

# **OUR COMPANY HISTORY**

# 2004

Chesnara is born - Countrywide estate agency group divests its life insurance business and this becomes the inaugural portfolio of Chesnara plc with an opening Embedded Value of £126m.

# 2005

Chesnara makes its first acquisition – City of Westminster Assurance, adding £30.3m of Embedded Value.

# 2009

Chesnara plc moves into Europe with the acquisition of a Swedish business now called Movestic. The group's Embedded Value reaches £263m. Unlike the UK operation, Movestic is open to new business which adds a further source of Embedded Value growth.

# 2010

The acquisition of Save and Prosper takes the group's assets under management to over £4 billion.

# 2013

**Direct Line's life assurance business is acquired** and by the end of 2014, total group Embedded Value rises above £400m.

# 2015

Expansion into a new territory with the acquisition of the Waard Group (a closed book) in the Netherlands.

# 2017

Building upon our entry to the Dutch market we complete the acquisition of Legal & General Nederland, renamed Scildon, at a 32% discount to its Economic Value of £202.5m.

# 2019

Completion of the acquisition of a portfolio of 6,000 policies from Monuta Insurance, under Waard Group.

# 2020

Completion of the acquisition of 44,000 policies from the Dutch branch of Argenta Bank, also under Waard Group.

# SYMBOL GUIDE

Throughout the Report & Accounts 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



Operational performance



Compliance



Acquisitions



Risk appetite



Dividend / Total Shareholder Return

# WELCOME TO THE CHESNARA HALF YEAR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2020

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# **HIGHLIGHTS**

# Financial highlights



**IFRS** 

£(9.1)M

IFRS PRF-TAX LOSS

SIX MONTHS ENDED 30 JUNE 2019 PRE-TAX PROFIT £66.6M

The result includes £25.0m of losses relating to economic market conditions created by the Covid-19 pandemic, including an impairment of £11.6m to the Scildon AVIF intangible asset. By contrast, economic conditions created a £43.2m gain during the first half of 2019.

£15.1M

TOTAL COMPREHENSIVE

INCOME

SIX MONTHS ENDED 30 JUNE 2019 £51.0M

The 2020 result includes a foreign exchange gain of £21.9m (2019: loss of £3.5m).

Financial review p31



# SOLVENCY

162%

**GROUP SOLVENCY** 

31 DECEMBER 2019 155%

We are well capitalised at both group and subsidiary level under Solvency II, with group solvency improving in the first six months of 2020. We applied the volatility adjustment for the first time in 2019 in both of our Dutch subsidiaries (see page 24 for more detail).

Capital management p23



# ECONOMIC VALUE



£604.2M **ECONOMIC VALUE** 

31 DECEMBER 2019 £670.0M

Movement in the year is stated after dividend distributions of £20.8m and includes a foreign exchange gain of £29.1m.

£(74.1)M

**ECONOMIC VALUE FARNINGS** 

SIX MONTHS ENDED 30 JUNE 2019 £47.1M

The result includes £53.6m of economic losses resulting from investment market movements (six months ended 30 Jun 2019: investment market gain of £85.3m).

Financial review p29

Financial review p30

#### £6.7M COMMERCIAL NEW BUSINESS PROFIT

SIX MONTHS ENDED 30 JUNE 2019 £7.6M

Note 1 - page 5

This new metric is deemed to better reflect the commercial impact of writing new business than the previous measure that was based more directly on Solvency II rules. Scildon has reported a 37% improvement over the corresponding period in 2019, increasing market share in both term and individual life markets. Pricing pressures and changes to fee income and rebates continue to suppress Movestic's new business value, with more modest returns of £1.7m.

Business review pages 18 to 21



# CASH GENERATION

£12.9M

**GROUP CASH GENERATION** 

£9.6M

**DIVISIONAL CASH GENERATION** 

SIX MONTHS ENDED 30 JUNE 2019 £13.4M

SIX MONTHS ENDED 30 JUNE 2019 £2.4M

The result for the period includes a positive impact from the symmetric adjustment of c£26m. Note 2 Page 5. Falling yields over the period have had a negative effect on cash generation.

Financial review p28

# Operational & strategic highlights



# DIVIDEND

#### INTERIM DIVIDEND INCREASE

Interim dividend increased by 3% to 7.65p per share (2019: 7.43p interim and 13.87p final).



# ECONOMIC BACKDROP

# THE COVID-19 PANDEMIC HAS LED TO FALLING INTEREST RATES, REDUCED EQUITY PRICES AND STERLING DEPRECIATION IN 2020.

The financial results for the first half of 2020 are reflective of the deterioration in investment markets witnessed since the turn of the year. Falling interest rates, widening bond spreads and falls in equity markets have driven economic losses. The impact of these factors has been felt, to varying degrees, across all financial metrics. A weakening of sterling against the euro and Swedish krona has led to foreign exchange translation gains.



# **DUTCH ACQUISITIONS**

#### **EXPANSION IN THE NETHERLANDS CONTINUES**

Our presence in the Netherlands continued to grow following regulatory approval of a portfolio acquisition from Argenta Bank (announced in 2019), at a discount to EcV of c22%, which completed on 31 August 2020.



# OPERATIONALLY RESILIENT DURING COVID-19

# THE GROUP HAS REMAINED OPERATIONALLY RESILIENT DURING THE COVID-19 PANDEMIC

During the first six months of the year Covid-19 emerged as a global pandemic. Changes in working practices have been required in order to accommodate appropriate safety measures, such as staff working from home. The group has remained operationally resilient throughout this transition.

# NOTES

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 31.

Note 1 - In our 2019 Report & Accounts we assessed our new business profitability measurement criteria. This review was initiated to ensure the figures reported, which were previously directly linked to the Solvency II measurement regime, are in fact a fair commercial reflection of value being added. As part of the assessment we also compared how our peers report new business profits to ensure market consistency. As a result of the assessment we made two changes to how we quantify new business profits. Firstly, we now base the future cash flows on assuming a modest level of return over and above risk-free returns. No premium to risk-free was applied in the past. Secondly, we now exclude the incremental risk margin that Solvency II modelling assigns to the new business. We believe the revised profitability measurement better reflects the value of the best estimate cash flows we expect to emerge from new business written. The 2019 comparatives have been restated to the new basis.

We now adopt the more commercially relevant figures within our business and financial performance reviews of the report and accounts, including the Chairman's Statement, as well our internal reporting. Within the Solvency II and EcV analysis sections, where the guidelines must be applied, the impact of new business on movements during the year will remain on the technically imposed basis.

Note 2 - 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.

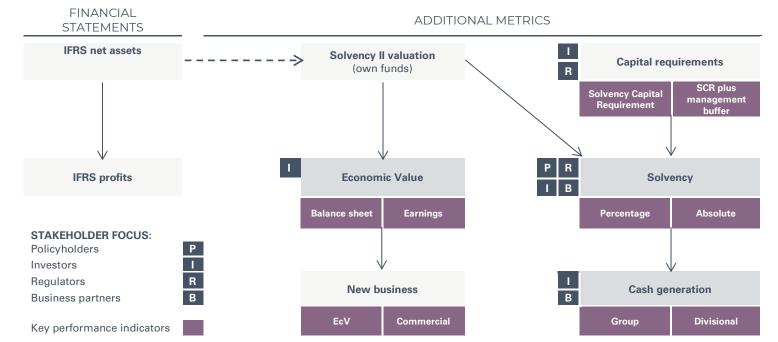
# MEASURING OUR PERFORMANCE

Throughout our 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 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 pages 23 to 25

# **ECONOMIC VALUE**

Economic Value (EcV) is deemed to be 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 longterm policies.

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

An element of the EcV earnings each period is the economic value of new business. Factoring in the real world investment returns and removing the impact of risk margins is used by the group to determine the value of new business on a commercial basis.

Further detail on pages 29 to 30

# **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 page 28

# 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 our key stakeholder groups. The table below summarises the performance measures adopted throughout this report.

	KE	Y STAK	EHOLDI	ERS	KEY: Primary Secondary interest			
Measure	Policyholder	Investor	Regulators	Business partner *	What is it and why is it important?	Page		
Customer service levels	n	n	n	n	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 Half Year Report refer to a number of indicators of customer service levels.	16-21		
Broker satisfaction	n	n	n	n	Broker satisfaction is important because they sell our new policies, provide ongoing service to their customers and influence book persistency. We include several measures within the Half Year Report, including direct broker assessment ratings for Movestic and general assessment of how our brands fare in industry performance awards in the Netherlands.	18-21		
Policy investment performance	n	n	n	n	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.	16-21		
Industry performance assessments	n	n	n	n	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.	16-21		
Funds under management	n	n	n	n	This shows the value of the investments that the business manages. This is mportant 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.			
Policy count	n	n	n	n	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.			
Total shareholder returns		n	n		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		n			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".	18-21		
New business market share		n			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.	18-21		
Gearing ratio		n	n		The 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	n	n	n	n	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		

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

# CHAIRMAN'S STATEMENT



Cash, solvency and customer service levels have remained resilient to the impact of Covid-19.

The impact of the global pandemic on investment market performance has had an inevitable effect on the results during the first half of 2020. Against the backdrop of equity market falls and further reductions in interest rates I am pleased to report that even after paying the 2019 final dividend, Chesnara's cash reserves and solvency surplus remain largely unchanged compared to the prepandemic position.

It is this robustness of solvency and cash that supported the payment of a record 2019 final dividend, and it enables us to increase the interim dividend by 3%.

Our operations have proved to be resilient to the challenges Covid-19 has presented. Our IT infrastructure has supported a near seamless transition to remote working and this together with the commitment and flexibility of staff and business partners has ensured we have continued

to provide our usual high standards of customer service throughout. However, we have seen some impact of Covid-19 on our new business operations, with reduced activity in the first half of the year.

We have not furloughed any staff as a result of the pandemic and have not used any other state rescue packages.

Finally, and perhaps most importantly, at the time of writing I am delighted to report that no members of staff have suffered any serious long-term illness as a result of the pandemic.

I look forward to the company moving back to more normal operational and investment market conditions but, in the meantime, we will continue to work hard to ensure positive outcomes for customers and investors through these challenging times.

LUKE SAVAGE, CHAIRMAN

The Covid-19 pandemic has brought significant challenges in terms of both investment market and operational performance. It has also created a natural level of concern regarding the health and well-being of our staff and their families. It is an unfortunate but timely reminder that we have a broad range of responsibilities across a wide range of stakeholders.

Before I go on to consider the performance of the business, I would like to provide an update on our staff. We have adopted Covid-19 appropriate working practices that have enabled us to continue to offer our usual high standards of customer service whilst minimising the personal risk to our employees and business partners. I am happy to report that at the time of writing whilst a handful of staff have contracted the virus none have suffered any serious illness. I would like to recognise my appreciation for the resilience, commitment and flexibility of our staff and those within our key business partners during these difficult times.

Within our 2019 Annual Report and Accounts we signposted that at the date of their issue the market turmoil resulting from the pandemic was estimated to have created a post year end reduction in Economic Value of c£90m but that solvency surplus and cash balances remained largely unchanged. Over more recent months equity markets have recovered somewhat such that whilst the Economic Value at 30 June 2020 remains lower than pre pandemic levels, it has in fact recovered from its lowest point. The Economic Value at 30 June 2020 was £604.2m which represents a predividend decline of £45m, or 6.7%, compared to the year-end

The previously reported resilience of cash and solvency surplus has continued. Despite the uniquely challenging conditions the parent company continued to receive sizeable dividends from subsidiaries such that after paying the 2019 final dividend and repaying a further tranche of our modest level of bank debt, as at 30 June 2020, the Chesnara cash balance stands at £77.1m (31 December 2019: £75.5m). That said, some divisional dividends have not yet been paid in line with local guidelines amid the pandemic.

During the first half of 2020 group Solvency has remained robust, with a closing ratio of 162% (31 December 2019: 155%). Total solvency surplus, post the proposed interim dividend, has fallen modestly from £210.8m at the end of 2019 to £207.7m at 30 June

From an IFRS results perspective, the loss before tax of £(9.1)m (6 months to 30 June 2019: profit of £66.6m) is heavily influenced by the investment market conditions during the period which were less favourable than during the first half of 2019. The period on period movement is predominantly due to the strong Scildon results in 2019, which benefitted from valuation gains in its bond portfolio as a result of narrowing spreads.

At the heart of Chesnara's proposition as a reliable income stock, there is a need to generate sufficient cash to support the Chesnara dividend. Although the financial dynamics of the group means that cash generation is partly protected from the impact of volatile investment markets the fact remains that adverse conditions can suppress cash generation during specific accounting periods. Despite benefitting from the impact of the "symmetric adjustment" that is designed to reduce capital requirements in falling equity markets, the economic conditions during the first half of 2020 have not been favourable. In light of the uniquely challenging backdrop to the 2020 half year results, the total group cash generation of £12.9m is a relatively reassuring outcome. That is after taking account of a strain of c£4m arising from our decision to re-position the investment mix in Scildon, from BBB Corporate bonds to mortgage-backed assets as part of our capital optimisation strategy. This process has spanned a c12 month period, with the capital benefits from the sale of BBBs as reported in the 2019 results being partially reversed during the first half of 2020 through the reinvestment in a mortgage fund. It is reassuring to see that, while we do not set a pre-requisite that dividends should be

covered by cash generation, they have been even in this challenging

Total new business profits of £6.7m Note 1 page 5 are slightly lower than the six months to 30 June 2019 of £7.6m. The Scildon new business volumes held up relatively well to the general disruption from Covid-19 through most of the period although volumes have started to tail off quite sharply towards the end of the period and continued to do so in subsequent months.

Despite Sweden's slightly less restrictive approach to managing Covid-19, Movestic's new business volumes, which can be driven by customer confidence in investment markets, were less resilient with total volumes being 18% lower than during the first half of 2019.

On balance we expect to see further reductions in volumes during the remainder of the year with a corresponding impact on full year new business profits.

I will now report on how we have delivered against our three strategic objectives in a little more detail:



# MAXIMISE VALUE FROM EXISTING BUSINESS

Modest levels of cash generation from all divisions except Scildon have created a total group positive cash outcome of £12.9m. Economic Value has reduced by 6.7% pre dividend predominantly due to external market conditions.

See pages 16 to 21 for further information.

Cash generated is modest with a large negative driver being further reductions in interest rates over the period. We are also reporting an expected cash generation strain of c£4m as a consequence of reinvesting c€150m of government bond investments into mortgages related investments within Scildon. This was the second step of a two-stage process to move away from BBB Corporate bonds that were deemed to offer insufficient returns compared to their capital consumption. The first step of moving from BBB corporate bonds to government bonds generated a £24.1m cash gain that was part of the 2019 cash result. Therefore, overall, we have created over £20m of cash whilst retaining broadly similar long-term investment return expectations however due to the two-stage approach this has suppressed the cash result during an already difficult six-month period in 2020. With the exception of Scildon, our open Dutch business, all business units reported positive cash generation for the six months to 30 June 2020. Scildon reported cash utilisation of £19.5m largely due to falls in interest rates, coupled with the aforementioned switch from corporate bonds to mortgage investments.

Predominantly as the result of adverse investment conditions all divisions have made Economic Value losses during the period. This has resulted in a reported EcV loss of £74.1m, although this was off-set by exchange rate gains of £29.1m, resulting in a pre-dividend movement in EcV of £45m.



# **ACOUIRE LIFE AND PENSIONS BUSINESSES**

The acquisition of Argenta Insurance in the Netherlands completed on 31 August.

See page 22 for further information.

# COMPLETION OF OUR ACQUISITION OF ARGENTA INSURANCE IN THE NETHERLANDS

In the 2019 accounts we reported the acquisition of Argenta Insurance, at a 22% discount to Economic Value. Despite some of the Covid-19 logistical challenges it is pleasing to report this completed on 31 August

# **CHAIRMAN'S STATEMENT** (Continued)



We remain 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, despite the high level of competition in the acquisition space. 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.



# ENHANCE VALUE THROUGH PROFITABLE **NEW BUSINESS**

Covid-19 has resulted in a reduction in new business volumes with a total new business profit of £6.7m Note 1

See pages 18 to 21 for further information.

# TOTAL NEW BUSINESS PROFITS OF £6.7m Note 1 page 5 REPLACE 32% OF THE REDUCTION IN EcV CAUSED BY THE DIVIDEND PAYMENTS IN THE

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 returned to shareholders in the shape of dividend payments. Movestic new business volumes have reduced by 18% compared to the first half of 2019 due to the Covid-19 pandemic having an impact on IFA and customer activity. New business profits of £1.7m are lower than the first half of 2019 and we expect profit levels to remain somewhat suppressed throughout the rest of 2020. We expect volumes and profitability to recover in line with any general recovery from the Covid-19 pandemic.

Scildon's new business volumes have held up well although they did begin to decline towards the end of the period as a result of Covid-19. We have however increased our market share whilst retaining target levels of profitability and this has resulted in a material new business profit of £5.0m (six months to 30 June 2019: £3.7m) in the period (Note 1 page 5). We do expect a dip in profits during the remainder of 2020 and perhaps into the first half of 2021. As markets recover, we expect our improving market share position to drive total profits at least in line with pre-pandemic levels.

#### Solvency

The group continues to show a robust solvency ratio of 162% at 30 June 2020 (31 December 2019: 155%). The closing solvency position is stated after recognising the £11.5m cost of the proposed interim dividend, which will be paid in November 2020.

#### Regulation and governance

#### IFRS 17

Our programme continues to progress well and we have selected Willis Towers Watson to implement their tool to calculate the contractual service margin and store the associated data. Implementation has commenced and is due to complete during the second half of 2021. As part of our continual assessment of our plans, we have reassessed the associated budget and as a result have increased our provisions by a further £3m during the period, reflecting the complexity and scale of the programme.

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 maintain a strong risk and governance culture across the group. Our recent focus had been on enhancing our operational resilience to improve understanding of any vulnerabilities and to strengthen and test our contingency options, providing greater assurance that all important business services can continue following any unexpected disruption. The effectiveness of our work in this area has been tested by the pandemic and I am extremely pleased with how robust our operations have proved to be.

#### Corporate purpose

Chesnara has always assessed its corporate purpose by considering the following eight aspects of our business and by looking at the business from the perspective of all stakeholders. Increased emphasis on reporting in our year end 2019 accounts in line with Section 172 of the Companies Act (S172) did not require any notable changes in our approach to decision making. It did however formalise the requirement to consider and report how we ensure we act in a way to find an optimal long-term balance for stakeholder outcomes.

# 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

#### Business model

 Our acquisition strategy is built upon long term commitments to any markets we operate in. 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, even so we choose to fully offset our carbon emissions.

#### 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.

#### **Taxation**

 As detailed in our tax strategy, we adopt a responsible and open approach to taxation and, consequently, 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

Since the end of 2019, Covid-19 has emerged as a pandemic. This has had a significant impact on investment markets and society in general, and we have been closely assessing the impact on Chesnara and our stakeholders. Whilst the initial market impacts were extreme there has been a reasonable level of subsequent recovery. The scale of impact remains within the ranges we test as a matter of course within our established governance procedures. It is also useful to note that the Solvency II regime is designed specifically to ensure that we hold sufficient capital to withstand adverse conditions similar to those we are currently experiencing.

Whilst the solvency position during the first half of 2020 has held up well, the Economic Value of the group has dropped by approximately £65m, in line with our reported sensitivities. The reduction in Economic Value is unwelcome but likewise it is a natural feature of changes in investment markets and therefore is not deemed to materially impact the outlook of the group.

The Chesnara parent company had liquid balances at 30 June 2020 of over £77m. This balance has accumulated in part as a result of our disciplined historic dividend strategy whereby we have prioritised the ability to sustain the dividend during difficult times over the payment of special dividends. In addition to this, the divisional solvency positions suggest that despite the difficult results during the first half of the year we would still expect material levels of dividend income from our divisions during 2021.

It remains too early to quantify the potential long-term impact on our financial performance arising from Covid-19, although we continue to have a strong and viable business. At this point, we remain focused on supporting our customers and colleagues while maintaining our financial and operational resilience. To date, our operations in all divisions and at group have undertaken a smooth transition to remote working conditions, with no significant or prolonged disruption to key business services anticipated. We will revert to office working across the group in line with local government guidelines.

Chesnara has a clear and consistent strategic direction and the ability to deliver against its objectives, which in turn fund our well-established dividend strategy. Covid-19 is having a negative impact on delivering our strategic objectives in the short term but importantly we have no reason to believe that the pandemic will have a permanent impact and nor is the temporary impact sufficiently extreme to compromise post pandemic recovery. In particular:

- under more neutral economic conditions we still expect value and cash to emerge from our existing books of business, both in the UK and our overseas divisions. Indeed, should economic conditions revert in time to pre pandemic levels which history tells us they tend to do, then we would expect the vast majority of any the recent Economic Value losses to be recovered;
- we have sufficient scale and presence in both the UK and the Netherlands to continue our focus on acquisition activity in those territories. 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; and
- 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. We expect a dip in new business profits during 2020 but this is due to external factors that are not deemed to compromise our longer-term expectations from new business operations.

With the natural focus on the Covid-19 pandemic, Brexit and the potential challenges to businesses that this may bring, can be easily forgotten. On Brexit, 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 share the previously stated Chesnara view that whatever the outcome from the Brexit negotiations, we expect it to have little direct impact on our business model.

In light of the above, I am confident that after we have overcome the short-term challenges from Covid-19 including doing everything in our power to keep colleagues and business partners safe and sound, Chesnara is well positioned to continue to provide value to policyholders and shareholders.

Luke Savage, Chairman 25 September 2020

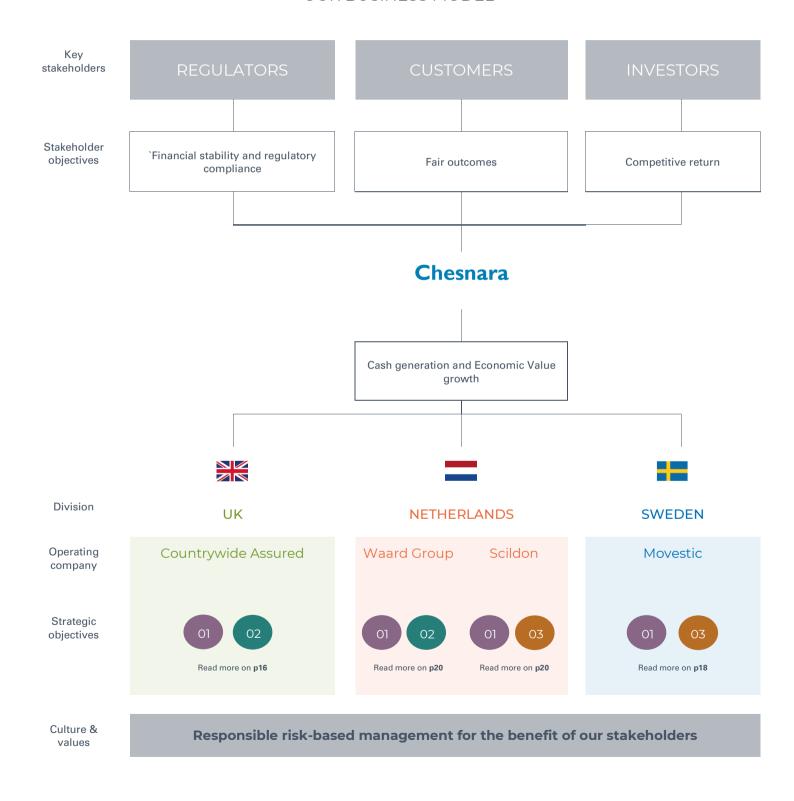




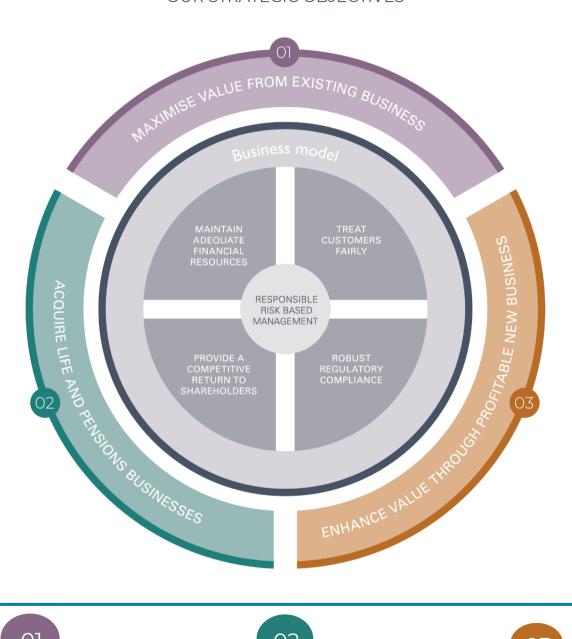
# INTRODUCTION

Our strategy focuses on delivering value to customers 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**









# MAXIMISE THE VALUE FROM **EXISTING BUSINESS**

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

# **ACQUIRE LIFE AND PENSIONS BUSINESSES**

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

# **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 UK



The UK division is principally made up of the insurance company Countrywide Assured plc. The company manages c247,000 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.

# **BACKGROUND INFORMATION**

#### **INITIATIVES & PROGRESS IN 2020**

#### **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.

- The division's fund manager rationalisation programme has progressed well during the year to date. Phase 1 of the twophase programme has been completed to plan, meaning there is one more fund manager left to migrate during the second half of the year.
- Countrywide Assured has benefited from positive persistency experience during the year to date, which has contributed to positive operating experience in the period.
- The reported value of the division over the first six months of the year has reduced, principally as a result of the Covid-19 driven fall in equity markets and gilt yields.
- Despite the impact of Covid-19 solvency remains robust, increasing 10% to 141% in the period.

# **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.

- A key focus for the division over the first half of the year has been ensuring that we continue to meet the needs of our customers under the temporary operating environment driven by the Covid-19 pandemic. This has largely resulted in a need for a large proportion of the organisation to work from home. Despite the necessary changes, all important business services have continued to operate effectively, having adapted our processes accordingly.
- During the period we have implemented changes that enable customers to contact us in new ways.
- The division's multi-year customer strategy implementation program was successfully completed and signed off during the year, with any revised processes having been successfully transferred into business as usual operations.

#### **GOVERNANCE**

Maintaining effective governance and a constructive relationship with regulators underpins the delivery of the division's strategic

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.

- The division has continued to deliver on its business as usual governance responsibilities despite the Covid-19 situation. In this regard the main focus has been overseeing the transition of the organisation to a predominantly working from home arrangement, both in terms of our outsourcers and the oversight governance team itself. This has worked well and we continue to monitor the situation closely.
- Throughout the period the business has implemented enhanced monitoring of key measures, such as solvency, claims and customer service, ensuring performance levels are maintained despite the impact of the pandemic.
- IFRS 17 continues to progress and we have selected Willis Towers Watson as the group provider of the contractual service margin (CSM) tool.

# **KPIs**

# **Economic Value** £m 311.1 Jun-20 2019 325.6 2018 276.7 2017 285.5 2016 ■ Reported Value ■Cumulative Dividends £m Cash generation Jun-20 2019 2018 2017 2016

# **FUTURE PRIORITIES**

- Completion of the division's fund manager rationalisation programme during 2020.
- Retaining the division's focus on maintaining an efficient and cost-effective operating model.
- Continue to support Chesnara in identifying and delivering UK acquisitions.
- Continue to ensure that our investment strategy and associated asset mix is delivering the risk and rewards that we expect as the book runs off.



(0.4%)

■ CA Pension Managed

■CWA Balanced Managed Pension

■ Benchmark - ABI Mixed Inv 40%-85% shares

12 months ended 30 Jun 2019

Our three main managed funds performed worse than the reported benchmark in the year to date due to being more heavily invested in equities which fell in the period as a result of market reaction to Covid-19.

- Key business as usual activities include:
  - Continuing to complete product reviews which are designed to support our assessment of providing fair outcomes to our customers. Deliver any resultant remediation activity as required.
  - o Implementing a new routine process for continuing to stay in touch with customers who have not provided us with their most recent contact details. This will build on the one-off exercise we have completed.
- Continue to focus on ensuring we manage our policyholders in a way that minimises risk of any customer complaints and, in the instance a customer is not happy with our service, deal with these in an appropriate manner. Monitor the impact of Covid-19 on operations and how it affects customers, responding accordingly.

#### **SOLVENCY RATIO: 141%**

6 months ended 30 Jun 2020

Surplus generated in the period increases solvency ratio from 131% to 141%.

£m



- Monitor the Covid-19 situation closely and flex our operating procedures accordingly.
- A focus on the application decisions and operational impact of the IFRS 17 programme, including implementing the contractual service margin (CSM) tool.

# 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.

# **BACKGROUND INFORMATION**

# **INITIATIVES & PROGRESS IN 2020**

# **CAPITAL & 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.

- Covid-19 resulted in significant volatility in financial markets during the period, which has had a direct consequence on the value of the division. Whilst Swedish equities saw a significant recovery during Q2, they remain 6% down over the year.
- The division has completed the liquidation of Modernac as part of its corporate restructuring initiatives. This has released £1m of surplus capital.
- Policyholder transfers continues to be a feature of the business due to the competitive Swedish market. Despite the adverse transfer ratio, the division continues to report positive net client cash flows. That said, the division has strengthened its transfer out assumptions in light of this dynamic, resulting in a strengthening of reserves by £14.3m.
- New industry-wide regulations have been introduced in order to make it easier for customers to transfer their pension funds.
   As part of this, further rules are expected during 2021 that limit the amount that can be charged when transferring policies.
   This has been reflected in the Q2 valuation and has reduced EcV by £3.2m.

# **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 and licenced brokers.

Policyholder average investment return of -7.4% in the year to date (H1 2019: 11.7%), driven largely by the equity market falls in the period as a result of Covid-19.
 Broker and customer servicing have been a key focus for the division during the operating environment under Covid-19.
 The division has adjusted its processes accordingly in order to ensure that such servicing continues to an acceptable level.

#### **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.

- Dealing with the impact of Covid-19 has been a key focus for management over the first six months of 2020.
- The company has focused on ensuring it is operating in line with government guidelines, which essentially recommend that employees should work from home unless they cannot.
- In setting up these arrangements, management has focused on ensuring that the IT infrastructure, both in terms of employee usability and security resilience, can accommodate the revised working practices.
- Movestic has also focused on staff well-being throughout the lock down given its significant change for many staff members.
- Aside from Covid-19 the division's digitalisation programme has progressed well in the period and is expected to be completed during the second half of the year.
- IFRS 17 continues to progress and we have selected Willis Towers Watson as the group provider of the contractual service margin (CSM) tool.

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.

The division has reported new business profits of £1.7m over the period (2019 HY: £3.9m). The reduction compared with the same period in 2019 is largely as a result of reduced sales volumes, largely driven by Covid-19 dynamics, whereby brokers have focused more on existing customers rather than generating new customers for the business.

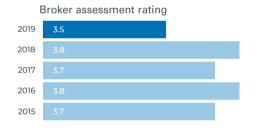
ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

# KPIS (ALL COMPARATIVES HAVE BEEN RESTATED USING 2020 EXCHANGE RATES)

# **FUTURE PRIORITIES**



- Continue the journey of digitalising and automating processes, with a view to improving both efficiency and control.
- Continue to develop more digitalised and individualised customer propositions and
- Provide a predictable and sustainable dividend to Chesnara.

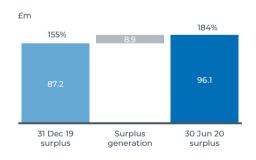


**POLICYHOLDER AVERAGE INVESTMENT RETURN:** 

-7.4%

- Continue to develop new solutions and tools to support the brokers' value enhancing customer proposition.
- Launch new broker web proposition with improved functionality and digital administration selfservices for brokers.
- Further work on the direct distribution channels.
- Broaden product and service offering for other customer segments.

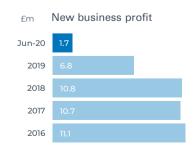
#### **SOLVENCY RATIO: 184%**



Solvency remains strong, with a ratio of 184% at 30 June 2020.

- The Covid-19 situation will continue to be monitored closely, with returning to the office options under continuous review.
- A focus on the application decisions and operational impact of the IFRS 17 programme, including implementing the contractual service margin (CSM) tool.





- Continue the delivery of a new decumulation service for annuity planning.
- Launch digital life insurance for broker channel.
- Launch new risk products in a common broker hub.
- Launch of a new offering to the smaller brokers.
- Continue to write new business within the target range.
- Ongoing digitalisation of processes to improve customer and broker experience.

\*New business figures from 2018 onwards have been calculated using the commercially realistic metric, as detailed on page 5. Values prior to this are retained at that which they were previously reported.

# BUSINESS REVIEW NETHERLANDS



#### BACKGROUND INFORMATION

# **INITIATIVES & PROGRESS IN 2020**

#### 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.
- Post period end, Waard has completed the acquisition of a portfolio of term life and savings products from Argenta Bank.
- Despite the market turmoil caused by the Covid-19 pandemic, both businesses continue to have strong solvency positions, inclusive of the use of the volatility adjustment. The solvency ratio of Scildon remains strong at 183% but is currently below the internal capital management policy of 185%. The period end positions also include foreseeable dividends of £12.7m which have not yet been paid, in line with local regulatory requirements. Waard continued to maintain significant solvency levels, the ratio rising to 557% in the period.
- Scildon has continued to optimise its risk-based return through de-risking its asset portfolio and investing into mortgage funds with £170m held as at 30 June 2020.

# **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.

- We have actively engaged with customers through the Covid-19 pandemic and continue to support them in any way that we can through this difficult period.
- Scildon continues work on the migration and digitalisation of its policy administration system, which is expected to complete in 2021.
- 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 IFRS 17 project continues to progress and we have selected Willis Towers Watson as the group provider of the contractual service margin (CSM) tool.

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.

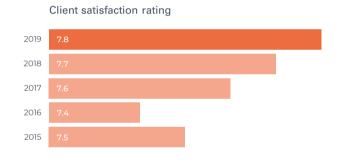
- Market conditions are and will continue to be challenging but we have seen continued progress in new business profits, earning £5.0m in the period on our commercially realistic metric. This has been partly delivered through the realisation of the cost saving initiatives enacted in 2019. As the full impact of Covid-19 will be felt in the second half of 2020, we will face headwinds to maintain this progress, but we have a solid base to take advantage.
- Established a white labelling relationship with Dazure as another route to market enabling us to service a wider proportion of the market.
- In isolation, the term market share for Scildon term lifestyle product for June 2020 has risen to 16.9%, although the market size has decreased, partly as a result of Covid-19.
- Scildon policy count continues to increase.

# KPIS (ALL COMPARATIVES HAVE BEEN RESTATED USING 2020 EXCHANGE RATES)

# **FUTURE PRIORITIES**



- Continue to provide dividends to
- Integrate the Argenta acquisition into the Waard business.
- Complete the Scildon improvement plan covering cost management, process efficiency and business model assessments.
- Progress capital management and cash generation initiatives across the group, particularly in Scildon.



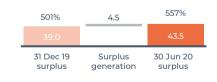
- Regular engagement with its customers to improve service quality and to enhance and develop existing processes, infrastructure and customer experiences.
- Continue with the migration and digitalisation of the Scildon IT platform.
- Continue to engage with its broker network to develop our processes in line with their requirements.

# SOLVENCY RATIO: SCILDON 183%

# **WAARD 557%**

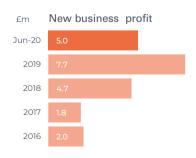
Solvency is robust in both businesses, with post-dividend solvency ratios of 183% and 557% for Scildon and Waard respectively.





- A focus on the application decisions and operational impact of the IFRS 17 programme, including implementing the contractual service margin (CSM) tool.
- Continuously enhance the governance and risk management framework.





- Continue to deliver product innovation and cost management actions to ensure we meet our full potential in terms of new business value
- Consider alternative routes to market that do not compromise our existing broker relationships, such as product white labelling.

\*New business figures from 2018 onwards have been calculated using the commercially realistic metric, as detailed on page 5. Values prior to this are retained at that which they were previously reported.

# **BUSINESS REVIEW 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.
<b>E</b>	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.
İ	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 divisional 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.

# **INITIATIVES AND PROGRESS IN 2020**

During 2020 the group has continued pursuing its acquisition strategy. In particular:

#### **Argenta transaction**

The group announced on 22 November 2019 that it had entered into an agreement to acquire a portfolio of life insurance business in runoff from the Dutch branch of Belgian-owned Argenta Bank-en Verzekeringsgroep N.V. The transaction completed on 31 August 2020 and is expected to be both earnings and EcV accretive (see note 8 for further detail).

#### Other opportunities

Management has continued to pursue wider acquisition opportunities for the group. This involves a combination of making sure we are in regular touch with investment banks and advisers and making direct contact with potential sellers when deemed appropriate. This work continues to support our views that the acquisition market is buoyant and supports the group's ongoing acquisition strategy.

# **ACQUISITION OUTLOOK**

- We have continued to witness acquisition activity in the year to date. We also believe that there has been a rise in seller's valuations and prices paid for potential targets in recent times.
- In light of this, it is worth reiterating that Chesnara continues to measure potential targets against its stringent acquisition assessment model which takes into account; (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.
- The environment in which European life insurance companies operate continues to increase in complexity, such as the forthcoming application of IFRS 17. 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.
- We continue to have strong support from shareholders and lending institutions to progress our acquisition strategy, and we also believe that our operating model has the flexibility to accommodate a wide range of potential target books.
- 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

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.

#### 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.

# CHESNARA GROUP OWN FUNDS

# CHESNARA GROUP SCR



#### 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. Chesnara does not take advantage of such measures, however we do apply the volatility adjustment within our Dutch division.

#### 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.

#### 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 chart below shows the categories and their relative weighting for Chesnara:



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

# There are three levels of capital requirement:

Minimum dividend paying requirement/risk appetite requirement The board sets a minimum 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**

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 runoff will tend to reduce SCR, but this will be partially offset by an increase as a result of new business.

# CAPITAL MANAGEMENT · SOLVENCY II

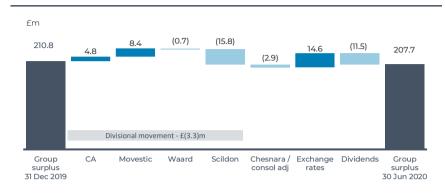
We are well capitalised at both a group and subsidiary level. We have applied the volatility adjustment in our Dutch businesses but have not used any other elements of the long-term guarantee package within the group. The volatility adjustment is an optional measure that can be used in solvency calculations to reduce volatility arising from large movements in bond spreads.

#### **SOLVENCY POSITION**

# SOLVENCY SURPLUS MOVEMENT\* \*pre intragroup dividends







Surplus: The group has £174.2m of surplus over and above the internal capital management policy, compared to £172.8m at the end of 2019. The group solvency ratio has increased from 155% to 162%. Solvency surplus has fallen by £3.1m as a result of own funds falling slightly more than the capital requirements, after the interim dividend is taken into account.

Dividends: The closing solvency position is stated after deducting the £11.5m proposed interim dividend (31 December 2019; £20.8m). Own Funds: Own Funds have fallen by £36.6m (pre-dividends). This is driven heavily by the fall in equity market values and yields due to the Covid-19 pandemic, partially offset by positive exchange rate

SCR: The SCR has fallen by £45.0m, mainly due to a material reduction in equity risk alongside smaller reductions in currency and lapse risk.

The graphs on this page present the divisional view of the solvency position which may differ to the position of the individual insurance company(ies) within the consolidated numbers. Note that year end 2019 figures have been restated using 30 June 2020 exchange rates in order to aid comparison at a divisional level.

141%

93

30 June 2020

# UK £m

131%

140

31 Dec

108

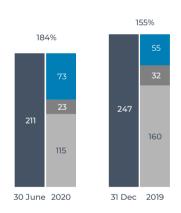
Surplus: £19.1m above board's capital management

Dividends: Dividend of £29.0m was paid to Chesnara in Q2

Own Funds: Fallen by £9.5m due to material fall in yield curve and reduction in equity values but offset by positive variance from operating assumption changes.

SCR: Fallen by £14.4m, driven by fall in equity risk capital. Currency risk and lapse risk have also contributed to SCR reduction.

# SWEDEN £m



Surplus: £73.1m above board's capital management policy.

Dividends: Dividend of £6.2m was paid to Chesnara in Q2 2020.

Own Funds: Fallen by £36.1m mainly due to material reduction in equity values, but also partially driven by operating losses due to changes in fund rebates and fund management fees.

SCR: Fallen by £45.0m, driven by material fall in equity risk capital and smaller reductions in lapse risk and currency risk.

# NETHERLANDS - WAARD £m



Surplus: £31.2m above board's capital management policy.

**Dividends:** Solvency position stated after £5.2m proposed dividend (2019: £3.1m).

Own Funds: Fallen by £2.1m, mainly due to adverse bond and equity movements.

SCR: Fallen by £1.3m, due to small decrease in market risk and counterparty risk.

Buffer

#### NETHERLANDS - SCILDON £m



Surplus

Surplus: £2m below board's capital management policy.

**Dividends:** Solvency is stated after £7.5m dividend that was proposed at year end but has not yet been paid (2019: £4.9m).

Own Funds: Fallen by £10.8m due to fall in bond values caused by rising credit spreads and adverse lapse experience.

SCR: Increased by £5.6m, mainly due to increases in underwriting risks due to the fall in vields.

Shortfall to buffer

SCR

# 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 a certain extent, the longer term due to compensating impacts on required capital.

	Solvency surplus	Cash generation	EcV	
Sensitivity scenario	Immediate impact	5 year impact	Immediate impact	Impacts
20% sterling appreciation	•	•		£0m to £15m £15 to £30m
25% equity fall	•	•	•	£30m to £50m £50m to £90m
25% equity rise	•	•	•	£90m to £140m
10% equity fall	•	•	•	KEY positive impact
10% equity rise	•	•	•	negative impact
1% interest rate rise	•	•	•	
1% interest rate fall	•	•	•	
50bps credit spread rise	•	•	•	
25bps swap rate fall	•	•	•	
10% mass lapse	•	•	•	
10% expense rise + 1% inflation rise		•		
10% mortality increase	•	•	•	

#### **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 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, Own Funds and SCR both fall. The extent to which the SCR reduction offsets the Own Funds depends on the stress applied. The impacts are not symmetrical due to management actions and tax. The change in symmetric adjustment has a significant impact (25% equity fall: -£6m to the SCR, 25% equity rise: +£38m to SCR). The EcV impacts are more intuitive as they are more directly linked to Own Funds impact. CA and Movestic contribute the most due to their large amounts of unit-linked business. Since the year end, the equity stresses have become more sensitive due to a change in the starting position of the symmetric adjustment (2019 y/e: -0.08% compared to 2020 HY: -6.72%).

Interest rate sensitivities: An interest rate rise is generally positive across the group. An interest rate fall results in a larger impact on Own Funds than an interest rate rise, given the current low interest rate environment. CA, Movestic and Scildon all contribute towards the total group cash generation impact.

50bps credit spread rise: A credit spread rise has an adverse impact on surplus and future cash generation, particularly in Scildon due to corporate and non-local government 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 mass lapse hits Own Funds by more than the SCR reduction.

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 increase: 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 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 the business has performed in delivering its three strategic objectives. These two pages provide a "snapshot" of our key financial measures and some insight into what is driving the results for the first half of 2020. Further analysis can be found on pages 28 to 31.



# IFRS PRE-TAX LOSS £(9.1) M

# 30 JUNE 2019: PRE-TAX PROFIT £66.6M

#### 30 JUNE 2019: £51.0M

# Further detail on p31

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?

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/(loss)can be affected by a number of our principal risks and uncertainties as set out on pages 32 to 36. Volatility in equity markets and bond yields can result in volatility in the IFRS pre-tax profit/(loss), 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.

#### **Highlights** £m ■30 Jun 2020 ■30 Jun 2019 Group & Forex 8 CA Movestic Waard Scildon consol. adj Taxation other 36.4 25.8 21.9 7.2 4.0 65 23 04 35 (0.2) (5.6) (3.3)(12.3)(20.5)

TOTAL COMPREHENSIVE INCOME £15.1M

- \*includes other comprehensive income
- Despite the Covid-19 impact on investment markets and subsequent economic losses, Movestic and Scildon generated reasonable profits for the first half of the year, stemming from operational activities.
- Consolidated operating earnings of £15.9m were hampered by economic losses of £25.0m, including an impairment of £11.6m to the Scildon AVIF intangible asset. Further detail can be found in the IFRS Financial Review on page 31.
- A strengthening of the short-term mortality and morbidity assumptions on the basis of the additional uncertainty that Covid-19 introduces in the CA and Movestic divisions, led to an increase in net reserves of circa £3m and £1m respectively.
- Total comprehensive income includes foreign exchange gains (£21.9m) due to sterling depreciation against the euro and Swedish krona.

# GROUP CASH GENERATION £12.9M

# DIVISIONAL CASH GENERATION £9.6M

30 JUNE 2019: £13.4M

30 JUNE 2019: £2.4M

Further detail on p28

#### What is it?

Cash generation is calculated as being the movement in Solvency II Own Funds over the internally required capital. The internally required capital is determined with reference to the group's capital management policies, which have Solvency II rules at their heart. 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.

#### 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 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.

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 32 to 36. Whilst cash generation is a function of the regulatory surplus, as opposed to the IFRS surplus, it is 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.

#### **Highlights** £m 2.8 21.7 12.9 9.6 Netherlands - Divisional cash Scildon UK Sweden Other group activites

#### **Divisional cash generation**

- Cash generation in the Swedish division is the largest component of the divisional result, with cash being utilised in Scildon.
- The Swedish contribution was delivered through significant reduction in capital requirements, in excess of the reduction in Own Funds, owing to investment market conditions. More modest cash returns were supplied by CA and Waard, both restricted by the Covid-19 impact on investment performance.
- Scildon reported cash utilisation of £19.5m following a reduction in Own Funds and an increase in capital requirements. Falling bond values and the widening of spreads accounted for the majority of the economic losses, coupled with the additional SCR strain from reinvesting low risk cash into mortgages (£170m at 30 June 2020).
- The 2019 result includes the non-recurring benefit of a £7.9m capital transfer from restricted with-profit funds in the UK. No transfer has been made in 2020.

#### Group 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.



# ECONOMIC VALUE (EcV) £604.2M

31 DECEMBER 2019: £670.0M Further detail on p30

#### 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 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.

#### Ricks

The Economic Value of the group is affected by economic factors such as equity and property markets, yields on fixed interest securities and bond spreads. 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 within a range of £90m-£140m, based on the composition of the group's EcV at 30 June 2020.

#### **Highlights**



- Economic Value, pre-dividend, fell by 6.7% to £625.0m during the first half of 2020.
- The movement includes an EcV earnings loss of £74.1m, impacted by investment market conditions and subsequent substantial economic losses across the divisions.
- The reduction in EcV since the start of the year includes the impact of the payment of the final 2019 dividend.
- Foreign exchange gains arose from the translation of the Dutch and Swedish divisional results, representing the weakening of sterling against the euro and Swedish krona since the start of the year.



# EcV EARNINGS £(74.1) M

30 JUNE 2019: £47.1M Further detail on p29

#### 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 earnings 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 32 to 36. 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 longterm view of the future cash flows arising from our books of business.

#### **Highlights**



- An EcV loss of £74.1m was incurred in the opening six months of the year.
- Economic losses drive the result, arising primarily from reduced equity market returns and widening bond spreads.
- Material other operating items relate to one-off strengthening of assumptions in Movestic, following changes to the transfer process and changes to local transfer legislation.
- Underlying operating activities were also negative. Key components including the impact of the strengthening of assumptions in Movestic, operating experience in Scildon and group level expenses. The UK and Waard delivered positive operating earnings.

# FINANCIAL REVIEW · CASH GENERATION

The Swedish division has delivered a significant cash contribution despite difficult economic conditions, supporting a total cash generation of £12.9m for the first half of 2020. Cash is generated from increases in the group's solvency surplus, which is represented by the excess of own funds held over management's internal capital needs. These are based on regulatory capital requirements, with the inclusion of additional 'management buffers'.



# GROUP CASH GENERATION £12.9M

# DIVISIONAL CASH GENERATION £9.6M

30 JUNE 2019: £13 4M

30 JUNE 2019: £2 4M

Definition: Defining cash generation in a Life and Pensions business is complex and there is no reporting framework defined by the regulators. This leads to inconsistency across the sector. We define cash generated as being the movement in Solvency II surplus over and above the SCR, plus management buffers.

#### Implications of our cash definition:

#### **Positives**

- Creates a strong and transparent alignment to a regulated framework.
- Positive cash results can be approximated to increased dividend potential.
- Cash is a factor of both value and capital and hence management are focused on capital efficiency in addition to value growth and indeed the interplay between the two.

#### **Challenges and limitations**

- In certain circumstances the cash reported may not be immediately distributable by a division to group or from group to shareholders.
- Brings the technical complexities of the SII framework into the cash results e.g. symmetric adjustment, with-profit fund restrictions, model changes etc, and hence the headline results do not always reflect the underlying commercial or operational performance.

June 2020 £m	Movement in Own Funds	Movement in management's capital requirement	Forex impact	Cash generated / (utilised)	June 2019 £m  Cash generated / (utilised)
UK	(12.5)	17.2	-	4.7	16.2
Sweden	(34.1)	51.0	4.8	21.7	(8.0)
Netherlands – Waard Group	(2.0)	2.4	2.3	2.8	1.7
Netherlands – Scildon	(10.4)	(10.0)	0.9	(19.5)	(7.4)
Divisional cash generation / (utilisation)	(59.0)	60.6	8.1	9.6	2.4
Other group activities	(5.4)	3.4	5.2	3.3	(11.1)
Group cash generation / (utilisation)	(64.4)	64.0	13.3	12.9	13.4

#### GROUP

- Group cash generation of £12.9m is reflective of the challenging economic conditions witnessed in 2020, following the impact of the Covid-19 pandemic on investment markets.
- Own Funds have reduced significantly, with each division suffering economic losses, primarily through falling equity markets, reduced bond yields and widening spreads. Whilst the equity market falls also give rise to a reduction in capital requirements of similar magnitude, falling yields and widening spreads do not tend to show the same dynamic and have suppressed cash generation over the period.
- The headline cash result benefits from a foreign exchange gain, arising on the translation of the Dutch and Swedish divisional results, representing the weakening of sterling against the euro and Swedish krona since the start of the year.

#### UK



# **SWEDEN**



- The reduction in Own Funds and SCR stems primarily from economic losses. Whilst the equity market falls impact has a fairly neutral impact on cash generation, yields falling does generally result in some strain as this tends to decrease Own Funds and increase SCR.
- Offsetting the economic strain is the general benefits of the book running off over time, which reduces the SCR, coupled with some modest operating profits.
- The prior year comparison benefitted from a £7.9m release from the with-profits fund. No transfer has been made in 2020.

#### NETHERLANDS - WAARD



- Cash generation in Waard was modest but in line with expectations, with a reduction in Own Funds being offset by a similar decrease in capital requirements.
- A reduction in equity and bond values contribute to the decline in Own Funds, though the subsequent reductions in exposure to interest rate and spread risk drive a decrease in capital requirements of a greater magnitude, outweighing the fall in Own Funds.
- The result includes the benefit of a material exchange gain (£2.3m).

- Own Funds were heavily impacted by the equity falls in the period owing to the nature of the business. The division also suffered material non-recurring operating losses relating, primarily, to strengthening of assumptions following changes to transfer legislation. This was offset by significantly larger reductions in capital requirements owing in part to the symmetric adjustment.
- The result also benefits from an exchange gain on translation.

Movestic reported a significant cash contribution of £21.7m.

#### **NETHERLANDS - SCILDON**



- The division has reported adverse movements in both Own Funds and capital requirements, resulting in cash utilisation of £19.5m.
- The movement in Own Funds incorporates a significant loss resulting from further downward pressure on yields and widening of spreads, following the downturn in investment markets since 2019. This impact was softened however by the application of the volatility adjustment.
- Capital requirements increased following the growth in the mortgage portfolio (greater exposure to counterparty default) and increasing lapse risk.

# FINANCIAL REVIEW · EcV EARNINGS

The EcV earnings of the group are reflective of a challenging start to the year and the impact of Covid-19 on investment market conditions, with falling interest rates, widening spreads and diminished equity returns.



# Ecv Earnings £(74.1)M

30 JUNE 2019: £47.1M

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

	30 Jun 2020 £m	30 Jun 2019 £m	31 Dec 2019 £m	Note
Expected movement in period	0.1	(0.1)	(0.4)	
New business	3.1	3.8	7.8	
Operating experience variances	(5.9)	(5.7)	(6.8)	
Operating assumption changes	(2.6)	(13.3)	3.8	
Other operating variances	(1.2)	(2.4)	(0.3)	
Total underlying operating earnings	(6.5)	(17.8)	4.1	
Material other operating items	(16.6)	(9.5)	1.5	2
Total operating earnings	(23.1)	(27.3)	5.6	
Economic experience variances	(27.7)	98.8	143.1	1
Economic assumption changes	(25.9)	(13.5)	(22.0)	
Total economic earnings	(53.6)	85.3	121.1	
Other non-operating variances	(6.1)	(0.1)	(5.2)	
Risk margin movement	1.5	(3.0)	(7.0)	
Tax	7.1	(7.8)	(10.5)	
Total EcV earnings	(74.1)	47.1	104.0	

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

	30 Jun 2020 £m	30 Jun 2019 £m	31 Dec 2019 £m	Note
UK	(14.5)	25.2	48.9	3
Sweden	(41.6)	13.9	43.8	4
Netherlands	(12.7)	8.1	16.7	5
Group and group adjustments	(5.4)	(0.1)	(5.3)	6
EcV earnings	(74.1)	47.1	104.0	

Note 1 - Economic conditions: The EcV result is sensitive to investment market conditions, as reflected by the £53.6m of economic losses in the period. Key movements in investment market conditions during the year are as follows:

- The FTSE All share index decreased by 18.7% in the 6 months to 30 June 2020 (6 months to 30 June 2019: increased by 10.4%);
- The Swedish OMX all share index decreased by 5.0% (6 months to 30 June 2019: increased by 16.9%);
- The Netherlands AEX all share index decreased by 7.4% in the 6 months to June 2020 (6 months to 30 June 2019: increased by 15.7%); and
- 10-year UK gilt yields have decreased from 0.84% to 0.20%.

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. In Movestic a strengthening of assumed transfer rates (£13.5m) was undertaken, reflective of recent changes in the transfer out process and to align with changes to local legislation. There was a further one-off negative adjustment of (£3.0m) relating to transfer fee modelling, also a consequence of the changes to transfer legislation. The final 2019 result incorporated similar legislation driven adjustments for Movestic, however also included positive one-off revisions to future trail commission expectations, also stemming from legislative changes.

Note 3 - UK: The UK reported an EcV loss of £14.5m in the period as operational earnings were offset by larger economic losses. Economic losses stem mainly from the fall in equity markets, with UK equity markets falling c19% since the start of the year. Yields have also declined in the period, which has also contributed to the EcV reduction. Operating gains were assisted by positive mortality experience and fee income. Continued lower than expected rates of attrition across the books of business, resulted in future fee income higher than assumed at the start of the year.

Note 4 - Sweden: Movestic recorded a significant loss (£41.6m) in the first half of the year, with the division suffering heavy economic losses as well as some material adverse non-recurring operational items. Economic losses of £21.9m are driven largely by the equity falls following Covid-19, and reflects the division's exposure to equities via its policyholders. While operating experiences were marginally favourable, the strengthening of assumptions resulted in operating losses (as described in note 2). The main assumption changes include strengthening transfer out rate assumptions, updating assumptions regarding transfer-out charges driven by new rules, and reductions in assumed future performance fees and fund rebates. New business profits (on an EcV basis) were modest (£0.7m), reflective of the challenging market and ongoing margin pressures. Covid-19 has resulted in a general decline in sales volumes, including a reduction in single premium volumes where margins are higher. New business margins also bear the impact of reduced fund rebates and an increase in transfers out.

Note 5 - Netherlands: Economic conditions were a key factor in the results posted by the Dutch businesses, with the division reporting a loss of £12.7m for the period. Scildon incurred a loss of £10.8m, largely reflecting economic losses owing to falling yields and a widening of spreads. The impact of this was softened by the application of the volatility adjustment. Healthy new business performance in the period was offset by other operating losses, including adverse lapse experience. Waard also recorded a loss in the first half of the year, again stemming from investment market conditions, specifically falling bond values and equity returns. Operational activity was favourable, delivering modest earnings.

Note 6 - Group: This component includes costs incurred at group level and the impact of consolidation activities, with a loss reported for the period.

# FINANCIAL REVIEW · EcV

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.



# ECONOMIC VALUE (EcV) £604.2M

31 DECEMBER 2019: £670.0M

#### Value movement: 1 Jan 2020 to 30 Jun 2020

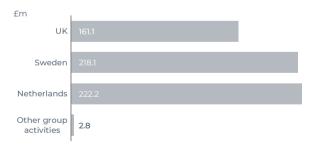


EcV earnings: A loss of £74.1m has been reported for the first half of the year. The impact of Covid-19 on investment markets being a key factor, with significant economic losses in the period. Further detail can be found on page 29.

Dividends: Under EcV, dividends are recognised in the period in which they are paid. Dividends of £20.8m were paid during the period, being the final dividend from 2019.

Foreign exchange: The EcV of the group benefitted from a foreign exchange gain in the period, a consequence of the sterling depreciation against the euro and Swedish krona.

#### EcV by segment at 30 Jun 2020



The above chart shows that the EcV of the group remains diversified across its different markets.

#### **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 difference 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.

Ring-fenced fund restrictions: Solvency II rules require a restriction to be placed on the value of surpluses that exist within certain ringfenced funds. These restrictions are reversed for EcV valuation purposes as they are deemed to be temporary in nature.

Dividends: The proposed interim dividend of £11.5m is recognised for SII regulatory reporting purposes. It is not recognised within EcV until it is actually paid.

# FINANCIAL REVIEW · IFRS

The group IFRS results reflect the natural dynamics of the segments of the group, which can be characterised in three major components: stable core, variable element and growth operation.



# IFRS PRE-TAX LOSS £(9.1) M

# TOTAL COMPREHENSIVE INCOME £15.1M

30 JUNE 2019: PRE-TAX PROFIT £66.6M

30 JUNE 2019: £51.0M

#### **Executive summary**

Stable core: At the heart of surplus, and hence cash generation, are the core CA (excluding the S&P book) 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.

Variable element: Included within the CA segment is the S&P 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.

**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

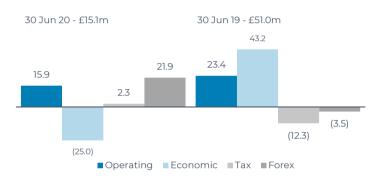
The financial dynamics of Chesnara, as described above, are reflected in the following IFRS results:

	Unau	ıdited	Year	
	6 month	ns ended	Ended	
	30 Jun 20	30 Jun 19	31 Dec 19	
	£m	£m	£m	Note
CA	0.4	25.8	47.9	1
Movestic	4.0	6.5	13.2	2
Waard Group	(0.2)	3.5	4.1	3
Scildon	7.2	36.4	41.6	4
Chesnara	(5.8)	(2.9)	(6.4)	5
Consolidation adjustments	(14.7)	(2.7)	(5.1)	6
(Loss)/profit before tax	(9.1)	66.6	96.1	
Tax	2.3	(12.3)	(17.0)	
(Loss)/profit after tax	(6.8)	54.3	79.1	
Foreign exchange	21.9	(3.5)	(18.7)	7
Other comprehensive income	-	0.2	0.2	
Total comprehensive income	15.1	51.0	60.6	

		idited is ended	Year Ended	
	30 Jun 20 £m	30 Jun 19 £m	31 Dec 19 £m	Note
Operating profit	15.9	23.4	46.2	8
Economic (loss)/profit	(25.0)	43.2	49.1	9
(Loss)/profit before tax	(9.1)	66.6	96.1	
Tax	2.3	(12.3)	(17.0)	
(Loss)/profit after tax	(6.8)	54.3	79.1	
Foreign exchange	21.9	(3.5)	(18.7)	7
Other comprehensive income	-	0.2	0.2	
Total comprehensive income	15.1	51.0	60.6	

**Note 1:** The CA segment has been adversely impacted by the investment market impact of Covid-19. Equity markets are significantly down on the start of the year and this, coupled with reducing bond yields, has led to an overall negative economic return, especially in the S&P book, where product guarantees have surpassed a modest operating profit.

**Note 2:** Movestic continues to contribute positively to the overall group IFRS result, although posting reduced profit when compared to 2019. Despite lower investment returns due to adverse market factors, positive claims development and reduced operational expenses produced a favourable result year to date.



**Note 3:** The Waard Group result also reflects weaker investment performance. It has incurred slightly higher than expected acquisition related expenditure, which includes costs in relation to the purchase of a portfolio of life insurance business in run-off from the Dutch branch of Belgian-owned Argenta Bank-en Verzekeringsgroep N.V., which completed on 31 August 2020.

**Note 4:** Scildon has delivered a relatively strong IFRS result in the first six months. A positive insurance result was generated by favourable term policy experience. This was accompanied by a recovery in credit and country spreads in  $\Omega 2$ , which contributed to partial recovery in the investment result year to date. Operational expense savings have also contributed to the result for the year.

**Note 5:** The Chesnara result largely represents holding company expenses. The current year loss is higher than last year largely due to 2020 including larger one-off items such as project related expenditure and a foreign exchange loss in respect of the Euro denominated loan that it holds.

**Note 6:** Consolidation adjustments relate to items such as the amortisation and impairment of intangible assets. The current year includes a write down of the Scildon AVIF intangible asset, following a reassessment performed at 30 June. Other components are broadly in line with last year.

**Note 7:** Sterling weakened against both the euro and Swedish krona in the period, resulting in a sizeable exchange gain year to date.

**Note 8:** The IFRS operating result demonstrates the stability of the underlying business, with solid operating results being seen across the Group divisions.

**Note 9:** Economic profit represents the components of the earnings that are directly driven by movements in economic variables. During 2020, all divisions suffered from adverse market conditions, as a consequence of the Covid-19 pandemic.

# 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.

#### HOW WE MANAGE RISK

MANAGEMENT

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.

AND DEVELOPMENT

PROCESSES REPORTING

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

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

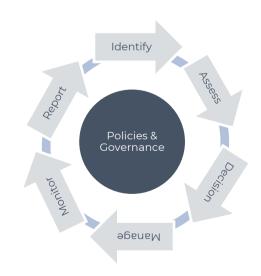
The risk management processes ensure that risks are identified, measured/ assessed, monitored and reported to support decision making.

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.

Chesnara adopts the "three lines of defence" model adjusted as appropriate across the group taking into account size, nature and complexity, with a single set of risk and governance principles applied consistently across the

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' (pages 53 to 57). 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.



# RISK MANAGEMENT – ROLE OF THE BOARD

The Chesnara board is responsible for the adequacy of the design and implementation of the group's risk management and internal control system and its consistent application across divisions. All significant decisions for the development of the group's risk management system are the group board's responsibility.

#### **Risk and Control Policies**

Chesnara has a set of Risk and Control Policies that set out the key policies, processes and controls to be applied. The Chesnara board approves the review, updates and attestation of these policies at least annually.

#### Strategy and Risk Appetite

Chesnara group and its divisions have a defined risk strategy and supporting risk appetite framework to embed an effective risk management framework, culture and processes at its heart and to create a holistic, transparent and focused approach to risk identification, assessment, management, monitoring and reporting.

The Chesnara board approves 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.

#### **Risk Identification**

The group maintains a register of risks which are specific to its activity and scans the horizon to identify potential risk events (e.g. political; economic; technological; environmental, legislative & social).

On an annual basis the board approves the materiality criteria to be applied in the risk scoring and in the determination of what is considered to be a principal risk. At least quarterly the principal and emerging risks are reported to the board, assessing their proximity, probability and potential impact.

#### Own Risk and Solvency Assessment (ORSA)

On an annual basis, or more frequently if required, the group produces a group ORSA Report which aggregates the divisional ORSA findings and supplements these with an assessment specific to group activities. The group and divisional ORSA policies outline the key processes and contents of these reports.

The Chesnara board is responsible for approving the ORSA, including steering in advance how the assessment is performed and challenging the results.

#### **Risk Management System Effectiveness**

The group and its divisions undertake a formal annual review of and attestation to the effectiveness of the risk management system. The assessment considers the extent to which the risk management system is

The Chesnara board is responsible for monitoring the Risk Management System and its effectiveness across the group. The outcome of the annual review is reported to the group board which make decisions regarding its further development.

# RISK MANAGEMENT – PRINCIPAL RISKS AND UNCERTAINTIES

The following tables outline the principal risks and uncertainties of the group. It has been drawn together following regular assessment, performed by the Audit & 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 tables. However, by virtue of the risks being defined as principal, the impacts are potentially significant. The controls in place to mitigate or manage their impact are documented in the full year end report and are not duplicated here since they have not materially changed. Those risks with potential for a material financial impact are covered within the sensitivities (page 25).

Covid-19 has not created new principal risks for the business, however its impact is likely to affect some existing principal risks. Our assessment of the impact of Covid-19 against our principal risks is considered below where deemed applicable.

# INVESTMENT AND LIQUIDITY RISK

# **DESCRIPTION**

Exposure to financial losses or value reduction arising from adverse movements in investment markets, counterparty defaults, or through inadequate asset liability matching.

#### **RISK APPETITE**

The group accepts this risk but has controls in place to prevent any increase or decrease in the risk exposure beyond set levels. These controls will result in early intervention if the amount of risk approaches those limits.

# **POTENTIAL IMPACT**

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.

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.

Other liquidity issues could arise from counterparty failures/credit defaults, a large spike in the level of claims or other significant unexpected expenses.

#### COVID-19

The global Covid-19 pandemic at the beginning of 2020, and corresponding concerns about the economic impact of government intervention, has led to increased market volatility leading to reduced equity asset values, spreads widening, and reductions in yields.

#### REGULATORY CHANGE RISK

#### **DESCRIPTION**

The risk of adverse changes in industry practice/regulation, or inconsistent application of regulation across territories.

#### **RISK APPETITE**

The group aims to minimise any exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.

# POTENTIAL **IMPACT**

Chesnara currently operates in three regulatory domains (Movestic's asset management company in Luxembourg, was closed in August 2020) and is therefore exposed to potential for 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.

The group is therefore exposed to the risk of:

- incurring one-off costs of addressing regulatory change as well as any permanent increases in the cost base in order to meet enhanced standards;
- erosion in value arising from pressure or enforcement to reduce future policy charges;
- erosion in value arising from pressure or enforcement to financially compensate for past practice; and
- 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.

# COVID-19

We have assessed that Covid-19 does not materially increase the level by which Chesnara is exposed to this risk.

#### **ACOUISITION RISK**

#### **DESCRIPTION**

The risk of failure to source acquisitions that meet Chesnara's criteria or the execution of acquisitions with subsequent unexpected financial loses or value reduction.

#### **RISK APPETITE**

Chesnara has a patient approach to acquisition and generally expects acquisitions to enhance EcV and expected Cash Generation in the medium term (net of external financing), though each opportunity will be assessed on its own merits.

#### POTENTIAL **IMPACT**

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.

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.

#### COVID-19

We have assessed that Covid-19 does not materially increase the level by which Chesnara is exposed to this risk.

#### DEMOGRAPHIC EXPERIENCE RISK

#### DESCRIPTION

Risk of adverse demographic experience compared with assumptions.

#### **RISK APPETITE**

The group accepts this risk but restricts its exposure, to the extent possible, through the use of reinsurance and other controls. Early warning trigger monitoring is in place to track any increase or decrease in the risk exposure beyond a set level, with action taken to address any impact as necessary.

#### POTENTIAL **IMPACT**

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.

The effect of recognising any changes in future demographic assumptions at a point in time would be to crystallise any expected future gain or loss on the balance sheet.

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.

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).

#### COVID-19

Covid-19 is likely to increase the number of deaths arising in 2020. The effect of this is expected to be more pronounced in older lives rather than in the typical ages of the assured lives in the Chesnara books.

#### RISK MANAGEMENT - PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

#### **EXPENSE RISK**

#### **DESCRIPTION**

Risk of expense overruns and unsustainable unit cost growth.

#### **RISK APPETITE**

The group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.

# POTENTIAL IMPACT

The group 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.

An underlying source of potential increases in regular expense is the additional regulatory expectations on the sector.

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.

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. Similar, for acquisitions, there is a risk that the assumed costs of running the acquired business allowed for in pricing are not achieved in practice, or any assumed cost synergies with existing businesses are not achieved.

#### COVID-19

As governments intervene to stabilise their economies in response to Covid-19, there is potential to shift towards high inflation, once social distancing measures are relaxed and the economy recovers. Higher inflation would increase Chesnara's expected longer-term cost base.

#### **OPERATIONAL RISK**

#### DESCRIPTION

Significant operational failure/business continuity event.

#### **RISK APPETITE**

The group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.

# POTENTIAL IMPACT

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.

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.

#### COVID-19

Chesnara, its subsidiaries and outsourced service providers have all adapted to remote working conditions, utilising communication technology as required. While the transition has been smooth, there is inevitably an increased level of operational risk and potential for an impact on operational efficiency. However, with the steps taken to improve the way we work, and additional controls implemented, Chesnara is well placed to manage the additional risk.

#### IT / DATA SECURITY & CYBER RISK

#### **DESCRIPTION**

Risk of IT/ data security failures or impacts of malicious cyber-crime on continued operational stability.

#### **RISK APPETITE**

The group aims to minimise its exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.

#### POTENTIAL IMPACT

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.

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.

#### COVID-19

The move to remote working has the potential to increase cyber risk and therefore various steps have been taken to enhance security, processes and controls to help protect against this.

#### GOING CONCERN

#### Going concern

After making appropriate enquiries, including detailed consideration of the impact of Covid-19 on the group's operations and financial position and prospects, the directors confirm that they are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of these half year financial statements.

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. 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. Further insight into the immediate and longer-term impact of certain sensitivities that the group is exposed to, covering solvency, cash generation and Economic Value, can be found on page 25 under the section headed 'Capital Management Sensitivities'.

Due to the group's strong capital position and the group's business model, although the Covid-19 outbreak has caused significant global economic disruption, these scenarios have demonstrated that the group and the company remain well capitalised and have sufficient liquidity. As such we can continue to remain confident that, even if the negative financial market impact of Covid-19 is sustained, the group will continue to be in existence in the foreseeable future. The information set out on pages 23 to 24 indicates a strong Solvency II position as at 30 June 2020 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 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.

Whilst there was some short-term operational disruption from dealing with the restricted operating environment in light of Covid-19, our assessment has shown that both our internal functions and those operated by our key outsourcers and suppliers adapted to these restrictions and do not cause any issues as to our going concern.





#### 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

Luke Savage

John Deane

Chairman

Chief Executive Officer

25 September 2020

25 September 2020

#### 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 2020 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 9. 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.

#### 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 2020 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.

#### Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. 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.

Deloitte LLP Manchester United Kingdom

25 September 2020

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

Insurance premium revenue Insurance premium ceded to reinsurers  Net insurance premium revenue Fee and commission income Net investment return  Total revenue net of reinsurance payable Other operating income  Total income net of investment return	Note	2020 £000 139,424 (20,274) 119,150	<b>2019 £000</b> 134,493 (22,814)	<b>2019 £000</b> 268,331
Insurance premium ceded to reinsurers  Net insurance premium revenue Fee and commission income Net investment return  Total revenue net of reinsurance payable Other operating income	Note	139,424 (20,274) <b>119,150</b>	134,493 (22,814)	
Insurance premium ceded to reinsurers  Net insurance premium revenue Fee and commission income Net investment return  Total revenue net of reinsurance payable Other operating income		(20,274) <b>119,150</b>	(22,814)	268,331
Net insurance premium revenue Fee and commission income Net investment return Total revenue net of reinsurance payable Other operating income		119,150	. , ,	
Fee and commission income  Net investment return  Total revenue net of reinsurance payable  Other operating income		•		(44,215)
Net investment return  Total revenue net of reinsurance payable Other operating income			111,679	224,116
Total revenue net of reinsurance payable Other operating income		45,373	48,676	92,895
Other operating income		(369,955)	710,201	1,090,640
		(205,432)	870,556	1,407,651
Total income net of investment return		19,656	19,412	37,838
		(185,776)	889,968	1,445,489
Insurance contract claims and benefits incurred				
Claims and benefits paid to insurance contract holders		(196,703)	(212,435)	(445,265)
Net increase/(decrease) in insurance contract provisions		148,092	(172,360)	(176,541)
Reinsurers' share of claims and benefits		20,027	19,765	38,064
Net insurance contract claims and benefits		(28,584)	(365,030)	(583,742)
Change in investment contract liabilities		275,376	(408,031)	(664,463)
Reinsurers' share of investment contract liabilities		(2,136)	3,824	5,424
Net change in investment contract liabilities		273,240	(404,207)	(659,039)
Fees, commission and other acquisition costs		(11,215)	(10,571)	(21,750)
Administrative expenses		(35,301)	(34,743)	(67,811)
Other operating expenses				
Charge for amortisation and impairment of acquired value of in-force business		(16,274)	(5,216)	(10,445)
Charge for amortisation of acquired value of customer relationships		(30)	(35)	(70)
Other		(3,726)	(3,129)	(5,635)
Total expenses net of change in insurance contract provisions and investment contract liabilities		178,110	(822,931)	(1,348,492)
Total income less expenses		(7,666)	67,037	96,997
Share of (loss)/profit of associate		(128)	801	1,072
Profit recognised on portfolio acquisition		_	_	788
Financing costs		(1,279)	(1,212)	(2,751)
(Loss)/profit before income taxes	4	(9,073)	66,626	96,106
Income tax expense		2,319	(12,301)	(16,964)
(Loss)/profit for the period	3,4	(6,754)	54,325	79,142
Foreign exchange translation differences arising on the revaluation of foreign operations	3,4	21,865	(3,505)	(18,684)
Revaluation of pension obligations			188	-
Revaluation of investment property		36	-	144
Total comprehensive income for the period		15,147	51,008	60,602
Basic earnings per share (based on profit for the period)	2	(4,50)p	36.24p	52.77p
Diluted earnings per share (based on profit for the period)	2	(4.47)p	36.01p	52.47p

The notes and information on pages 46 to 55 form part of these financial statements.

#### CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

		Unaud as at 30 Jui	ne	Year ended 31 December
	Note	2020 £000	2019 £000	2019 £000
Assets				
Intangible assets				
Deferred acquisition costs		68,494	65,132	63,885
Acquired value of in-force business		77,597	100,229	90,823
Acquired value of customer relationships		428	484	431
Goodwill		_	756	43
Software assets		7,419	6,103	5,988
Property and equipment		9,562	6,801	7,043
Investment in associates		_	6,448	6,481
Investment properties		1,091	1,296	1,020
Reinsurers' share of insurance contract provisions		193,837	211,534	188,452
Amounts deposited with reinsurers		34,436	36,930	37,330
Financial assets				
Equity securities at fair value through income		389,237	392,000	432,645
Holdings in collective investment schemes at fair value through income		5,501,076	5,399,550	5,524,504
Debt securities at fair value through income		1,322,343	1,515,771	1,458,917
Policyholders' funds held by the group		285,285	276,838	299,375
Mortgage loan portfolio		30,948	37,160	32,187
Insurance and other receivables		47,332	68,965	53,936
Prepayments		11,220	6,464	8,353
Derivative financial instruments		449	896	2,076
Total financial assets		7,587,890	7,697,644	7,811,993
Defined benefit pension scheme funding prepayment	7	_	1,007	_
Reinsurers' share of accrued policyholder claims	-	14,284	18,476	14,132
Income taxes		6,535	8,345	5,394
Cash and cash equivalents		203,111	194,304	107,956
Total assets	4	8,204,684	8,355,489	8,340,971
Liabilities				
Insurance contract provisions		3,562,853	3,705,623	3,610,415
Other provisions		583	695	521
Financial liabilities				
Investment contracts at fair value through income		3,636,513	3,575,724	3,694,316
Liabilities relating to policyholders' funds held by the group		285,285	276,838	299,375
Lease contract liabilities		3,028	2,631	2,527
Borrowings	5	79,513	99,800	88,163
Derivative financial instruments	_	681	24,353	547
Total financial liabilities		4,005,020	3,979,346	4,084,928
Deferred tax liabilities	_	18,361	26,187	22,500
Reinsurance payables		4,787	8,183	3,207
Payables related to direct insurance and investment contracts		90,889	87,541	87,136
Deferred income		3,610	3,564	3,907
Income taxes		4,834	5,465	9,964
Other payables		41,547	60,571	41,728
Bank overdrafts		2,101	1,462	1,174
Total liabilities		7,734,585	7,878,637	
Net assets	4	470,099	476,852	7,865,480 475,491
Shareholders' equity		470,033	470,032	775,751
Share capital		/,7 760	43,769	43,767
		43,768		
Share premium Othor years (as		142,085	142,150	142,053
Other reserves		30,519	23,653	8,618
Retained earnings	3	253,727	267,280	281,053
Total shareholders' equity		470,099	476,852	475,491

The notes and information on pages 46 to 55 form part of these financial statements.

Approved by the Board of Directors and authorised for issue on 25 September 2020 and signed on its behalf by:

Luke Savage Chairman John Deane

Chief Executive Officer

#### CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Unaudit Six months 30 Jun	ended 3	Year ended 1 December
	2020	2019	2019
	£000	£000	£000
(Loss)/profit for the period	(6,754)	54,325	79,142
Adjustments for:			
Depreciation of property and equipment	267	509	538
Amortisation of deferred acquisition costs	6,166	5,783	11,547
Amortisation of acquired value of in-force business	16,274	5,216	10,445
Amortisation of acquired value of customer relationships	30	35	70
Amortisation of software assets	741	846	1,442
Depreciation on right of use assets	350	-	704
Interest on lease liabilities	23	-	63
Share based payment	242	307	593
Tax paid	(2,327)	12,290	16,494
Interest receivable	139	(190)	(1,596)
Dividends receivable	(3,363)	(2,876)	(2,250)
Interest expense	1,290	1,273	2,688
Fair value gains on financial assets	(89,568)	(201,850)	(201,937)
Share of loss/(profit) of associate	128	(801)	(1,072)
Interest received	1,890	1,568	2,011
Dividends received	2,336	2,666	2,942
Increase in intangible assets related to insurance and investment contracts	(6,504)	(7,617)	(14,058)
Changes in operating assets and liabilities (excluding the effect of acquisitions)	_	55	-
Changes in operating assets and liabilities:			
Decrease /(increase) in financial assets	650,198	(436,520)	(799,774)
(Increase)/decrease in reinsurers share of insurance contract provisions	(2,637)	(828)	23,809
Decrease/(increase) in amounts deposited with reinsurers	2,894	(2,581)	(2,981)
Decrease/(increase) in insurance and other receivables	9,705	(9,274)	7,640
Increase in prepayments	(2,249)	(287)	(1,474)
(Decrease)/increase in insurance contract provisions	(174,638)	141,579	145,907
(Decrease)/increase in investment contract liabilities	(277,660)	442,003	685,502
Increase/(decrease) in provisions	27	(157)	(307)
Increase/(decrease) in reinsurance payables	1,326	(2,151)	(6,912)
Increase/(decrease) in payables related to direct insurance and investment contracts	2,005	(3,429)	(2,472)
Increase/(decrease) in other payables	6,943	20,218	(3,119)
Cash generated/(utilised) from operations	137,274	20,112	(46,415)
Income tax paid	(5,969)	(8,484)	(878)
Net cash generated/(utilised) from operating activities	131,305	11,628	(47,293)
Cash flows from investing activities			
Development of software	(1,706)	(1,390)	(3,097)
Purchases of property and equipment	(1,892)	(114)	(98)
Net cash utilised by investing activities	(3,598)	(1,504)	(3,195)
Cash flows from financing activities	•		
Proceeds from issue of share capital	1	_	_
Proceeds from issue of share premium	32	99	_
Repayment of borrowings	(12,772)	(8,298)	(18,465)
Repayment of principal under lease liabilities	(285)	(348)	(646)
Dividends paid	(20,812)	(20,178)	(31,316)
Interest paid	(1,278)	(1,035)	(2,570)
Net cash utilised by from financing activities	(35,114)	(29,760)	(52,997)
Net increase/(decrease) in cash and cash equivalents	92,593	(19,636)	(103,485)
Cash and cash equivalents at beginning of period	106,782	214,254	214,254
Effect of exchange rate changes on cash and cash equivalents	1,635	(1,776)	(3,987)
Cash and cash equivalents at end of the period	201,010	192,842	106,782

The notes and information on pages 46 to 55 form part of these financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Unaudited six months ended 30 June 2020						
	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2020	43,767	142,053	8,618	-	281,053	475,491
Loss for the period	_	_	_	_	(6,754)	(6,754)
Dividends paid	-	-	_	-	(20,814)	(20,814)
Foreign exchange translation differences	_	_	21,865	_	_	21,865
Revaluation of pension obligations	_	_	36	_	_	36
Issue of share capital	1	_	_	_	_	1
Issue of share premium	-	32	_	-	-	32
Share based payment	-	-	_	-	242	242
Equity shareholders' funds at 30 June 2020	43,768	142,085	30,519	-	253,727	470,099

Unaudited six months ended 30 June 2019						
	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2019	43,767	142,053	27,158	-	232,638	445,616
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
Equity shareholders' funds at 30 June 2019	43,769	142,150	23,653	-	267,280	476,852

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2019	43,767	142,053	27,158	_	232,638	445,616
Profit for the year	_	_	_	_	79,142	79,142
Dividends paid	_	_	_	_	(31,320)	(31,320)
Foreign exchange translation differences (note 4)	_	_	(18,684)	_	_	(18,684)
Revaluation of investment property	_	_	144	_	_	144
Share based payment	_	_	_	_	593	593
Equity shareholders' funds at 31 December 2019	43,767	142,053	8,618	_	281,053	475,491

The notes and information on page 46 to 55 form part of these financial statements.

#### **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 2019.

The group's published consolidated financial statements for the year ended 31 December 2019 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 2019.

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 2019 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.

#### Going concern

After making appropriate enquiries, including detailed consideration of the impact of Covid-19 on the group's operations and financial position and prospects, the directors confirm that they are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of these half year financial statements. Further detail on the key considerations made by the directors in making this assessment has been included in the 'Going Concern' section of this interim report on page 37.

#### Judgements and estimates

Critical accounting judgements and key sources of estimation and uncertainty remain largely unchanged from those described in Note 3 of the 2019 Annual Report and Accounts. The potential impact of Covid-19 on the group has been considered in the preparation of these half year condensed financial statements, including management's evaluation of critical accounting judgements and estimates, which has led to the following assessments being undertaken: -

AVIF impairment assessment: A half-year assessment of the carrying value of the AVIF intangible asset in respect of the Scildon acquisition was undertaken, to assess if an impairment charge was necessary due to the impact of Covid-19. This assessment concluded that an impairment was necessary as at the balance sheet date. This has resulted in a gross impairment charge of £11.6m (£9.1m net of tax) in the period, driven by the significant deterioration in economic conditions during the period.

IFRS assumption setting: The potential impact of Covid-19 was considered as part of the half-year actuarial assumption setting, which forms the basis of the IFRS reserving process. The conclusions drawn, were that although no longer-term adjustments were required to the mortality and morbidity assumptions due to the low volumes of claims being experienced, the shorter term assumptions should be strengthened on the basis of the additional uncertainty that Covid-19 introduces, in the CA and Movestic divisions. This has led to an increase in net reserves of circa £3m and £1m respectively.

#### Earnings per share

Earnings per share are based on the following:

	Unaud Six montl 30 J	ns ended	Year ended 31 December	
	2020	2019	2019	
(Loss)/profit for the period attributable to shareholders (£000)	(6,754)	54,325	79,142	
Weighted average number of ordinary shares	150,062,807	149,919,130	149,972,471	
Basic earnings per share	(4,50)p	36.24p	52.77p	
Diluted earnings per share	(4,47)p	36.01p	52.47p	

The weighted average number of ordinary shares in respect of the six months ended 30 June 2020 is based upon 150,061,567 shares in issue at the beginning of the period and 150,065,457 at the end of the period. No shares were held in treasury.

The six months ended 30 June 2019 is based upon 149,908,956 shares in issue at the beginning of the period, and 149,961,626 shares in issue at the end of the period. No shares were held in treasury.

The weighted average number of ordinary shares in respect of the year ended 31 December 2019 is based upon 149,908,956 shares in issue at the beginning of the period and 150,061,567 shares in issue at the end of the period. No shares were held in treasury.

There were 1,018,475 share options outstanding at 30 June 2020 (30 June 2019: 949,373). Accordingly, there is dilution of the average number of ordinary shares in issue. There were 859,641 share options outstanding as at 31 December 2019.

#### Retained earnings

	Six months	Unaudited Six months ended 30 June	
	2020 £000	2019 £000	2019 £000
Retained earnings attributable to equity holders of the parent company comprise:			
Balance at 1 January	281,053	232,638	232,638
(loss)/profit for the period	(6,754)	54,325	79,142
Revaluation of pension obligations	_	188	-
Share based payment	242	307	593
Dividends:			
Final approved and paid for 2018	_	(20,178)	(20,178)
Interim approved and paid for 2019	_	-	(11,142)
Final approved and paid for 2019	(20,814)	_	
Balance at period end	253,727	267,280	281,053

The interim dividend in respect of 2019, approved and paid in 2019 was paid at the rate of 7.43p per share.

The final dividend in respect of 2019, approved and paid in 2020, was paid at the rate of 13.87p per share so that the total dividend paid to the equity shareholders of the company in respect of the year ended 31 December 2019 was made at the rate of 21.30p per share.

An interim dividend of 7.65p per share in respect of the year ending 31 December 2020 payable on 13 November 2020 to equity shareholders of the company registered at the close of business on 9 October 2019, the dividend record date, was approved by the Directors after the balance sheet date. The resulting dividend of £11.5m 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 2020 and the year ended 31 December 2019:

	Six months ended 30 June 2020	Year ended 31 December 2019
	Pence	Pence
Interim – approved/paid	7.65	7.43
Final – proposed/paid	-	13.87
Total	7.65	21.30

#### **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 2020 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 2019 Annual Report and Accounts.

Movestic: This segment comprises the group's Swedish life and pensions business, Movestic Livförsäkring AB ('Movestic') and its subsidiary which are open to new business and which are responsible for conducting both unit-linked and non-linked business. Modernac S.A., a 49% associate company was liquidated during H1 2020.

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 2020.

#### Operating segments (continued)

#### (i) Segmental income statement for the six months ended 30 June 2020

			Waard		Other Group	
	CA	Movestic	Group	Scildon	Activities	Total
	£000	£000	£000	£000	£000	£000
Net insurance premium revenue	12,916	5,409	1,253	99,572	_	119,150
Fee and commission income	12,002	8,969	48	24,354	_	45,373
Net investment return	(89,552)	(236,976)	(1,875)	(41,737)	185	(369,955)
Total revenue (net of reinsurance payable)	(64,634)	(222,598)	(574)	82,189	185	(205,432)
Other operating income	5,253	14,403	-	_	-	19,656
Segmental income	(59,381)	(208,195)	(574)	82,189	185	(185,776)
Net insurance contract claims and benefits incurred	31,798	(1,748)	2,269	(60,903)	_	(28,584)
Net change in investment contract liabilities	38,158	235,082	_	-	_	273,240
Fees, commission and other acquisition costs	(489)	(10,596)	(333)	(1,435)	_	(12,853)
Administrative expenses:						
Amortisation charge on software assets	_	(1,391)	_	(205)	_	(1,596)
Depreciation charge on property and equipment	_	(119)	(52)	(462)	_	(633)
Other	(9,312)	(4,968)	(1,493)	(11,977)	(5,321)	(33,071)
Operating expenses	(417)	(3,311)	_	_	2	(3,726)
Financing costs	_	(593)	_	-	(687)	(1,280)
Share of loss from associates	_	(128)	_	_	_	(128)
Profit/(loss) before tax and consolidation adjustments	357	4,033	(183)	7,207	(5,821)	5,593
Consolidation adjustments:						
Charge for amortisation and impairment of acquired value of in-force business	(1,252)	(1,277)	(330)	(13,415)	_	(16,274)
Charge for amortisation of acquired value of customer relationships	-	(30)	_	-	_	(30)
Fees, commission and other acquisition costs	_	1,061	_	577	_	1,638
(Loss)/profit before tax	(895)	3,787	(513)	(5,631)	(5,821)	(9,073)
Income tax (expense)/credit	140	9	137	962	1,071	2,319
(Loss)/profit after tax	(755)	3,796	(376)	(4,669)	(4,750)	(6,754)

#### (ii) Segmental balance sheet as at 30 June 2020

			Waard		Other Group		
	CA	Movestic	Group	Scildon	Activities	Total	
	£000	£000	£000	£000	£000	£000	
Total assets	2,470,446	3,459,963	144,264	2,048,392	81,619	8,204,684	
Total liabilities	(2,362,513)	(3,361,960)	(96,519)	(1,864,971)	(48,666)	(7,734,585)	
Net assets	107,933	98,003	47,745	183,421	32,953	470,099	
Investment in associates	_	-	_	_	_	_	
Additions to non-current assets	_	9,208	_	2,072	_	11,280	

#### Operating segments (continued)

#### (iii) Segmental income statement for the six months ended 30 June 2019

			Waard		Other Group	
	CA	Movestic	Group	Scildon	Activities	Tota
	£000	£000	£000	£000	£000	£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	710,20
Total revenue (net of reinsurance payable)	254,460	349,134	6,579	260,154	229	870,556
Other operating income	5,786	13,626	_			19,412
Segmental income	260,246	362,760	6,579	260,154	229	889,968
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	_			80
Profit/(loss) before tax and consolidation adjustments	25,776	6,542	3,509	36,415	(2,871)	69,37
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	_	2,50
Profit/(loss) before tax	24,163	6,361	3,179	35,794	(2,871)	66,62
Income tax (expense)/credit	(4,576)	5	(821)	(7,397)	488	(12,30
Profit/(loss) after tax	19,587	6,366	2,358	28,397	(2,383)	54,32

#### (iv) Segmental balance sheet as at 30 June 2019

	CA	Movestic	Waard Group	( Scildon	Other Group Activities	Total
	£000	£000	£000	£000	£000	£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)
Net assets	120,159	92,107	46,128	182,419	36,039	476,852
Investment in associates	_	6,448	-	_	_	6,448
Additions to non-current assets		9,343	325	2,737	-	12,405

#### Operating segments (continued)

#### (v) Segmental income statement for the year ended 31 December 2019

	CA	Movestic	Waard Group	Scildon	Other Group Activities	Total
	£000	£000	£000	£000	£000	£000
Net insurance premium revenue	28,941	9,329	1,943	183,903	_	224,116
Fee and commission income	25,376	21,291	16	46,212	_	92,895
Net investment return	310,711	563,534	6,838	209,037	520	1,090,640
Total revenue (net of reinsurance payable)	365,028	594,154	8,797	439,152	520	1,407,651
Other operating income/(expense)	11,690	26,148	_	_	_	37,838
Segmental income	376,718	620,302	8,797	439,152	520	1,445,489
Net insurance contract claims and benefits incurred	(211,479)	(2,848)	(278)	(369,137)	_	(583,742)
Net change in investment contract liabilities	(95,876)	(563,163)	_	_	_	(659,039)
Fees, commission and other acquisition costs	(1,015)	(22,665)	(234)	(2,666)	_	(26,580)
Administrative expenses:						
Amortisation charge on software assets	-	(1,405)	-	(206)	-	(1,611)
Depreciation charge on property and equipment	_	(121)	(52)	(464)	_	(637)
Other	(19,775)	(11,673)	(3,326)	(25,086)	(5,703)	(65,563)
Operating (expenses)/income	(702)	(4,941)	_	-	8	(5,635)
Financing costs	(1)	(1,384)	(4)	-	(1,362)	(2,751)
Share of loss from associates	_	1,072	_	_	_	1,072
Profit/(loss) before tax and consolidation adjustments	47,870	13,174	4,903	41,593	(6,537)	101,003
Consolidation adjustments:						
Charge for amortisation of acquired value of in-force business	(3,226)	(2,769)	(663)	(3,787)	-	(10,445)
Charge for amortisation of acquired value of customer relationships	-	(70)	-	-	-	(70)
Fees, commission and other acquisition costs	_	2,350	_	2,480	_	4,830
Segmental income less expenses	44,644	12,685	4,240	40,286	(6,537)	95,318
Profit arising on portfolio acquisition	_	_	788	_	_	788
Profit/(loss) before tax	44,644	12,685	5,028	40,286	(6,537)	96,106
Income tax (expense)/credit	(7,555)	(438)	(1,428)	(9,247)	1,704	(16,964)
Profit/(loss) after tax	37,089	12,247	3,600	31,039	(4,833)	79,142

#### (vi) Segmental balance sheet as at 31 December 2019

	CA	Movestic	Waard Group	Scildon	Other Group Activities	Total
	£000	£000	£000	£000	£000	£000
Total assets	2,669,705	3,466,925	148,289	1,977,223	78,829	8,340,971
Total liabilities	(2,532,017)	(3,372,615)	(103,275)	(1,810,519)	(56,054)	(7,865,480)
Net assets	137,688	94,310	45,014	175,704	22,775	475,491
Investment in associates	_	6,481	-	_	-	6,481
Additions to non-current assets	-	13,511	391	4,623	-	18,525

#### **Borrowings**

	Unaudit 30 Jui		31 December
	2020	2019	2019
	£000	£000	£000
Bank loan	46,953	61,837	52,525
Amount due in relation to financial reinsurance	32,560	37,963	35,638
Total	79,513	99,800	88,163

The bank loan subsisting at 30 June 2020 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 sixmonthly 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 proceeds of this loan facility were utilised, together with existing group cash, to repay in full, the pre-existing loan facilities totalling £52.8m.
- 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.
- In April 2018 we converted our existing debt arrangement with RBS into a syndicated facility. This will provide access to higher levels of debt financing from a wider panel of lenders, which in turn will enable us to fulfil our appetite of financing future deals up to the maximum levels of gearing set out in our debt and leverage policy, without being restricted by the lending capacity of one individual institution. This facility enables Chesnara to access an increased level of funds efficiently, which in turn supports our acquisition strategy.

The fair value of the sterling bank loan at 30 June 2020 was £18.0m (31 December 2019: £21.0m).

The fair value of the euro denominated bank loan at 30 June 2020 was £29.1m (31 December 2019: £31.7m).

The fair value of amounts due in relation to financial reinsurance was £34.3m (31 December 2019: £37.5m).

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

#### 6 Financial instruments fair value disclosures

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

There has been a transfer of some assets between level 2 and level 3 during the period. This relates to investments in a fund containing mortgage backed assets which are included in the category "Holdings in collective investment schemes" in the table below. These were previously classified as level 2 but have been reassessed as being level 3 during the period. There are no non-recurring fair value measurements.

The group held the following financial instruments at fair value at 30 June 2020.

Fair value measurement at 30 June 2020				
	Level 1	Level 2	Level 3	Total
Financial assets	£000	£000	£000	£000
Equities				•
Listed	389,237	_	_	389,237
Holdings in collective investment schemes	5,320,926	9,146	171,004	5,501,076
Debt securities - fixed rate				
Government Bonds	787,744	37,529	_	825,272
Corporate Bonds Debt securities - floating rate	492,418	383	-	492,801
Listed	4,270			4,270
Total debt securities	1,284,432	37,912	_	1,322,343
Policyholders' funds held by the group	285,285	_	_	285,285
Derivative financial instruments	_	449	-	449
Total	7,279,880	47,507	171,004	7,498,390
Current				1,239,925
Non-current				6,258,465
Total	· · · · · · · · · · · · · · · · · · ·	· · · · · ·		7,498,390
Financial liabilities				
Investment contracts at fair value through income	_	3,636,513	-	3,636,513
Liabilities related to policyholders' funds held by the group	285,285	_	-	285,285
Derivative financial instruments	_	681		681
Total	285,285	3,637,194		3,922,479

	Level 1	Level 2	Level 3	Total
Financial assets	£000	£000	£000	£000
Equities				•
Listed	432,645	_	_	432,645
Holdings in collective investment schemes	5,483,162	41,342	_	5,524,504
Debt securities - fixed rate				
Government Bonds	949,641	25,647	-	975,288
Corporate Bonds	476,904	345	-	477,249
Debt securities - floating rate Listed	6,380	-	-	6,380
Total debt securities	1,432,925	25,992	-	1,458,917
Policyholders' funds held by the group	299,375	_	_	299,375
Derivative financial instruments	_	2,076	-	2,076
Total	7,648,107	69,410	-	7,717,517
Current				2,176,844
Non-current				5,540,673
Total			·	7,717,517
Financial liabilities				
Investment contracts at fair value through income	_	3,694,316	-	3,694,316
Liabilities related to policyholders' funds held by the group	299,375	-	_	299,375
Derivative financial instruments		547	_	547
Total	299,375	3,694,863	_	3,994,238

#### Financial instruments fair value disclosures (continued)

#### 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. The holdings classified as Level 3 also relate to our Scildon operation, and represent investments held in a mortgage fund. These are classified as level 3 as the fair value is derived from valuation techniques that include inputs that are not based on observable market data.

#### 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.

#### Significant unobservable inputs in level 3 instrument valuations

The level 3 instruments held in the group are in relation to investments held in a fund that contains mortgage backed assets in the Netherlands. The fair value of the mortgage fund is determined by the fund manager on a monthly basis. The fair value of mortgage receivables in the Fund is model-based, with a number of variables in the valuation model, such as the discount rate and the assumed constant prepayment rate.

Sensitivity of level 3 instruments measured at fair value on the statement of financial position to changes in key assumptions There is a risk that the value of the fund decreases or increases over time. This can be as a consequence of a periodic reassessment of the constant prepayment rate and the discount rate used in the valuation model.

Reconciliation of Level 3 fair value measurements of financial instruments

	30 June 2020 £'000
At start of period	_
Transfers into level 3	32,463
Total gains and losses recognised in the income statement	(1,189)
Purchases	132,229
Settlements	_
Exchange rate adjustment	7,501
At the end of period	171,004

#### 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:

	Carı	ying amount			Fair value	
	30 June 2020 £000	30 June 2019 £000	31 December 2019 £000	30 June 2020 £000	30 June 2019 £000	31 December 2019 £000
Financial liabilities: Borrowings	79,513	99,800	88,163	81,340	102,099	90,124

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.

#### Defined benefit pension scheme obligations

During 2019, Scildon closed its defined benefit pension scheme and transferred it into a defined contribution scheme. From 1 October 2019, any risks relating to the funding of the plan were no longer borne by Scildon and all pension assets are expected to be transferred to another administrator in October 2020, pending DNB approval. From 1 October 2019 until that point, Scildon continued to bear only the fund administration costs.

#### Acquisition after the balance sheet date

On 31 August 2020, Waard completed a deal to acquire circa 44,000 term and mortgage insurance policies, together with associated net assets from Argenta Assuranties N.V., a Belgium based insurance provider, for a base consideration of €29.1m. The acquisition continues Waard's acquisition strategy and creates a natural fit for the business, enabling it to increase its overall policy base whilst being able to integrate the acquired book of policies into its systems and processes seamlessly. The acquisition had an effective cut-off date of the 1 July 2019 and roll forward procedures are currently being finalised. Also, during September, the portfolio has been migrated onto Waard's system and will be included in its valuation process as at 30 September 2020. This acquisition was initially announced on 22 November 2019 and it was noted within that announcement that as at 30 June 2019 the acquired portfolio had gross assets of c.€380 million and that Chesnara estimated an EcV gain on completion of c.€8.0 million. Due to the close proximity of the completion of the transaction to the publication of these interim financial statements, the full business combinations accounting has not yet been completed. As a consequence, full disclosure of the financial impact of the acquisition in accordance with the requirements of IFRS 3 "Business Combinations" will be disclosed in the 2020 year end financial

#### Approval of consolidated report for the six months ended 30 June 2020

This condensed consolidated report was approved by the Board of Directors on 25 September 2020. A copy of the report will be available to the public at the Company's registered office, 2nd Floor, Building 4, West Strand Business Park, West Strand Road, Preston, PR1 8UY and at www.chesnara.co.uk

# SECTION D:

# ADDITIONAL INFORMATION





#### FINANCIAL CALENDAR

#### **KEY CONTACTS**

#### 28 September 2020

Results for the six months ended 30 June 2020 announced

#### 08 October 2020

Interim Ex-dividend date

#### 09 October 2020

Dividend record date

#### 23 October 2020

Last date for dividend reinvestment plan elections

#### 13 November 2020

Interim dividend payment date

#### 31 December 2020

End of financial year

#### Registered and Head Office

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#### Advisors

Ashurst LLP **Broadwalk House** 5 Appold Street London EC2A 2HA

Addleshaw Goddard LLP One St Peter's Square Manchester M2 3DE

#### Auditor

Deloitte LLP Statutory Auditor 2 Hardman Street Manchester M3 3HF

#### Registrars

Link Asset Services The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

#### Joint Stockbrokers and **Corporate Advisors**

Panmure Gordon One New Change London EC4M 9AF

Investec Bank plc 30 Gresham Street London EC2V 7QP

#### **Bankers**

National Westminster Bank plc 135 Bishopsgate London EC2M 3UR

Lloyds Bank plc 3<sup>rd</sup> Floor, Black Horse House Medway Wharf Road Tonbridge Kent TN9 1QS

#### **Public Relations Consultants**

**FWD** 145 Leadenhall Street London EC3V 4QT

# GLOSSARY

AGM	Annual General Meeting.	London Stock	London Stock Exchange plc.
ALM	Asset Liability Management - management of risks that arise due to mismatches between assets and liabilities.	Exchange Movestic	Movestic Livförsäkring AB.
APE	Annual Premium Equivalent - an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.	Modernac	Modernac SA, an associated company which is 49% owned by Movestic.
CA	Countrywide Assured plc.	New business	The present value of the expected future cash inflows arising from business written in the reporting period.
CALH	Countrywide Assured Life Holdings Limited and its subsidiary companies.	Official List	The Official List of the Financial Conduct Authority.
BAU Cash Generation	This represents divisional cash generation plus the impact of non-exceptional group activity.	Operating Profit	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).
BLAGAB	Basic life assurance and general annuity business	Ordinary Shares	Ordinary shares of five pence each in the capital of the company.
Cash Generation	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.	ORSA	Own Risk and Solvency Assessment.
Commercial Cash Generation	Cash generation excluding the impact of technical adjustments, modelling changes and exceptional corporate activity; the underlying commercial cash generated by the business.	Own Funds	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.
Divisional Cash Generation	This represents the cash generated by the three operating divisions of Chesnara (UK, Sweden and the Netherlands), exclusive of group level activity.	PRA	Prudential Regulation Authority.
DNB	De Nederlandsche Bank is the central bank of the Netherlands and is the regulator of our Dutch subsidiaries.	QRT	Quantitative Reporting Template.
DPF	Discretionary Participation Feature - A contractual right under an insurance contract to receive, as a supplement to guaranteed benefits, additional benefits whose amount or timing is contractually at the discretion of the issuer.	ReAssure	ReAssure Limited.
Dutch Business	Scildon and the Waard Group, consisting of Waard Leven N.V., Waard Schade N.V. and Waard Verzekeringen B.V.	ReAssure	ReAssure Limited.
Economic Profit	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).	RMF	Risk Management Framework.
EcV	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.	Scildon	Scildon NV.
FCA	Financial Conduct Authority.	Sharehold er(s)	Holder(s) of Ordinary Shares.
FI	Finansinspektionen, being the Swedish Financial Supervisory Authority.	Solvency II	A fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a set of EU-wide capital requirements and risk management standards and has replaced the Solvency I requirements.
FSMA	The Financial Services and Markets Act 2000 of England and Wales, as amended.	Standard Formula	The set of prescribed rules used to calculate the regulatory SCR where an internal model is not being used.
Group	The company and its existing subsidiary undertakings.	STI	Short-Term Incentive Scheme - A reward system designed to incentivise executive directors' short-term performance.
Group Cash generation	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.	SCR	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.
Group 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 group in those capital resources.	Swedish Business	Movestic and its subsidiaries and associated companies.
Group SCR	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	S&P	Save & Prosper Insurance Limited and Save & Prosper Pensions Limited.
Group Solvency	regulated undertakings.  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.	TCF	Treating Customers Fairly - a central PRA principle that aims to ensure an efficient and effective market and thereby help policyholders achieve fair outcomes.
HCL	HCL Insurance BPO Services Limited.	TSR	Total Shareholder Return, measured with reference to both dividends and capital growth.
IFRS	International Financial Reporting Standards.	UK or United Kingdom	The United Kingdom of Great Britain and Northern Ireland.
IFA	Independent Financial Adviser.	UK Business	CA and S&P.
KPI	Key performance indicator.  LGN or Legal & General Nederland refers to the legal entity Legal & General	VA Waard	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.  The Waard Group
EGIV	Nederland Levensverzekering Maatschappij N.V acquired by Chesnara in April 2017.	vvaaiu	The Walife Group

## NOTE ON TERMINOLOGY

CA	which comprises the original business of Countrywide Assured plc, the group's original UK operating subsidiary; City of Westminster Assurance Company Limited, which was acquired by the group in 2005, the long-term business of which was transferred to Countrywide Assured plc during 2006; 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;
Movestic	which was purchased on 23 July 2009 and comprises the group's Swedish business, Movestic Livförsäkring AB and its subsidiary and associated companies;
The Waard Group	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
Scildon	which was acquired on 5 April 2017; and
Other group activities	which represents the functions performed by the parent company, Chesnara plc. Also included in this segment are consolidation adjustments.

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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.

