheme assets over scheme liabilities	1,007	1,971	105
Effect of asset ceiling test	–	(952)	(105)
<b>Net surplus in the scheme</b>	<b>1,007</b>	<b>1,019</b>	<b>–</b>

The amount shown above as net surplus in the scheme represents the prepayment of scheme funding as at each respective balance sheet date.

Agreement has been reached with trustees to transfer the Scildon staff pension scheme from a defined benefit to a defined contribution scheme. This will be enacted during the second half of the year.

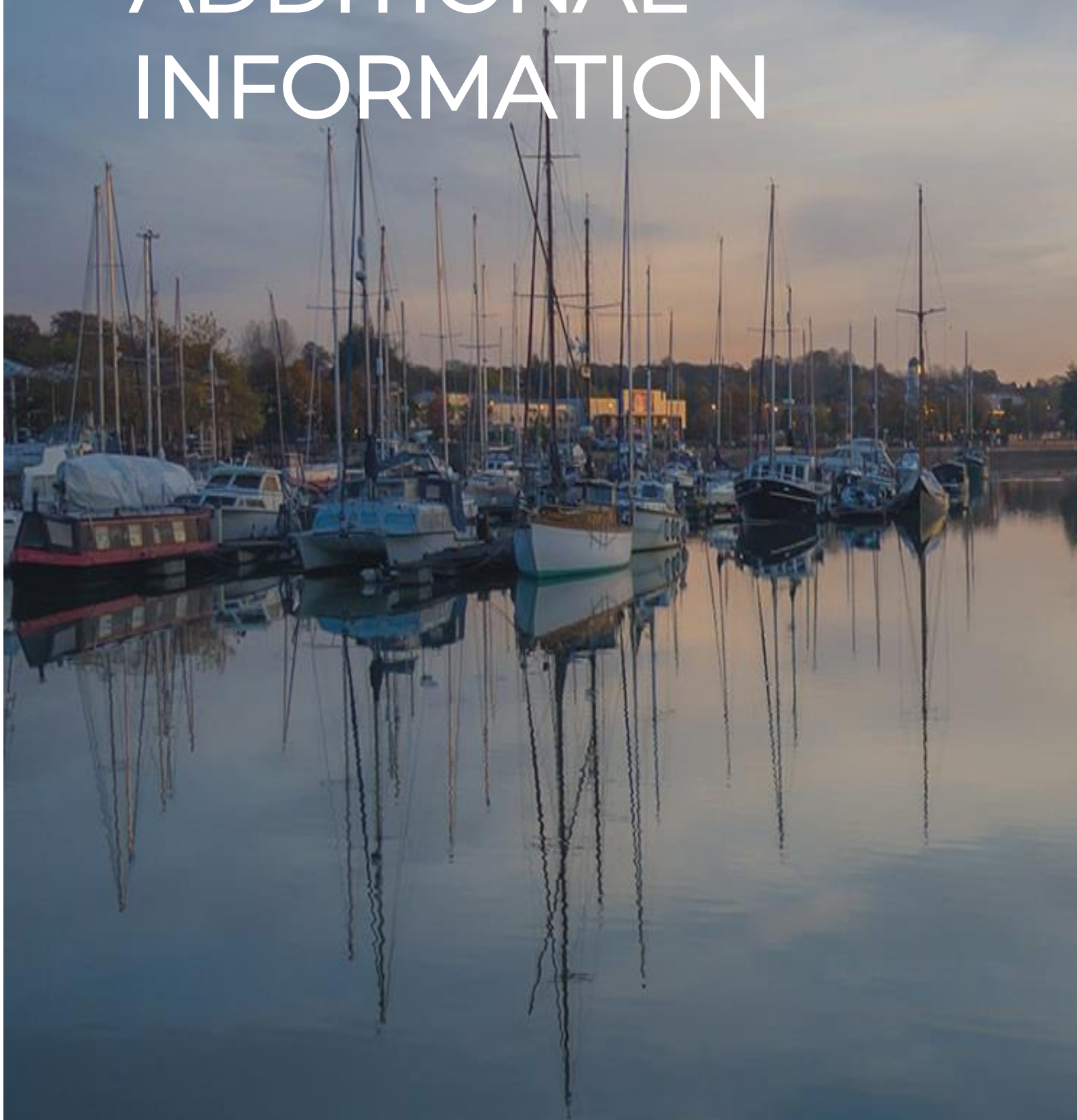
**8 Approval of consolidated report for the six months ended 30 June 2019**

This condensed consolidated report was approved by the Board of Directors on 28 August 2019. 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](http://www.chesnara.co.uk)

SECTION D:

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# ADDITIONAL INFORMATION





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## SECTION D • ADDITIONAL INFORMATION

58	Financial calendar
58	Key contacts
59	Glossary
60	Note on terminology

## FINANCIAL CALENDAR

### 29 August 2019

Interim results for the six months ending 30 June 2019 announced

### 05 September 2019

Interim ex-dividend date

### 06 September 2019

Interim dividend record date

### 23 September 2019

Final date for Dividend Reinvestment Plan (DRIP) Elections

### 11 October 2019

Interim dividend payment date

## KEY CONTACTS

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Statutory Auditor  
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Manchester  
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EC3V 4QT

### Corporate Advisors

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# GLOSSARY

<b>AGM</b>	Annual General Meeting.	<b>London Stock Exchange LTI</b>	London Stock Exchange plc.
<b>ALM</b>	Asset Liability Management - management of risks that arise due to mismatches between assets and liabilities.	<b>Movestic</b>	Long-Term Incentive Scheme - A reward system designed to incentivise executive directors' long-term performance.
<b>APE</b>	Annual Premium Equivalent - an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.		Movestic Livförsäkring AB.
<b>CA</b>	Countrywide Assured plc.	<b>Modernac</b>	Modernac SA, an associated company which is 49% owned by Movestic.
<b>CALH</b>	Countrywide Assured Life Holdings Limited and its subsidiary companies.	<b>New business</b>	The present value of the expected future cash inflows arising from business written in the reporting period.
<b>BAU Cash Generation</b>	This represents divisional cash generation plus the impact of non-exceptional group activity.	<b>Official List</b>	The Official List of the Financial Conduct Authority.
<b>Cash Generation</b>	This represents the operational cash that has been generated in the period. The cash generating capacity of the group is largely a function of the movement in the solvency position of the insurance subsidiaries within the group, and takes account of the buffers that management has set to hold over and above the solvency requirements imposed by our regulators. Cash generation is reported at a group level and also at an underlying divisional level reflective of the collective performance of each of the divisions prior to any group level activity.	<b>Operating Profit</b>	A measure of the pre-tax profit earned from a company's ongoing core business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future (alternative performance metric – APM).
<b>Divisional Cash Generation</b>	This represents the cash generated by the three operating divisions of Chesnara (UK, Sweden and the Netherlands), exclusive of group level activity.	<b>Ordinary Shares</b>	Ordinary shares of five pence each in the capital of the company.
<b>DNB</b>	De Nederlandsche Bank is the central bank of the Netherlands and is the regulator of our Dutch subsidiaries.	<b>ORSA</b>	Own Risk and Solvency Assessment.
<b>DPF</b>	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.	<b>Own Funds</b>	Own Funds - 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 company in those capital resources.
<b>Dutch Business Economic Profit</b>	Scildon and the Waard Group, consisting of Waard Leven N.V., Waard Schade N.V. and Waard Verzekeringen B.V. A measure of pre-tax profit earned from investment market conditions in the period and any economic assumption changes in the future (alternative performance measure – APM)	<b>PRA</b>	Prudential Regulation Authority.
<b>EcV</b>	Economic Value is a financial metric that is derived from Solvency II own funds that is broadly similar in concept to European Embedded Value. It provides a market consistent assessment of the value of existing insurance businesses, plus adjusted net asset value of the non-insurance business within the group.	<b>QRT</b>	Quantitative Reporting Template.
<b>FCA</b>	Financial Conduct Authority.	<b>ReAssure</b>	ReAssure Limited.
<b>FI</b>	Finansinspektionen, being the Swedish Financial Supervisory Authority.	<b>Resolution</b>	The resolution set out in the notice of General Meeting set out in this document.
<b>Form of Proxy</b>	The form of proxy relating to the General Meeting being sent to Shareholders with this document.	<b>RMF</b>	Risk Management Framework.
<b>FSMA</b>	The Financial Services and Markets Act 2000 of England and Wales, as amended.	<b>Scildon</b>	Scildon NV
<b>Group</b>	The company and its existing subsidiary undertakings.	<b>Shareholder(s)</b>	Holder(s) of Ordinary Shares.
<b>Group Cash generation</b>	This represents the absolute cash generation for the period at total group level, comprising divisional cash generation as well as both exceptional and non-exceptional group activity.	<b>Solvency II</b>	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 and has replaced the Solvency I requirements.
<b>Group Own Funds</b>	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.	<b>STI</b>	Short-Term Incentive Scheme - A reward system designed to incentivise executive directors' short-term performance.
<b>Group SCR</b>	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.	<b>SCR</b>	In accordance with the UKs regulatory regime for insurers it is the sum of individual capital resource requirements for the insurer and each of its regulated undertakings.
<b>Group Solvency</b>	Group solvency is a measure of how much the value of the company exceeds the level of capital it is required to hold in accordance with Solvency II regulations.	<b>Swedish Business</b>	Movestic and its subsidiaries and associated companies.
<b>HCL</b>	HCL Insurance BPO Services Limited.	<b>S&amp;P</b>	Save & Prosper Insurance Limited and Save & Prosper Pensions Limited.
<b>IFRS</b>	International Financial Reporting Standards.	<b>TCF</b>	Treating Customers Fairly - a central PRA principle that aims to ensure an efficient and effective market and thereby help policyholders achieve fair outcomes.
<b>IFA</b>	Independent Financial Adviser.	<b>TSR</b>	Total Shareholder Return, measured with reference to both dividends and capital growth.
<b>KPI</b>	Key performance indicator.	<b>UK or United Kingdom</b>	The United Kingdom of Great Britain and Northern Ireland.
<b>LGN</b>	LGN or Legal & General Nederland refers to the legal entity Legal & General Nederland Levensverzekering Maatschappij N.V. acquired by Chesnara in April 2017.	<b>UK Business</b>	CA and S&P.
		<b>VA</b>	The Volatility Adjustment is a measure to ensure the appropriate treatment of insurance products with long-term guarantees under Solvency II. It represents an adjustment to the rate used to discount liabilities to mitigate the effect of short-term volatility bond returns.

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

## NOTE ON TERMINOLOGY

<b>CA</b>	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; 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; 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;
<b>Movestic</b>	which was purchased on 23 July 2009 and comprises the group's Swedish business, Movestic Livförsäkring AB and its subsidiary and associated companies;
<b>The Waard Group</b>	which was acquired on 19 May 2015 and comprises two insurance companies; Waard Leven N.V. and Waard Schade N.V.; and a service company, Tadas Verzekering; and
<b>Scildon</b>	which was acquired on 5 April 2017; and
<b>Other group activities</b>	which represents the functions performed by the parent company, Chesnara plc. Also included in this segment are consolidation adjustments.

**Registered and Head Office**

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Registered number: 04947166

**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

## NOTES

