HALF YEAR REPORT FOR THE 6 MONTHS ENDED 30 JUNE 2021

Chesnara

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 policies from Monuta Insurance, under Waard Group.

2020

Completion of a further policy portfolio acquisition, from the Dutch branch of Argenta Bank, also under Waard Group.

2021

Expansion in the Netherlands continues under Waard Group, with the **completion of the acquisition of a portfolio of policies from Brand New Day.**

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 2021

CONTENTS

SECTION A: OVERVIEW

HIGHLIGHTS
Financial highlights

CASH GENERATION

£5.4M GROUP CASH GENERATION[7]

SIX MONTHS ENDED 30 JUNE 2020 £12.9M

£11.5M DIVISIONAL CASH GENERATION[8]

SIX MONTHS ENDED 30 JUNE 2020 £9.6M

Divisional cash generation, excluding the solvency capital impact of equity growth, was £40.5m. The closed books continue to provide a resilient source of cash and there has been a strong contribution from Scildon. The group cash result includes a foreign exchange loss of £9.4m (6 months to 30 June 2020: £13.3m gain).

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SOLVENCY

153% GROUP SOLVENCY

31 DECEMBER 2020: 156%

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

Capital management **p21**

FuM

£8.7BN FUNDS UNDER MANAGEMENT[3]

31 DECEMBER 2020: £8.5BN

2021 has so far seen strong performance in investment markets.

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ECONOMIC VALUE

£629.6M ECONOMIC VALUE[4]

31 DECEMBER 2020 £636.8M

Movement in the period is stated after dividend distributions of £21.4m and includes a foreign exchange loss of £24.2m (2020 full year: gain of £36.7m).

Financial review **p28**

£38.5M ECONOMIC VALUE EARNINGS[5]

SIX MONTHS ENDED 30 JUNE 2020 £(74.1)M

The result includes £73.0m of economic earnings (6 months to 30 June 2020: economic loss of £53.6m).

Financial review **p27**

£6.6M COMMERCIAL NEW BUSINESS PROFIT[6]

SIX MONTHS ENDED 30 JUNE 2020 £6.7M

Profits of £6.6m replace 40% of the reduction in EcV caused by the dividend payments in the year on an annualised basis, as a result of new business written during the period. New business in the opening half of the year, which remains depressed by COVID-19 conditions, has created £12.7m of incremental future cash flows (6 months to 30 June 2020: £12.6m).

Business review pages **16 to 19**

IFRS

£20.8M IFRS PRE-TAX PROFIT

SIX MONTHS ENDED 30 JUNE 2020 PRE-TAX LOSS: £9.1M

This includes profits arising from operating activities[2] of £28.3m (6 months to 30 June 2020: £27.5m). The same period in 2020 included an intangible asset impairment charge of £11.6m.

£1.9M TOTAL COMPREHENSIVE INCOME

SIX MONTHS ENDED 30 JUNE 2020: £15.1M

The 2021 result includes a foreign exchange loss of £15.9m (6 months to 30 June 2020: gain of £21.9m).

Financial review **p29**

Operational & strategic highlights

DIVIDEND

INTERIM DIVIDEND INCREASE

Increase in interim dividend of 3% to 7.88p per share (2020: 7.65p interim and 14.29p final).

ECONOMIC BACKDROP

RECOVERY CONTINUES WITH INVESTMENT MARKET GROWTH DURING THE OPENING HALF OF THE YEAR, OFFSET BY NEGATIVE IMPACT OF STERLING STRENGTHENING

The first half of 2021 has seen favourable economic conditions as the COVID-19 recovery continues with solid growth across most indices. Rising interest rates and bond yields, coupled with equity market gains, have supported economic returns in each division. Sterling appreciation against the euro and Swedish krona has led to material foreign exchange translation losses.

DUTCH ACQUISITION

FURTHER CONSOLIDATION IN THE NETHERLANDS IN 2021

The completion of another portfolio acquisition (Brand New Day) in the first half of 2021, continues our expansion in the Dutch market.

OPERATIONALLY RESILIENT DURING PANDEMIC

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

Changes in working practices were required in order to accommodate appropriate safety measures, such as staff working from home. The group has remained operationally resilient despite these changes in working practices, with an ongoing focus on ensuring key business services relating to customers continue to be delivered. Where necessary we introduced changes to processes to help customers who may be in a vulnerable position due to COVID-19 and have ensured that any COVID-19 death claims have been dealt with compassionately. Employees have been paid in full throughout the pandemic, without the use of the UK government's support schemes (such as furlough), or its equivalent in the other territories in which we operate.

NOTES

Items 1 to 8 below are Alternative Performance Measures (APMs) used by the group to supplement the required statutory disclosures under IFRS and Solvency II, providing additional information to enhance the understanding of financial performance. Further information on these APMs can be found on page 57, throughout the Financial Review and in the APM appendix on pages 59 to 60.

1 – Economic profit is a measure of pre-tax profit earned from investment market conditions in the period and any economic assumption changes in the future.

2 – Operating profit is 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.

3 – Funds Under Management (FuM) represents the sum of all financial assets on the IFRS balance sheet.

4 – Economic Value (EcV) is a financial metric derived from Solvency II. 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.

5 – Economic Value earnings are a measure of the value generated in the period, recognising the longer-term nature of the group's insurance and investment contracts.

6 – Commercial new business profit represents the best estimate of discounted cash flows expected to emerge from new business written in the period. It is deemed to be a more commercially relevant and market consistent measurement of the value generated through the writing of new business, in comparison to the restrictions imposed under the Solvency II regime.

7 – Group cash generation represents the surplus cash that the group has generated in the period. Cash generation is largely a function of the movement in the solvency position, used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.

8 – Divisional cash generation represents the cash generated by the three operating divisions of Chesnara (UK, Sweden and the Netherlands), exclusive of group level activity.

CHAIRMAN'S STATEMENT

Cash and Economic Value generation supports a 3% dividend increase.

During the period, as is often the case, financial performance was dominated by the impact of economic conditions.

We saw good equity growth give a welcome boost to the Economic Value and wider commercial value of the group, offset by the strengthening of sterling against the euro and Swedish krona. This equity growth also supported the continued increase in our total Funds under Management during the first half of 2021.

The net impact from economic conditions was positive, contributing to an increase in pre-dividend economic value during the period.

The economic conditions were not however beneficial for cash generation, with both equity and currency exchange impacts being negative. Despite this, I'm pleased to say all divisions, except for Movestic, have made positive cash contributions. For Movestic, the dynamics of Solvency II mean the strong equity value recovery drove higher capital requirements, suppressing the cash outcome in the short term.

In the longer term, the continued resilience of cash emergence from the closed books, combined with a good recovery in Scildon's result, and the enhanced outlook for Movestic cash means that despite the low result in the period, the outlook for future cash generation, as we recover from COVID-19, is positive.

The solvency of the group remains stable with a closing solvency ratio of 153% (31 December 2020: 156%)

The continued financial stability during the period combined with further asset value growth and a clear expectation of future divisional dividends means I am pleased to report our dividend strategy remains unchanged, with a 3% increase in the proposed interim dividend.

LUKE SAVAGE,
CHAIRMAN

In looking at the results for the period, as is often the case, they are influenced largely by the impact of economic conditions which, at a consolidated level, have had a materially positive impact on long term value but a negative impact on the short-term cash generation results during the period.

Economic Value
I am pleased to report a £14.2m growth in pre-dividend Economic Value[1] demonstrating the ability of the business to generate value even during difficult new business conditions and in the absence of a major acquisition. On an annualised basis this level of EcV[1] growth is broadly in line with dividends.

Cash generation
Group cash generation, excluding the solvency capital impact of equity market growth and foreign exchanges losses in the period, was £43.8m, reflecting the continued strong flow of cash from the closed businesses and includes a significant Scildon gain from yield improvements and management actions. Whilst equity growth is ultimately good for long term cash potential it has created a large increase in capital requirements thereby suppressing the headline cash result in the period. The group cash result also includes a £9.4m foreign exchange loss owing to sterling appreciation (6 months to 30 June 2020: £13.3m gain). The resultant group cash generation of £5.4m (6 months to 30 June 2020: £12.9m) is lower than historical average levels or steady state expectations.

Divisional dividends and Chesnara cash
During the 6 months to 30 June 2021 Chesnara received divisional dividends broadly in line with year-end expectations which means we closed the period with £59.2m in cash and instant access liquidity funds at the Chesnara company level (31 December 2020: £59.9m).

IFRS
From an IFRS perspective, we are reporting a good recovery in profitability. Pre-tax profits for the six months to 30 June 2021 were £20.8m compared with a loss of £9.1m for the same period in 2020. All divisional results are either broadly consistent or improved compared to last year. From an IFRS balance sheet perspective it is pleasing to report that Funds Under Management[1] have grown c3% since the start of the year.

It is only appropriate that I also provide an update on how the continued COVID-19 pandemic has impacted the business and how we have worked hard to ensure that our stakeholders have been well protected during the continuing difficult conditions. Although operating within COVID-19 conditions is becoming more of a new normal, we have maintained our enhanced focus on staff welfare, customers and regulators, shareholder dividends and maximising the potential for post-COVID-19 recovery. Taking each in turn:

Employee welfare
From very early in the pandemic, our initial priority was to ensure that staff could work safely from home. This has continued during 2021 and in the main homeworking has been the most common model evident across our divisions. At the same time, we have invested to make sure our premises are as safe as possible so that on the occasions any staff do need to work from the office and when government guidelines allow, they could do so with minimal risk. From an economic welfare perspective, all employees have been paid in full throughout, without the use of the UK government's furlough scheme, or its equivalent in the other territories in which we operate. Ultimately, we expect to adopt a hybrid working model when COVID-19 restrictions lift. Details are not finalised, and our policy will recognise the importance of the benefits of a meaningful proportion of office-based working. We will engage with the workforce in developing any hybrid working arrangements, as we have done throughout the pandemic.

Business continuity – customers and regulators
The emergence of COVID-19 gave rise to significant changes in the way we work, largely as a result of the group having to respond to governmental rules that were put in force in the jurisdictions within which we (and our outsourcers) operate. It is pleasing to report that remote working conditions, which have remained largely in force during 2021, have continued to be effective with no significant disruption to key customer related business service.

Maintaining the shareholder dividend strategy
A feature of Chesnara's financial model is the general resilience to adverse conditions. This enabled us to maintain our dividend strategy throughout 2020 and into 2021 without compromising the financial stability of the group. The post dividend group solvency ratio has fallen slightly to 153% compared to a pre-pandemic level of 155% and the closing Chesnara cash and instant access liquidity funds balance remains healthy.

Protecting the business
Despite the pandemic we believe the business fundamentals offer a good foundation for the future. Total Funds under Management[1] closed the first half of 2021, 13% higher than the pre pandemic position.

In short, to date we have weathered the pandemic storm well and remain in good shape.

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

01

MAXIMISE VALUE FROM EXISTING BUSINESS

Robust levels of cash generation from the closed books and Scildon were largely offset by the short-term capital impact of good equity growth in Movestic and currency losses.

See pages 16 to 19 for further information.

Cash generation
Cash generation was lower than historical levels largely due to a cash loss of £23.6m in Movestic and £9.4m of FX losses. The other businesses have continued to generate sufficient cash to support Chesnara's dividend strategy. In particular, I am pleased to report that, as sign-posted in the year end Chairman's Statement, Scildon has returned a strong cash generation result, with a cash generation of £19.1m broadly reversing the 2020 cash utilisation of £22.3m, supported primarily by rising yields and entering into a new catastrophe reinsurance arrangement.

It is reassuring to see the closed books continuing to act as the stable core to the Chesnara cash proposition. Waard has generated £3.7m of cash and, excluding the impact of the symmetric adjustment (£6.5m), the UK has delivered £18.7m, resulting in a closed book total of £22.4m. On an annualised basis, the cash generation represents 132% dividend coverage for the closed books, having adjusted for the symmetric adjustment.

Economic Value
Overall, we have been able to grow the pre-dividend value of the existing businesses, demonstrating that even in the absence of a gain from a material acquisition, we have been able to protect the overall EcV of the group whilst maintaining our dividend strategy.

There have however been specific areas where conditions, in part driven by COVID-19, have resulted in value losses. Conditions during the pandemic in Sweden continue to drive an increase in transfer activity, leading to a further loss in value from policies transferring out. Despite this the overall Funds under Management have increased by c13% and to the extent the current spike in outward transfers is considered to be partially due to COVID-19 conditions including temporary competitor pricing, we would expect the Swedish transfer activity to stabilise towards the end of 2021, albeit at a higher level. We have recognised this new long-term transfer assumption increase in our half year numbers and will reassess at the year end, taking the experience in the second half of the year into account.

ECONOMIC CONDITIONS HAVE HAD A POSITIVE IMPACT IN TERMS OF LONG-TERM VALUE BUT A NEGATIVE IMPACT ON THE SHORT-TERM CASH GENERATION IN THE PERIOD

1 Alternative Performance Measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Half Year Report.

CHAIRMAN'S STATEMENT (CONTINUED)

02 ACQUIRE LIFE AND PENSIONS BUSINESSES

The acquisition of 'Brand New Day' adds £3.4m of incremental value and takes the cumulative incremental value growth from acquisition over the last 2 years to c£15m.

See page 20 for further information.

COMPLETION OF A THIRD DUTCH ACQUISITION IN THE LAST 2 YEARS

Over the past 2 years, Waard has completed three acquisitions (including the latest deal completed during the first half of 2021). Whilst none are large, we are developing a reputation as a reliable acquirer of portfolios no longer seen as core by vendors. We remain optimistic that more substantial opportunities exist, but the merits of focusing on simple, well priced, smaller transactions should not be underestimated. The recent deals have collectively contributed to growth in excess of 40% in the Waard closed business policy count, leading to associated cost efficiency gains.

The latest acquisition, 'Brand New Day', has created £3.4m of incremental value[1] and will have a small positive impact on future recurring cash generation.

Small deals, along with other actions, mean we can deliver gradual EcV[1] growth whilst continuing the dividend payment strategy. Similarly, in the UK we remain optimistic about more significant opportunities but likewise are mindful of the cumulative merits of smaller, well priced transactions. In order to ensure we can offer funding certainty and swift deal completion especially at the small deal size end of the market we have established a £100m revolving credit facility with our banking syndicate. Our balance sheet and existing debt arrangements which create a 6.1% leverage[1] ratio, provide sufficient funding capacity for numerous small deals or a larger deal of up to approximately £120m (which is broadly within the capacity of the new revolving credit facility arrangement) without the need for additional funding sources such as Tier 2 debt or equity.

03 ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

Commercial new business profit[1] of £6.6m (6 months to 30 June 2020: £6.7m)

Positive signs of recovery as markets either adapt to COVID-19 conditions or partially emerge from certain constraints.

See pages 16 to19 for further information.

COMMERCIAL NEW BUSINESS PROFITS[1] OF £6.6m REPLACE 40% OF THE REDUCTION IN ECV CAUSED BY THE DIVIDEND PAYMENTS IN THE YEAR ON AN ANNUALISED BASIS

Chesnara writes new business in both Sweden and the Netherlands. The ultimate aim is to create sufficient annual profits, either through returns on existing business, or through writing new business, to replace a significant proportion of the EcV paid out by way of shareholder dividends.

In the Netherlands continued COVID-19 related pressures have resulted in more challenging markets than in the first half of 2020. On a more positive note, market shares have stabilised at the increased levels we achieved towards the end of 2020, illustrating the attractiveness of the Scildon Term Life proposition. This strong market position has resulted in Scildon recently receiving IFA service and innovation awards. During the 6 months to 30 June 2021, we reported new business profits of £3.9m (6 months to 30 June 2020: £5.0m - restated at 2021 exchange rates).

Pension new business broker markets in Sweden continue to be heavily impacted by pandemic restrictions. However, unlike in 2020, companies have resumed premium increments into existing schemes which has created a welcome level of new business profit. This has resulted in an increase in Movestic's new business profitability with a total profit for the 6 months to 30 June of £2.8m (6 months to 30 June 2020: £1.7m). Although these levels of new business profit are significantly lower than pre-pandemic levels, we retain our view that ultimately a recovery in volumes closer to pre-pandemic levels is realistic, but the recovery is likely to be slower than previously thought with partial recovery in 2022 leading to fuller recovery in 2023.

COVID-19 has undoubtedly accelerated the move towards people transacting remotely using digital solutions. Therefore, whilst we do not believe the pandemic will have any permanent impact on the demand for the core products we sell and administer we do recognise that the impact of sales and service methods and preferences will be permanent. We have continued to deliver solutions to remain competitive in the digital world.

In Movestic we are nearing completion of our digitalisation programme and in Scildon we are coming to the final stages of modernising our pensions processes. This is expected to have a positive impact on both costs and pension new business levels in Scildon, with the business well positioned to take advantage of the anticipated growth in the defined contribution market.

The programme will then move to the term product migration, delivering expected efficiencies and strengthening the business's market and operating position. The expected costs and benefits are included within the 30 June 2021 closing position.

1 Alternative Performance Measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Half Year Report.

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

Solvency

The group continues to show a robust solvency ratio of 153% at 30 June 2021 (31 December 2020: 156%). The closing solvency position is stated after recognising the £11.8m cost of the proposed interim dividend, which is expected to be paid in October 2021.

Regulation and governance

IFRS 17

Our programme continues to progress well. So far, 2021 has been focused on the operational implementation of the calculation engine and associated processes. We continue to work with our implementation partner, Willis Towers Watson, and will be fully testing the solution through our dry run exercise planned for the second half of the year. Engagement with our auditors has increased and we are finalising the technical decisions and assumptions that will underpin the IFRS 17 calculations.

We remain 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 positive and constructive relationships with regulatory bodies across the group.

Governance framework

We continue to maintain a strong risk and governance culture across the group. Our focus this year has been on ensuring that we continue to adhere to these core principles whilst dealing with the challenges of the global pandemic, and it is extremely pleasing to report that investment in operational resilience across the group over recent years has made operating in these conditions significantly easier, with all important business services having been delivered.

Outlook

Sustainability of the business model

Our assessment is that the impacts of the pandemic have had minimal permanent adverse impact on the business model. In fact, three out of our four businesses have actually grown in terms of scale through 2020 and during the first half of 2021 and hence the risk that loss of scale compromises the business model is not apparent. The UK division, which is closed to new business, has experienced continued reduction in policy volumes, however Funds under Management remain relatively stable and even in the absence of acquisitions the cost base is deemed sufficiently variable to absorb the impact of run off for many years.

As at the half year we had £30.4m debt outstanding having repaid £7.5m principal in the first half of 2021. We have established a £100m revolving credit facility (with £50m accordion option) to provide for additional acquisitions and working capital flexibility.

We believe one consequence of the pandemic will be an acceleration towards remote, digital customer engagement. As noted above, I am pleased to report that Movestic's digitalisation programme is nearing completion and Scildon has completed the first stage of its migration to a new pension platform with enhanced end to end processes. Both of these successful developments leave us well positioned to react to shifting customer service demands in those territories.

Brexit

We have consistently reported that we expected minimal impact from Brexit. Having now exited the EU we have indeed experienced very limited disruption. The only area where we have seen an impact is with regards to a modest divergence of the Solvency II regulatory rules from the PRA compared to those from EIOPA. The changes have had no financial impact at this stage.

We continue to expect the regulatory reporting regimes to remain but are mindful of the possibility of an increased level of divergence as the PRA is enabled to move to UK specific terms. We see no reason to expect the PRA to use their enhanced freedoms to take a route that systemically makes it harder to do business in the UK., or would undermine our ability to carry on business as usual in our European entities.

Sustainability of the dividend

We do not provide specific forward-looking financial projections or guidance however there are several financial metrics and factors that provide a level of comfort regarding dividend sustainability:

- **Ongoing cash generation[1] expectations from the existing portfolios** - The cash generation model continues to show a good level of resilience to difficult conditions notwithstanding the short term negative Movestic result. The factors that have had a negative impact on the cash result in the period, including equity growth and the symmetric adjustment, have a positive impact on future cash generation potential. Higher equities ultimately create higher fees and growth and the symmetric adjustment charge of £17.1m is expected to reverse in due course. Longer term the EcV offers a useful proxy to the total level of future cash. The closing EcV (which conservatively assumes risk free asset returns) represents c19 years coverage of the current full year dividend.
- **New business** has a minimal positive impact on short term cash generation due to the associated acquisition costs and capital strain. New business does however create future positive cash flows. Incremental future cash flows as a result of new business in the 6 months to 30 June 2021 are £12.7m (6 months to 30 June 2020: £12.6m).
- **Strong and stable solvency** - to further improve capital efficiency, we have also chosen to apply the volatility adjustment in the UK in 2021. This will be applied in conjunction with implementing some enhancements to the asset mix backing the in-scope liabilities, which is planned for the second half of the year
- **Management actions and acquisitions –** there remains the potential for capital management actions and acquisitions to create material future capital releases and cash generation.
- **Chesnara plc cash reserves** – in the medium term the existence of £59.2m of cash and instant access liquidity funds on the parent company balance sheet, combined with a 6.1% gearing ratio[1] provide comfort over the ability to support future dividend payments

Sustainability in ESG terms

Our focus on ESG matters, and environmental sustainability in particular, continues to increase. We have again ensured we are operationally carbon neutral and commit to this as a permanent objective. The focus moving forward will shift towards improving the sustainability characteristics of the investment portfolios.

Finally, I would like to note that John Deane will be leaving the organisation when he retires during the second half of the year, once our incoming CEO, Steve Murray, has obtained regulatory approval. I would like to take this opportunity to thank John for his leadership of the group during a particularly challenging period and the fact that he hands over the business in good shape is testament to John's dedication and commitment to protecting all of our stakeholders' interests. I am confident that Steve inherits a group that is well positioned to continue to provide value to policyholders and shareholders.

Luke Savage, Chairman
25 August 2021

SECTION B: MANAGEMENT REPORT

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 STRATEGY

STRATEGIC OBJECTIVES

01

MAXIMISE THE VALUE FROM EXISTING BUSINESS

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

KPIs

Cash generation
EcV earnings
Customer outcomes

02

ACQUIRE LIFE AND PENSIONS BUSINESSES

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

KPIs

Cash generation
EcV growth
Customer outcomes
Risk appetite

03

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

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

KPIs

EcV growth
Cash generation
Commercial new business profit
Customer outcomes

OUR CULTURE AND VALUES – RESPONSIBLE RISK BASED MANAGEMENT

- FAIR TREATMENT OF CUSTOMERS
- MAINTAIN ROBUST FINANCIAL RESOURCES
- PROVIDE A COMPETITIVE RETURN TO OUR SHAREHOLDERS
- ROBUST REGULATORY COMPLIANCE

Chesnara is a European life and pensions consolidator, is listed on the London Stock Exchange, and has subsidiaries in the UK, Sweden and the Netherlands. It is closed to new business in the UK but continues to write new policies in Sweden and the Netherlands.

How we organise ourselves, along with our key stakeholders, and products, is shown in the diagram below. The business model supports the successful delivery of our key strategic objectives, whilst maintaining our strong culture and values.

OUR BUSINESS MODEL

STAKEHOLDERS

	REGULATORS	CUSTOMERS	INVESTORS
STAKEHOLDER OBJECTIVES	Financial stability and regulatory compliance	Fair outcomes	Competitive returns through attractive dividends and share price growth
KPIs	**Fair outcomes** **Solvency**	**Fair outcomes** **Investment return - (where applicable)**	**Fair outcomes** **EcV growth**[1] **Cash generation**[1]

Chesnara

HOW WE ORGANISE OURSELVES

CASH GENERATION AND ECONOMIC VALUE GROWTH

	UK	NETHERLANDS		SWEDEN
OPERATING COMPANY	COUNTRYWIDE ASSURED	WAARD GROUP	SCILDON	MOVESTIC
STRATEGIC OBJECTIVES	01 02	01 02	01 03	01 03
	Read more on **p14**	Read more on **p18**	Read more on **p18**	Read more on **p16**
KEY PRODUCTS	Underwriting linked pension business; life insurance, covering both index-linked and unit linked; endowments; whole of life; annuities and some with profit business.	Underwriting mainly term life policies, with some unit linked and non-life policies.	Underwriting of protection, individual savings and group pensions contracts.	Predominantly the underwriting of unit-linked pensions and savings. Also provides some life and health product offerings.
No. POLICIES	c230,000	c125,000	c210,000	c330,000
DISTRIBUTION METHOD	Not open to new business.	Not open to new business.	Sold through a broker network.	Largely through a network of brokers, although some is directly to customers.

CHESNARA CULTURE AND VALUES – RESPONSIBLE RISK BASED MANAGEMENT

1 Alternative Performance Measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Half Year Report.

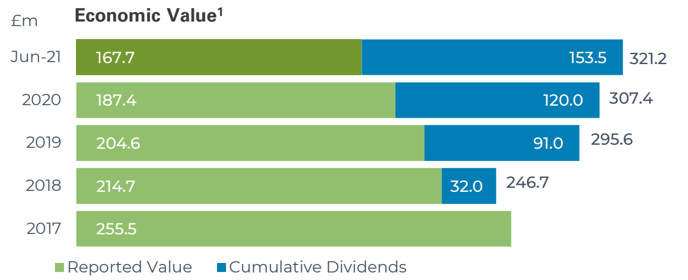
BUSINESS REVIEW UK

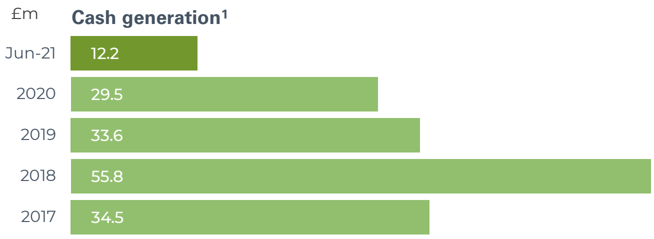
The UK division principally consists of the insurance company Countrywide Assured plc. The company manages c230,000 policies and is in run-off. Countrywide Assured uses outsourcing partners to support a large part of its operating model, with functions such as customer services, investment management and accounting and actuarial services being outsourced. A central governance team is responsible for managing all outsourced operations.

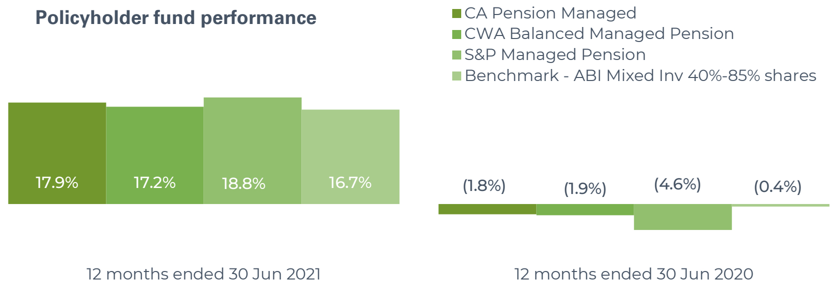
MAXIMISE VALUE FROM EXISTING BUSINESS

AREA OF FOCUS	INITIATIVES & PROGRESS IN 2021
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 PRA provided approval for the use of the Volatility Adjustment ("VA") for certain liabilities during the first half of the year following the application that was made during December 2020. The VA will be applied in conjunction with implementing some enhancements to the asset mix backing the in-scope liabilities, which is planned for the second half of the year. – During the period £8.3m of capital was transferred from one of the division's with-profit funds following notification to the FCA. – The 2020 year end proposed dividend of £33.5m was paid to Chesnara during the period. – The division has continued to generate Economic Value earnings of £13.7m and solvency has improved from 130% to 142%, over the first half of the year.
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 priority over the first six months of the year has been to continue to ensure we are meeting the needs of our customers during the ongoing pandemic. – In February 2021 the FCA issued guidance for firms on the fair treatment of vulnerable customers. We have assessed our existing plans against the guidance and made some minor changes in order to ensure we meet the FCA's expectations. – The division's work on ensuring we are doing what is reasonably expected of us to stay in contact with customers (known as "goneaways") has continued. – In March 2021, the FCA and PRA released their finalised policy statements on operational resilience. The division has identified the important business services and set impact tolerances. Journey mapping of the important business services is progressing with a view to identifying vulnerabilities and remedying these as appropriate.
GOVERNANCE Maintaining effective governance and a constructive relationship with regulators underpins the delivery of the division's strategic plans. Having robust governance processes provides management with a platform to deliver the other aspects of the business strategy. As a result, a significant proportion of management's time and attention continues to be focused on ensuring that both the existing governance processes, coupled with future developments, are delivered.	– The governance oversight team and a large portion of the outsourced staff have continued to work remotely during the pandemic. The division has continued to engage with staff as part of its plans to return to the office in some capacity during the second half of the year. – The division's IFRS 17 development programme has continued over the course of the year to date. The calculation engine went live for user acceptance testing during the period and will be used within the division's dry run during the second half of the year. We have continued to work with our auditors on the technical decisions underpinning the implementation.

KPIs



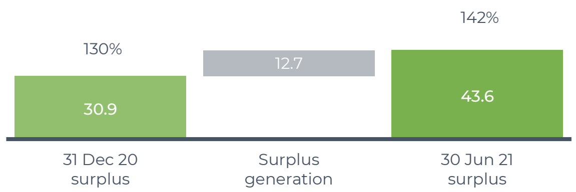




The division's main managed funds outperformed benchmark for the 12 months to 30 June 2021.

SOLVENCY RATIO: 142%

Surplus generated in the year to date increases solvency ratio from 130% to 142%.



FUTURE PRIORITIES

- Implement planned changes to investments backing certain non-linked liabilities and apply the VA when calculating solvency.
- Manage the transition from using a risk-free curve based on LIBOR (London Interbank Offering Rate) for discounting insurance liabilities under Solvency II to using SONIA (Sterling Overnight Index Average) as required by the PRA. This is expected to have an adverse impact of c£5.9m on solvency surplus.
- Continue to focus on maintaining an efficient and cost-effective operating model.
- Continue to support Chesnara in identifying and delivering UK acquisitions.

- Implement the remaining aspects of our business as usual routine for our "goneaways" programme.
- Deliver the actions in our vulnerable customers work programme
- Implement strategies, processes, and systems that enable the division to address risks to the ability to remain within impact tolerance for each important business service in the event of a severe but plausible disruption.
- Continuing to complete product reviews which are designed to support our ongoing assessment of providing fair outcomes to our customers. Deliver any resultant remediation activity as required.

- Complete the IFRS 17 dry run during the second half of the year, utilising the calculation engine software. We will also continue with the operational implementation aspects of IFRS 17, building new routines at both the outsourcer and governance oversight level.

1 Alternative Performance Measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Half Year Report.

BUSINESS REVIEW SWEDEN

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

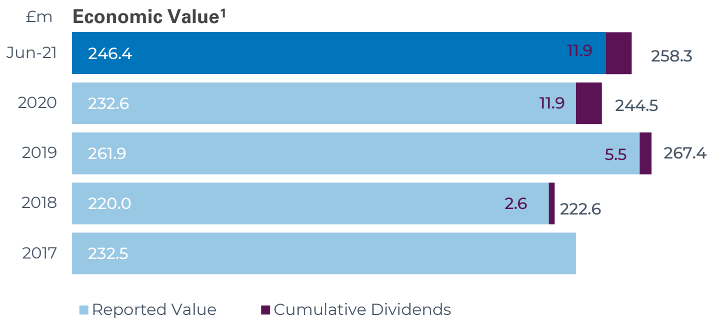
MAXIMISE VALUE FROM EXISTING BUSINESS

AREA OF FOCUS	INITIATIVES & PROGRESS IN 2021
CAPITAL & VALUE MANAGEMENT Movestic creates value predominantly by generating growth in unit-linked Funds Under Management (FuM), whilst assuring a high-quality customer proposition and maintaining an efficient operating model. FuM 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.	– Global equities have shown growth over the first half of the year, supported by COVID-19 vaccine rollouts. As confidence has improved we have seen our fund managers holding higher proportions of equities to support improved returns to customers. This supports the long term value growth of the business, although comes at a short term Solvency capital cost due to higher capital charges on equity holdings, especially in rising markets. – Positive net client cash flow of £51m in the period. – The competitive environment in Sweden continues to be intense, with policy transfers continuing to exceed historical levels. This has resulted in a need to strengthen the assumptions within the division's Solvency II and Economic Value calculations regarding policy transfers. – In light of this, management's focus has been on ensuring appropriate retention activities are in place, alongside ensuring that the Movestic product proposition continues to be attractive to customers. – Favourable claims development in the risk and health part of the business – Funds under management have grown by 15%, or £515m, to £3.9bn. – Work has continued on diversifying the channels used to distribute the division's products, with Movestic entering into a new partnership agreement during the period for distributing custody accounts in the private insurance savings market.
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 continue to offer the majority of our products and services through advisors and licenced brokers.	– Policyholder average investment yield of 11.3% in the year to date – During 2020 we saw a shift in the allocation of funds away from equities as uncertainty continued in relation to the pandemic. An element of confidence in equity markets has returned, which has resulted in funds that our policyholders invest in starting to increase their equity holdings again.
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.	– COVID-19 has resulted in employees being largely based at home, although the spread is reducing in Sweden, with plans to return to the office in the second half of the year. – Work has continued during the period with regards to the multi-year efficiency and automation programme covering Enterprise Resource Planning, financial management and financial reporting routines (including IFRS 17). – From an IFRS 17 perspective, work has continued on the implementation programme, most notably in completing technical specification work for the setup of the calculation engine.

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

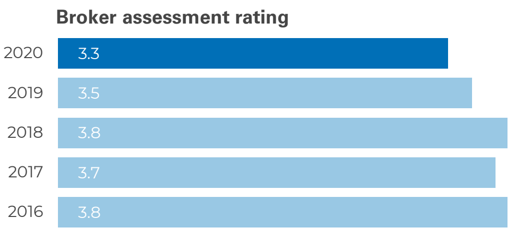
AREA OF FOCUS	INITIATIVES & PROGRESS IN 2021
As an "open" business, Movestic not only adds value from sales but as it gains scale, it will become increasingly cash generative which will fund further growth or contribute towards the group's dividend strategy. Movestic has a clear sales focus and targets a market share of 6% -10% of the advised occupational pension market. This focus ensures we are able to adopt a profitable pricing strategy.	– Movestic reported commercial new business profit[1] of £2.8m (HY 2020: £1.7m). The growth compared with the prior year has been driven by positive experience in one-off increments during the period. – Sales volumes have developed positively over the year to date, growing by 55% compared with the same period in the prior year, to £34.6m, with the main driver being in the custody account insurance areas. – From a market share perspective, intense competition continues in the advised occupational pension market, resulting in Movestic's market share of new business being below the long-term target. In this context, margins in the advised occupational pension market have suffered over the year to date.

KPIs (ALL COMPARATIVES HAVE BEEN RESTATED USING 2021 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 experience.
- Strengthen distribution capacity with the direct business area, as a complement to the broker channel.
- Provide a predictable and sustainable dividend to Chesnara.
- Increased focus on retention.



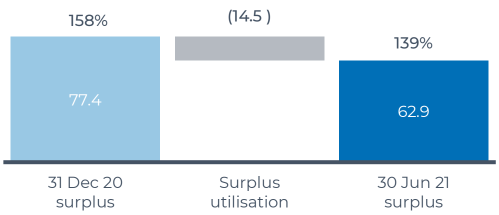
POLICYHOLDER AVERAGE INVESTMENT RETURN:

11.3%

Following the broker assessment review we have conducted our own satisfaction surveys. These surveys gave a more positive result, and the feedback, both positive and negative helped identify further actions as we continue to work on improving broker satisfaction.

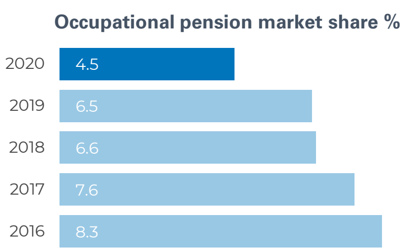
- Continue to develop new solutions and tools to support the brokers' value enhancing customer proposition.
- Strengthen the relationship with brokers further and continue to develop improved functionality and digital administration self-services for brokers.
- Continue to build distribution capacity in the direct business area.
- Broaden product and service offering for other customer segments.

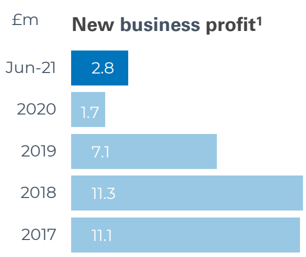
SOLVENCY RATIO: 139%



Solvency remains strong at 30 June, although has dipped compared with the year end (see page 22 for more detail).

- The COVID-19 situation will continue to be monitored closely, with returning to the office options under continuous review.
- Continue delivering the IFRS 17 implementation programme, including the planned dry run during the second half of the year.





- Continued focus on sales activities and competitive offerings in the broker channel as well as increasing distribution capacity in the direct business area.
- Ongoing development of the customer offering and delivery of new functionality on web platforms to improve customer and broker experience.

New business figures from 2018 onwards represent commercial new business, as detailed on page 59. Values prior to this are retained as they were previously reported.

1 Alternative Performance Measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Half Year Report.

BUSINESS REVIEW NETHERLANDS

Our Dutch businesses aim to deliver growth and earnings through their dual closed and open book approach and through the group acquisition strategy will integrate portfolios and businesses into their operations.

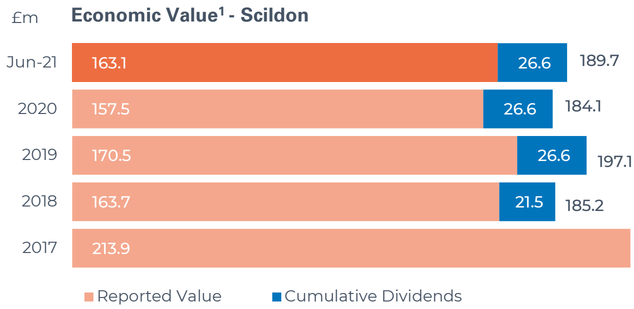
MAXIMISE VALUE FROM EXISTING BUSINESS

AREA OF FOCUS	INITIATIVES & PROGRESS IN 2021
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.	– Waard completed the acquisition of a portfolio of primarily term life and savings products from Dutch insurance provider Brand New Day. This portfolio acquisition further strengthens Waard's position as an acquirer of small portfolios that are not core to vendors, and represents the third deal of this nature in the last two years – Despite the continued market uncertainty caused by the COVID-19 pandemic, both businesses continue to have strong solvency positions, inclusive of the use of the volatility adjustment. Scildon remains strong at 204%. Waard continued to maintain significant solvency levels, the ratio ending the period at 457%. – During the period, Scildon has implemented a new catastrophe reinsurance treaty which has contributed to the solvency increasing over the period.
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.	– A key focus continues to be ensuring that we meet the changing needs of our customers during the ongoing COVID-19 pandemic. – Scildon continues work on the migration and digitalisation of its policy administration system. Work has focussed on development of the pension proposition with key portals having gone live in 2021. We expect to complete the development in the second half of the year, positioning the business well to take advantage of expected growth in the defined contribution market.
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.	– We have engaged with the regulator throughout the period to ensure that we are appropriately addressing their requirements and those of our customers. – The division has continued to deliver on its business as usual governance responsibilities throughout the COVID-19 pandemic. The organisation continues to successfully operate a predominantly remote working model. – The IFRS 17 programme has continued to progress in line with plans. Our work continues with Willis Towers Watson as the group's provider of the contractual service margin (CSM) tool and we have been making appropriate operational and process changes.

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

AREA OF FOCUS	INITIATIVES & PROGRESS IN 2021
Scildon brings a "New business" dimension to the Dutch division. Scildon sells 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.	– Despite a tough and uncertain market, we continue to see new business profits, with £3.9m earned in the period on our commercial metric. – Underpinning this, Scildon policy count continues to increase, now with in excess of 210,000 policies.

KPIs (ALL COMPARATIVES HAVE BEEN RESTATED USING 2021 EXCHANGE RATES)

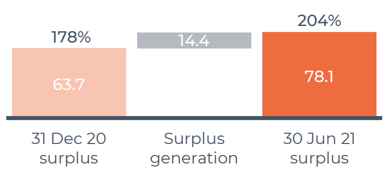


FUTURE PRIORITIES

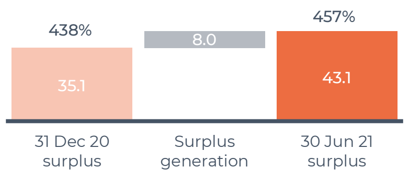
- Integrate the new portfolio acquisition into the Waard business and continue to support Chesnara in identifying and delivering Dutch acquisitions.
- Progress capital management and cash generation initiatives, with the aim of creating future dividend potential.
- Effective management of the closed book run-off in Waard to enable ongoing dividend payments to Chesnara.

- Regular engagement with 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.

SOLVENCY RATIO: SCILDON 204%

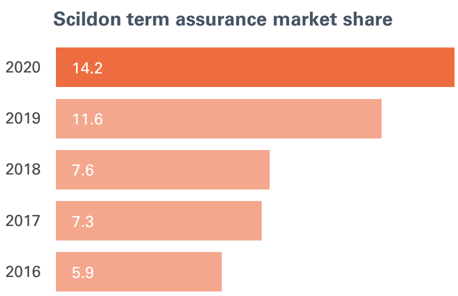


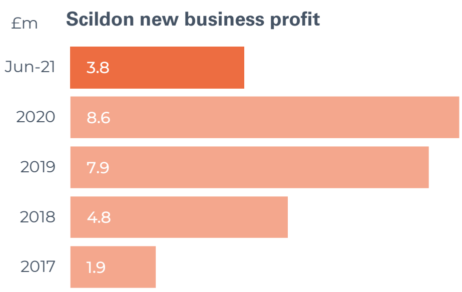
WAARD 457%



Solvency is robust in both businesses with solvency ratios of 204% and 457% for Scildon and Waard respectively. The Waard Group solvency reported above includes that of its immediate holding company. The reported year-end dividend of £4.0m was paid from Waard Leven to its immediate holding company during the first half of the year, but was not remitted up to Chesnara plc as it is being retained to support future corporate activity such as future acquisitions and IFRS 17 programme costs.

- We plan to consider options to offset or reduce current levels of capital tied up within Scildon in relation to lapse stresses.
- Our IFRS 17 programme will see the completion of our operational changes and commencement of our schedule of dry runs.





- 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 further product white labelling.

**New business figures from 2018 onwards represent commercial new business, as detailed on p 59. Values prior to this are retained as they were previously reported.*

1 Alternative Performance Measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Half Year Report.

BUSINESS REVIEW · ACQUIRE LIFE & PENSIONS BUSINESSES

Well considered acquisitions 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 and commercial considerations.

HOW WE ASSESS DEALS

Cash generation[1]		Collectively our future acquisitions must be suitably cash generative to continue to fund the Chesnara dividend strategy.
Value enhancement		Acquisitions are required to have a positive impact on the Economic Value[1] per share under best estimate and certain more adverse scenarios.
Customer outcomes		Acquisitions must ensure we protect, or ideally enhance, customer interests.
!	Risk appetite	Acquisitions should normally align with the group's documented risk appetite. If a deal is deemed to sit outside our risk appetite the financial returns must be suitably compelling.

INITIATIVES & PROGRESS IN 2021

During 2021, the group completed one transaction:

Brand New Day transaction
On 15 April 2021, Chesnara announced the completion of an acquisition of a portfolio of life insurance business in run-off from the Dutch business Brand New Day Levenverzekeringen N.V. ('Brand New Day'). The transaction, which involved the transfer of the policies into Waard Leven, was both earnings and EcV accretive on completion and is expected to have a positive cumulative cash generation profile over its remaining life.

The transaction involved the transfer of a portfolio of in excess of 8,800 mainly term policies, for a consideration of €1. The transaction is estimated to deliver incremental value[1] of c£3.4m to Chesnara.

The transaction continues the recent trend of acquisitions by Waard which has resulted in a material growth in the business.

ACQUISITION OUTLOOK

Whilst the UK and Dutch markets are fairly mature in terms of consolidation and despite the continued COVID-19 restrictions, we have seen a healthy flow of acquisition activity in the year to date.

- The environment in which European life insurance companies operate continues to become more challenging. The long-term economic implications resulting from COVID-19, in particular the further reduction in both short and long-term interest rates is likely to increase the challenges of businesses who own non-core back-books. We believe this will potentially drive further consolidation as institutions seek to remove operational complexity, reassess what is core to the business and potentially release capital or generate funds from capital intensive life and pension businesses.
- The maturity of the consolidation markets in the UK and Dutch markets is not seen as headwind to potential opportunities, but as a change in the market. In particular we see increasing complexity and size of transactions. We are well placed for these challenges and we believe that our operating model has the flexibility to accommodate a wide range of potential target books.
- Given the increasing complexity of transactions we reiterate Chesnara's 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.
- We continue to assess our financing options and, effective from 6 July, entered into a £100m Revolving Credit Facility arrangement, with a £50m accordion option, a portion of which has been utilised to replace the existing term debt. We are also exploring opportunities to increasing our funding capability further, including how this can be done in a commercially viable manner.
- 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.

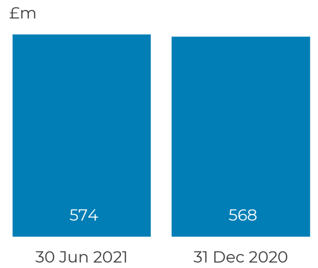
CAPITAL MANAGEMENT · SOLVENCY II

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?

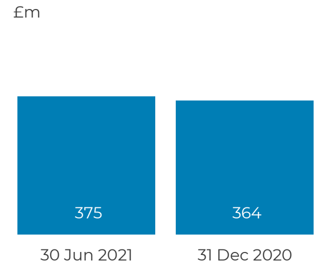
- Solvency is a measure of how much the value of the company exceeds the level of capital it is required to hold.
- The value of the company is referred to as its "Own Funds" (OF) and this is measured in accordance with the rules of the Solvency II regime.
- The capital requirement is also defined by 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.** Further information on solvency can be found on pages 15, 17, 19 & 22.

CHESNARA GROUP OWN FUNDS



	Group solvency ratio	Group solvency surplus
30 Jun 2021	153%	£198.7m
31 Dec 2020	156%	£204.0m

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)[1] 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 Scildon and this will also be implemented within the UK during the second half of 2021.

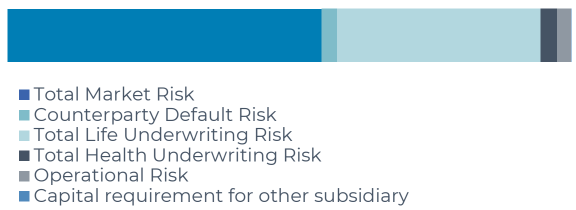
How do Own Funds change?

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 OF 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:



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

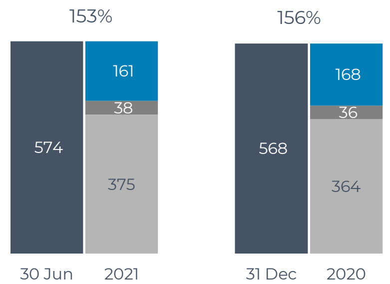
1 Alternative Performance Measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Half Year Report.

CAPITAL MANAGEMENT · SOLVENCY II

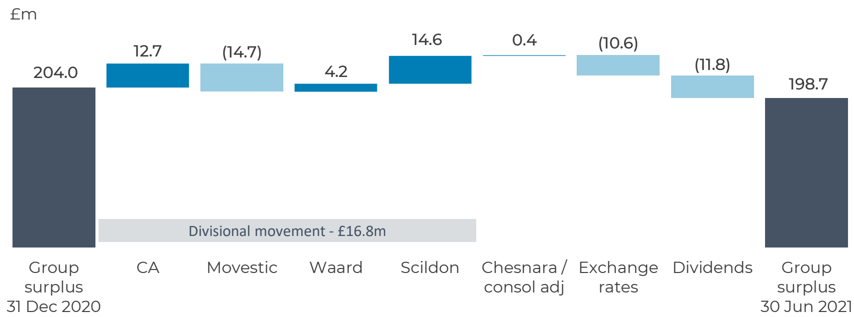
We are well capitalised at both a group and subsidiary level. We have applied the volatility adjustment in Scildon, and will be implemented in the UK later in 2021, but have not used any other elements of the long-term guarantee package within the group. The Volatility Adjustment is an optional measure that can be used in solvency calculations to reduce volatility arising from large movements in bond spreads.

SOLVENCY POSITION

Chesnara group £m



SOLVENCY SURPLUS MOVEMENT* *pre intragroup dividends



Surplus: The group has £161.1m of surplus over and above the group's internal capital management policy requirements, compared to £167.6m at the end of 2020. The group solvency ratio has decreased from 156% to 153%. Solvency surplus has fallen as a result of own funds rising slightly less than the capital requirements, after the proposed interim dividend is taken into account.

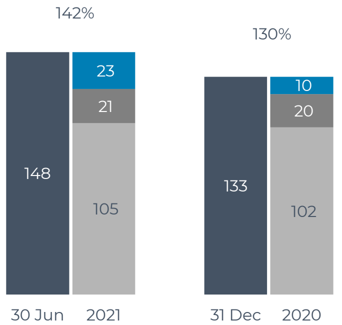
Dividends: The closing solvency position is stated after deducting the £11.8m proposed interim dividend (31 December 2020: £21.4m).

Own Funds: Own Funds have risen by £6.1m (pre-dividends). Drivers of growth include a rise in interest rates, equity growth and a UK with-profit transfer of £8.3m. These are offset by a strengthening of operating assumptions.

SCR: The SCR has risen by £11.4m, mainly due to a material increase in equity risk (due to rising equity markets) and spread risk; partially offset by a decrease in expense and catastrophe 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 2020 figures have been restated using 30 June 2021 exchange rates in order to aid comparison at a divisional level.

UK £m



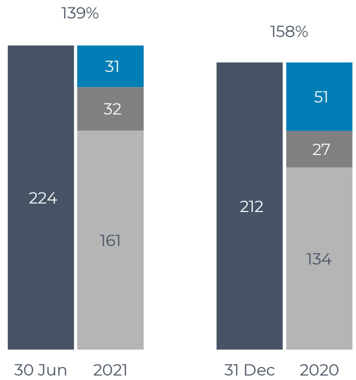
Surplus: £22.7m above board's capital management policy.

Dividends: Dividend of £33.5m was paid to Chesnara in Q2 2021.

Own Funds: Increased by £15.2m mainly due to the material rise in the yield curve and moderate equity growth.

SCR: Increased by £2.5m, driven by rise in equity risk capital, interest rate risk, currency risk and lapse risk.

SWEDEN £m



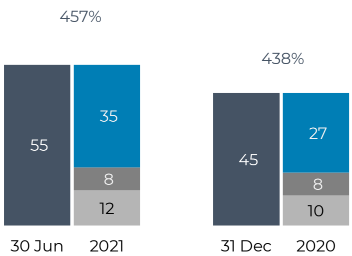
Surplus: £30.6m above board's capital management policy.

Dividends: Solvency position stated after £9.6m foreseeable dividend, due to be paid later in 2021

Own Funds: Increased by £12.5m due to positive economic growth being offset by an increase in assumed transfer rates.

SCR: Increased by £27.1m, driven by material rise in equity and spread risk.

NETHERLANDS - WAARD £m



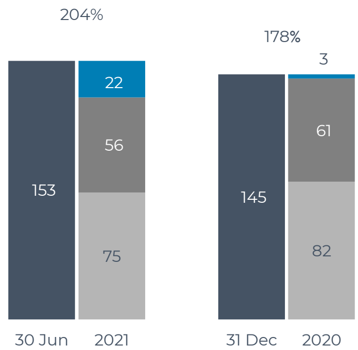
Surplus: £35.3m above board's capital management policy.

Dividends: No foreseeable dividend is proposed.

Own Funds: Increased by £10.0m. This is largely driven by the Brand New Day acquisition and the benefit arising from a change in mortality assumptions.

SCR: Risen by £1.7m, mainly due to an increase in lapse risk and spread risk following an increase in corporate bond holdings.

NETHERLANDS - SCILDON £m



Surplus: £21.8m above board's capital management policy.

Dividends: No foreseeable dividend is proposed.

Own Funds: Own funds have increased by £8.0m driven by the positive interest rate movements and fall in unrealised spread on mortgages, offset by one-off expenses relating to the digitalisation programme and new catastrophe risk cover.

SCR: Decreased by £6.5m, largely due to catastrophe risk cover and fall in spread risk on mortgages. Offset by risk in equity and interest rate risk.

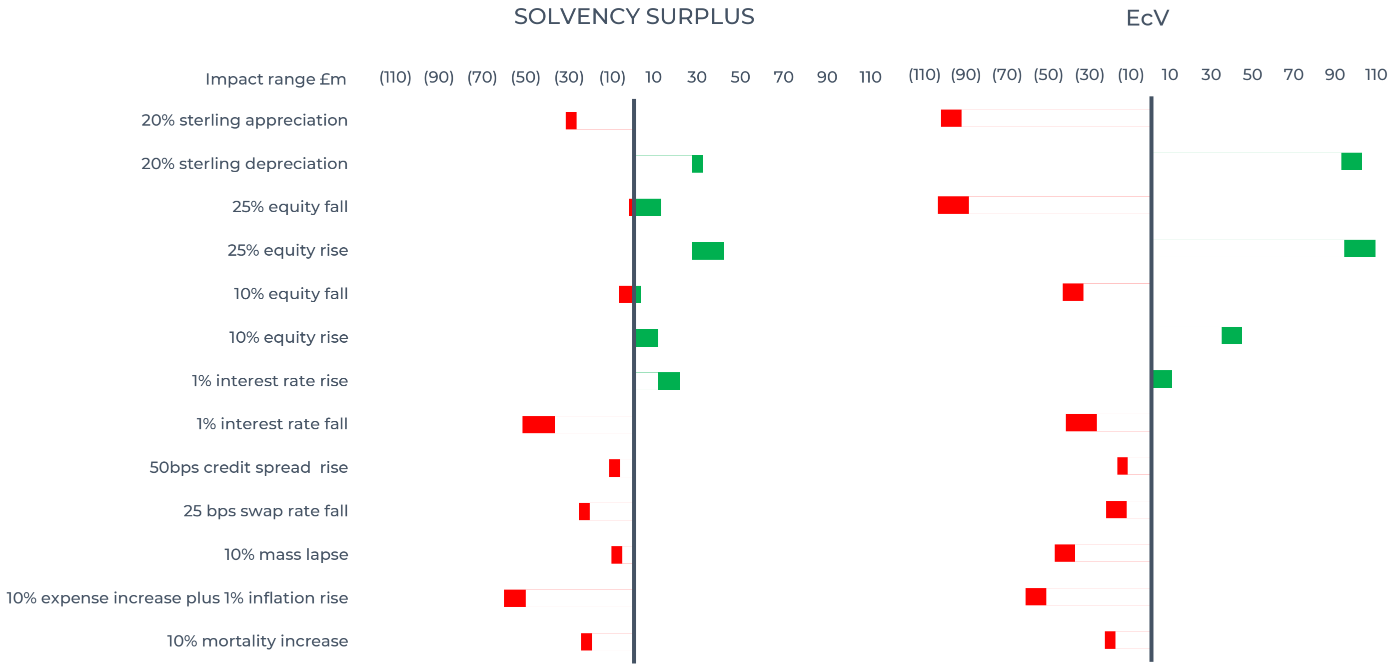
KEY Own Funds (post Div) SCR Buffer Surplus

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[1] , and cash generation[1], 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 impact of certain sensitivities that the group is exposed to, covering solvency surplus and Economic Value. As can be seen, EcV tends to take the 'full force' of adverse conditions whereas solvency is often protected in the short term and, to a certain extent, the longer term due to compensating impacts on required capital. Whilst cash generation has not been shown in the diagrams below, the impact of these sensitivities on the group's solvency surplus has a direct read across to the immediate impact on cash generation.

Each individual bar in the diagram illustrates the estimated impact range (£m) of the respective sensitivities and whether that impact is positive (green) or negative (red).



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 solvency surplus and EcV. It 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 can be larger than Own Funds, resulting in an immediate reduction in surplus, depending on the starting point of the symmetric adjustment. Conversely, in an equity fall, Own Funds and SCR both fall, to the extent to which the SCR reduction offsets the Own Funds depends on the stress applied. The impacts are not fully symmetrical due to management actions and tax. The change in symmetric adjustment has a significant impact (25% equity fall: -£35m to the SCR, 25% equity rise: +£16m 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, much of which is invested in equities.

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 solvency surplus 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.

1 Alternative Performance Measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Half Year Report.

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 2021. Further analysis can be found on pages 26 to 29.

GROUP CASH GENERATION[1] £5.4M

30 JUNE 2020: £12.9M

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.

Risks

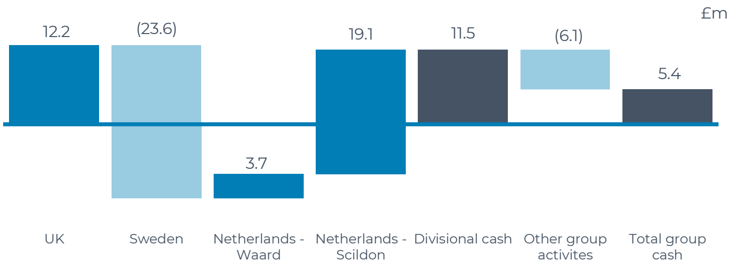
The ability of the underlying regulated subsidiaries within the group to generate cash is affected by a number of our principal risks and uncertainties as set out on pages 32 to 34. Whilst cash generation is a function of the regulatory surplus, as opposed to the IFRS surplus, it is impacted by similar 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.

DIVISIONAL CASH GENERATION[1] £11.5M

30 JUNE 2020: £9.6M

Further detail on **p26**

Highlights



Divisional cash generation

- Each operating division delivered a strong cash result for the period with the exception of Movestic, which incurred material cash utilisation.
- The UK contribution was delivered through solid value growth, offsetting a smaller rise in capital requirements. Cash returns in Waard benefit from operational gains (largely relating to mortality).
- Scildon reported significant cash generation after delivering value growth and a reduction capital requirements. Economic earnings supported growth in Own Funds, while new reinsurance drove a material decrease in SCR due to lower catastrophe risk exposure.
- Own Funds growth in Movestic includes the benefit of equity growth over the period, off-set by operating losses relating to strengthening future transfer assumptions. The division also reported a corresponding increase in SCR, primarily due to the aforementioned equity market growth and an associated symmetric adjustment strain.

Group cash generation

- Total group cash generation includes the impact of other group activities, primarily the impacts of group expenses on Own Funds and that of foreign exchange movements upon consolidation of the group capital requirements.

IFRS PRE-TAX PROFIT £20.8M

30 JUNE 2020: PRE-TAX LOSS £9.1M

What is it?

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

Why is it important?

The IFRS results form the core of reporting and hence retain prominence as a key financial performance metric. There is however a general acceptance that the IFRS results in isolation do not recognise the wider financial performance of a typical life and pensions business, hence the use of supplementary Alternative Performance Measures (pages 59 to 60) to enhance understanding of financial performance.

Risks

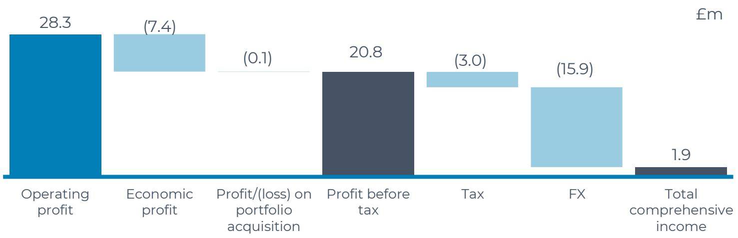
The IFRS profit/(loss) can be affected by a number of our principal risks and uncertainties as set out on pages 32 to 34. Volatility in equity markets and bond yields can result in volatility in the IFRS pre-tax profit/(loss), and foreign currency fluctuations can affect total comprehensive income. The 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.

TOTAL COMPREHENSIVE INCOME £1.9M

30 JUNE 2020: £15.1M

Further detail on **p29**

Highlights



- Divisional pre-tax profits were ahead of expectations for the period, with a particularly strong contribution from the UK business.
- Operating profits[1] of £28.3m underpin the result and reflect a material uplift on prior year result, though a large element of this was a release of reserves (c£10m) in Scildon during the opening half of 2021.
- A small loss on economic activities [1] was reported, whereby returns in the UK (due to rising interest rates and yields) and Movestic (equity growth) have been off-set by the adverse impact of interest rate movements in the Dutch divisions.
- Total comprehensive income includes foreign exchange losses on translation of the Dutch and Swedish divisional results, owing to sterling appreciation against the euro and Swedish krona.

ECONOMIC VALUE (EcV)[1] £629.6M

31 DECEMBER 2020: £636.8M

Further detail on **p28**

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. EcV reflects a market-consistent assessment of the value of the existing insurance business, plus the adjusted net asset value of the non-insurance businesses within the group.

Why is it important?

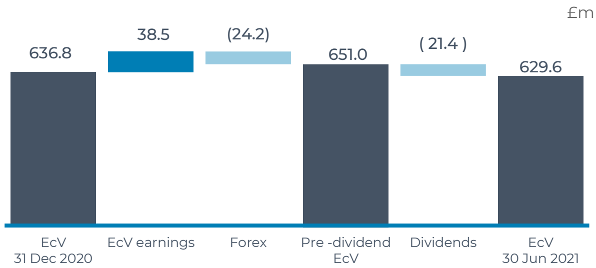
EcV aims to reflect the market-related value of in-force business and net assets of the non-insurance business and hence is an important reference point by which to assess Chesnara's value. A life and pensions group may typically be characterised as trading at a discount or premium to its Economic Value.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

Risks

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-£100m, based on the composition of the group's EcV at 30 June 2021.

Highlights



- Prior to any dividend payment impact the Economic Value increased by £14.2m since the start of the year.
- The closing position reflects earnings of £38.5m, driven by positive investment market conditions, off-set by some operating losses in both Scildon and Movestic.
- The change in EcV during the period includes the impact of the payment of the final 2020 dividend.
- Material forex losses arose on translation of the Dutch and Swedish divisional results, representing the weakening of both the euro and Swedish krona against sterling.

EcV EARNINGS[1] £38.5M

30 JUNE 2020: £(74.1)M

Further detail on **p27**

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.

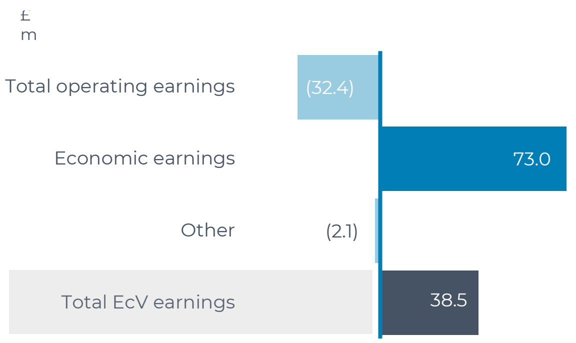
Why is it important?

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 34. In addition to the factors that affect the IFRS pre-tax profit and cash generation of the group, the EcV earnings can be more sensitive to other factors such as the expense base and persistency assumptions. This is primarily due to the fact that assumption changes in EcV affect our long-term view of the future cash flows arising from our books of business.

Highlights



- EcV earnings of £38.5m were reported in the period.
- The total operating earnings[1] loss includes material operating assumption changes and other items, amounting to £22.3m. This relates to adverse changes in transfer out assumptions in Movestic, as well as the gain on completion of a portfolio acquisition in the Waard Group.
- Other operating components include losses in Scildon and a group level expense strain, offsetting the positive results in other divisions.
- Economic conditions during the period, with rising interest rates and bond yields, coupled with equity growth, resulted in substantial economic gains of £73.0m (6 months to 30 Jun 2020: loss of £53.6m).

1 Alternative Performance Measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Half Year Report.

FINANCIAL REVIEW · CASH GENERATION

Strong cash contributions from the UK and Dutch businesses support the divisional cash generation of £11.5m for the period. 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 £5.4M

30 JUNE 2020: £12.9M

DIVISIONAL CASH GENERATION £11.5M

30 JUNE 2020: £9.6M

Definition: Defining cash generation in a life and pensions business is complex and there is no reporting framework defined by the regulators. This can lead to inconsistency across the sector. We define cash generation as being the movement in Solvency II surplus own funds over and above the group's internally required capital, which is based on Solvency II rules.

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.

Jun 2021 £m					Jun 2020 £m
	Movement in Own Funds	Movement in management's capital requirement	Forex impact	Cash generated / (utilised)	Cash generated / (utilised)
UK	15.2	(3.0)	-	12.2	4.7
Sweden	12.7	(32.9)	(3.4)	(23.6)	21.7
Netherlands – Waard Group	5.9	(0.7)	(1.5)	3.7	2.8
Netherlands – Scildon	8.1	11.3	(0.3)	19.1	(19.5)
Divisional cash generation / (utilisation)	**41.9**	**(25.2)**	**(5.2)**	**11.5**	**9.6**
Other group activities	(1.0)	(0.8)	(4.2)	(6.1)	3.3
Group cash generation / (utilisation)	**40.9**	**(26.1)**	**(9.4)**	**5.4**	**12.9**

GROUP

- Group cash generation of £5.4m is lower than the prior year, however it is supported by solid divisional results, with the exception of Movestic. The cash utilisation in the Swedish business has driven the overall year on year reduction in the group result.
- The cash result includes the negative impact of a foreign exchange loss (£9.4m), arising on the translation of the Swedish and Dutch divisional results, reflective of sterling appreciation against both the Swedish krona and euro in the opening half of 2021.

UK

- Another solid period of cash generation has been delivered by the division, with value growth exceeding a smaller rise in capital requirements.
- The key component behind both elements were economic market conditions, while the impact of operating activities was marginal.
- Own Funds benefited from rising yield curves and equity markets. This economic benefit is partly offset by a corresponding increase in SCR, largely due to greater equity risk SCR, including the impact of the symmetric adjustment.

SWEDEN

- The division has reported a challenging cash result for the period.
- Whilst Own Funds increased as a result of positive economic conditions and strong investment returns (particularly equity driven), the movement also reflects non-recurring operating losses relating to strengthening future transfer assumptions.
- From a capital requirements perspective, the equity market-driven growth in own funds gives rise to an increase in market-risk related capital requirements, including the impact of the symmetric adjustment.

NETHERLANDS – WAARD

- Waard has again reported a solid cash result, with Own Funds growth surpassing a rise in capital requirements and a foreign exchange loss.
- Some of the value growth can be attributed to the acquisition of Brand New Day, however the result was also supported by other operational gains, primarily relating to mortality experience and resultant changes to future assumptions.
- Positive economic conditions have also benefitted the cash result for the period.

NETHERLANDS – SCILDON

- Scildon delivered strong cash generation for the first half of 2021, supported by both value growth and a reduction in capital requirements, marking a significant year on year improvement.
- The growth in Own Funds stems from economic profits, predominantly through the narrowing of bond spreads and positive interest rate movements. This offset operational strains, largely driven by changes in assumptions relating to one-off expenses.
- A substantial fall in the SCR was underpinned by a material decrease in catastrophe risk (due to management action on reinsurance) and lower exposure to spread risk on the mortgage portfolio.

FINANCIAL REVIEW · EcV EARNINGS

EcV earnings were aided by economic conditions in the first half of the year, with rising interest rates and bond yields, coupled with equity market growth, delivering strong investment returns across the operating divisions.

EcV EARNINGS £38.5M

30 JUNE 2020: £(74.1)M

Analysis of the EcV result by earnings source:

	30 Jun 2021 £m	30 Jun 2020 £m	31 Dec 2020 £m
Expected movement in period	(0.8)	0.1	0.3
New business	4.0	3.1	3.7
Operating experience variances	(7.8)	(5.9)	(22.0)
Other operating assumption changes	(4.6)	(2.6)	(35.8)
Other operating variances	(0.9)	(1.2)	3.9
Material operating assumption changes and other items	(22.3)	(16.6)	(16.2)
Total operating earnings[1]	**(32.4)**	**(23.1)**	**(66.1)**
Economic experience variances	45.6	(27.7)	45.7
Economic assumption changes	27.3	(25.9)	(22.8)
Total economic earnings[1]	**73.0**	**(53.6)**	**22.9**
Other non-operating variances	0.8	(6.1)	(2.8)
Risk margin movement	5.1	1.5	4.7
Tax	(8.0)	7.1	3.7
EcV earnings	**38.5**	**(74.1)**	**(37.6)**

Analysis of the EcV result by business segment:

	30 Jun 2021 £m	30 Jun 2020 £m	31 Dec 2020 £m
UK	13.7	(14.5)	11.8
Sweden	14.0	(41.6)	(22.9)
Netherlands	11.8	(12.7)	(8.5)
Group and group adjustments	(1.0)	(5.4)	(18.0)
EcV earnings	**38.5**	**(74.1)**	**(37.6)**

Economic conditions: The EcV result is sensitive to investment market conditions. Key movements in investment market conditions during the period are as follows:

- FTSE All Share index increased by 9.3% (6 months to 30 June 2020: decreased by 18.7%);
- Swedish OMX All Share index increased by 19.3% (6 months to 30 June 2020: decreased by 5.0%);
- The Netherlands AEX All Share index increased by 15.0% (6 months to 30 June 2020: decreased by 7.4%); and
- 10-year UK gilt yields have increased from 0.24% to 0.82% during the period.

Total operating earnings: In addition to the material operating assumption changes, the loss consists of losses in Scildon, coupled with some group expense strain , offsetting positive earnings in both Movestic and Waard. Scildon has reported positive lapse experience, but in the current economic environment this results in EcV losses due to guarantees within certain policies. Scildon also reported an expense assumption strain arising from its digitalisation programme. Earnings in Movestic stemmed from new business and fund rebate income. Growth in Waard was largely due to favourable mortality experience and resultant changes in mortality assumptions.

Material operating assumption changes and other items: This includes operating items that are individually material and have therefore been analysed separately. This main component of this relates to Movestic, where assumption strengthening had a significantly negative impact (£24.8m) on earnings in the opening half of the year. Following changes surrounding transfer regulations in the Swedish market during the prior year, transfer experience in the first half of 2021 has led to a need for a further strengthening of future transfer assumptions. The other element within this category is a £2.5m gain on the completion of Waard's acquisition of the Brand New Day portfolio during the second quarter.

UK: The UK reported a solid start to 2021 with earnings already in excess of the prior year total, aided by positive investment market conditions. Economic profits of £18.1m have arisen from the positive impact of rising yields and growing equity markets. Operational performance contributed a marginal loss, with key items including a strengthening of mortality assumption and an expense strain (owing to higher policy counts). This offset positive outcomes on fee income (also due to higher retained policy counts) and changes in assumptions relating to future guarantees.

Sweden: Movestic recorded earnings of £14.0m for the period, with strong economic gains off-set by a material non-recurring operational strain. As described above, this was a result of assumption changes in relation to dynamics around policy transfers, with the underlying operational result delivering a £5.0m gain. New business profits of £1.9m were reported, representing an improvement compared to the £1.0m reported in 2020, in line with management expectations for 'post-pandemic' recovery. Volume and margin pressures remain in a challenging Swedish market, though good progress has been made in the period, particularly on single premium and custodian business. Further gains were delivered by an improvement to fund rebates arrangement and corresponding future income. Economic earnings of £34.6m underpin the result, substantially higher than gains of £9.2m in 2020.

Netherlands: The Dutch businesses posted combined gains of £11.8m for the period. Waard delivered solid profits (£6.1m) while Scildon contributed a further £5.7m, which included new business profits of £2.1m (FY 2020: £2.7m). As indicated earlier, Scildon has reported operating losses, largely as a result of incurring guarantee related costs as a consequence of better than expected policy retention, and also the impact of higher mortality driven outgoings than anticipated. A strengthening of expense assumptions attributable to its digitalisation programme is another key contributor to the operating result.

Waard has reported solid EcV earnings of £6.1m, with mortality experience (and subsequent changes to assumptions) supporting the gains. The result also includes smaller economic profits arising from investment conditions and the benefit delivered by the Brand New Day portfolio acquisition.

Group: This component includes various group-related costs and includes: non-maintenance related costs (such as acquisition costs); the costs of the group's IFRS 17 programme; and some economic-related items such as a foreign exchange gains on our euro debt, the positive impact of rising interest rates and interest on bank debt.

1 Alternative Performance Measure (APM) used to enhance understanding of financial performance. Further information on APMs can be found in the 'Additional Information' section of this Half Year Report.

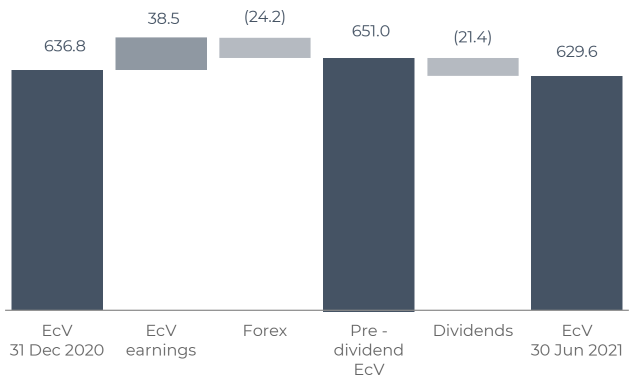
FINANCIAL REVIEW · EcV

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) £629.6M

31 DECEMBER 2020: £636.8M

Value movement: 1 Jan 2021 to 30 Jun 2021 £m

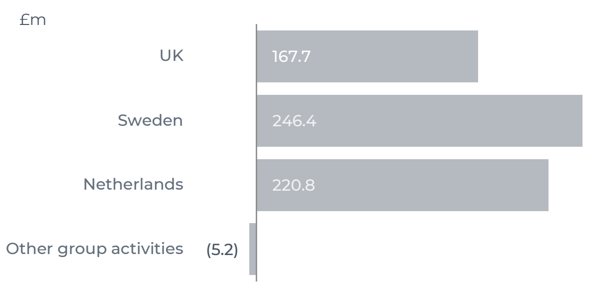


EcV earnings: Earnings of £38.5m have been reported for the opening half of 2021. Economic profits arising from favourable market conditions, with equity growth, rising yields and narrowing spreads, driving the result. Further detail can be found on page 27.

Dividends: Under EcV, dividends are recognised in the period in which they are paid. Dividends of £21.4m were paid during the first half of the year, being the final dividend from 2020.

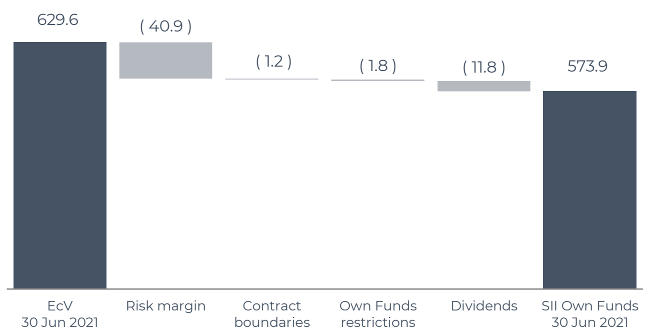
Foreign exchange: The closing EcV of the group reflects a foreign exchange loss in the period, a consequence of the sterling appreciation against the euro and Swedish krona.

EcV by segment at 30 Jun 2021 £m



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

EcV to Solvency II £m



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 ring-fenced funds. These restrictions are reversed for EcV valuation purposes as they are deemed to be temporary in nature.

Dividends: The proposed interim dividend of £11.8m 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

IFRS PRE-TAX PROFIT £20.8M

30 JUNE 2020 : PRE-TAX LOSS £9.1M

TOTAL COMPREHENSIVE INCOME £1.9M

30 JUNE 2020 : £15.1M

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.

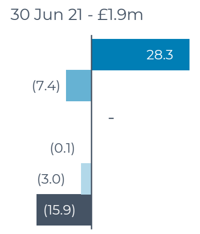
IFRS results

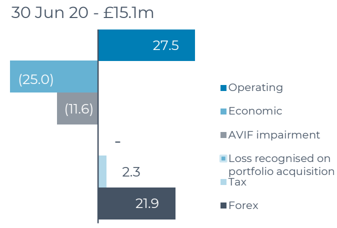
The financial dynamics of Chesnara, as described above, are reflected in the following IFRS results:

	Unaudited 6 months ended		Year Ended	
	30 Jun 21 £m	30 Jun 20 £m	31 Dec 20 £m	Note
CA	15.0	0.4	35.7	1
Movestic	6.7	4.0	12.9	2
Waard Group	1.3	(0.2)	4.1	3
Scildon	6.0	7.2	14.6	4
Chesnara	(5.1)	(5.8)	(9.4)	5
Consolidation adjustments	(2.9)	(3.1)	(6.1)	6
Profit before tax, AVIF impairment and profit on acquisition	**20.9**	**2.5**	**51.8**	
AVIF impairment	-	(11.6)	(27.6)	
Post completion (loss)/gain on portfolio acquisition	(0.1)	-	0.4	3
Profit/(loss) before tax	**20.8**	**(9.1)**	**24.6**	
Tax	(3.0)	2.3	(3.4)	
Profit/(loss) after tax	**17.8**	**(6.8)**	**21.2**	
Foreign exchange	(15.9)	21.9	22.6	8
Other comprehensive income	-	-	(0.5)	
Total comprehensive income	**1.9**	**15.1**	**43.3**	

	Unaudited 6 months ended		Year Ended	
	30 Jun 21 £m	30 Jun 20 £m	31 Dec 20 £m	Note
Operating profit, excluding AVIF impairment[1]	28.3	27.5	30.6	9
Economic profit, excluding AVIF impairment[1]	(7.4)	(25.0)	21.2	10
Profit before tax, AVIF impairment and profit on acquisition	**20.9**	**2.5**	**51.8**	
AVIF impairment	-	(11.6)	(27.6)	7
Post completion (loss)/gain on portfolio acquisition	(0.1)	-	0.4	
Profit/(loss) before tax	**20.8**	**(9.1)**	**24.6**	
Tax	(3.0)	2.3	(3.4)	
Profit/(loss) after tax	**17.8**	**(6.8)**	**21.2**	
Foreign exchange	(15.9)	21.9	22.6	8
Other comprehensive income	-	-	(0.5)	
Total comprehensive income	**1.9**	**15.1**	**43.3**	

Note 1: CA has reported a strong result for the period, underpinned by both investment market related profits and operating profits in the period.





Note 2: Movestic continues to contribute positively to the overall group IFRS result, with profits slightly ahead of the same period in the prior year. Positive investment returns, strong claims development and reduced operational expenses produced a favourable result year to date.

Note 3: The Waard Group result, although improved on prior period, reflects economic losses arising from rising yields in the period. Whilst rising yields are generally good for the business, under IFRS 4 reserving methods in the Netherlands, liabilities do not generally reduce in a rising yield environment, but the associated backing assets tend to fall. The division also incurred slightly higher than expected acquisition related expenditure, which includes costs in relation to the purchase of the life insurance portfolio from Brand New Day.

Note 4: Scildon has delivered a relatively strong IFRS result, which includes the reversal of the additional reserves of circa £10m, which were required in 2020 and arose from the liability adequacy test biting. This positive return has been offset by negative investment value growth arising from increases in interest rates.

Note 5: The Chesnara result largely represents holding company expenses. The current year loss is lower than last year largely due to a foreign exchange gain 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.

Note 7: During 2020 a write down of the Scildon AVIF intangible asset was performed amounting to £26.6m (£11.6m of this was recognised in the first half of the year). The impairment was as a result of a reduction in the assessed value of the future cash flows of policies that were in force at the point of acquisition. The AVIF held in respect of the Protection Life book within CA was also impaired by £1.0m, following a year end assessment. The impairments are driven by a combination of economic and operating factors, with the exact allocation between the two being impracticable to determine. As a result, this has been reported outside of both operating and economic profits. No such impairments were required during 2021.

Note 8: Sterling appreciated against both the euro and Swedish krona in the period, having a material impact on the 2021 result, creating a sizeable exchange loss at the end of the half-year.

Note 9: The current year operating profit, excluding AVIF impairment, includes the positive impact of releasing additional reserves created in 2020, a result of the liability adequacy test biting in Scildon, amounting to £10.0m.

Note 10: Economic profit, excluding AVIF impairment, represents the components of the earnings that are directly driven by movements in economic variables. These are much improved on the prior year comparative, which reflected a turbulent year for global investment markets.

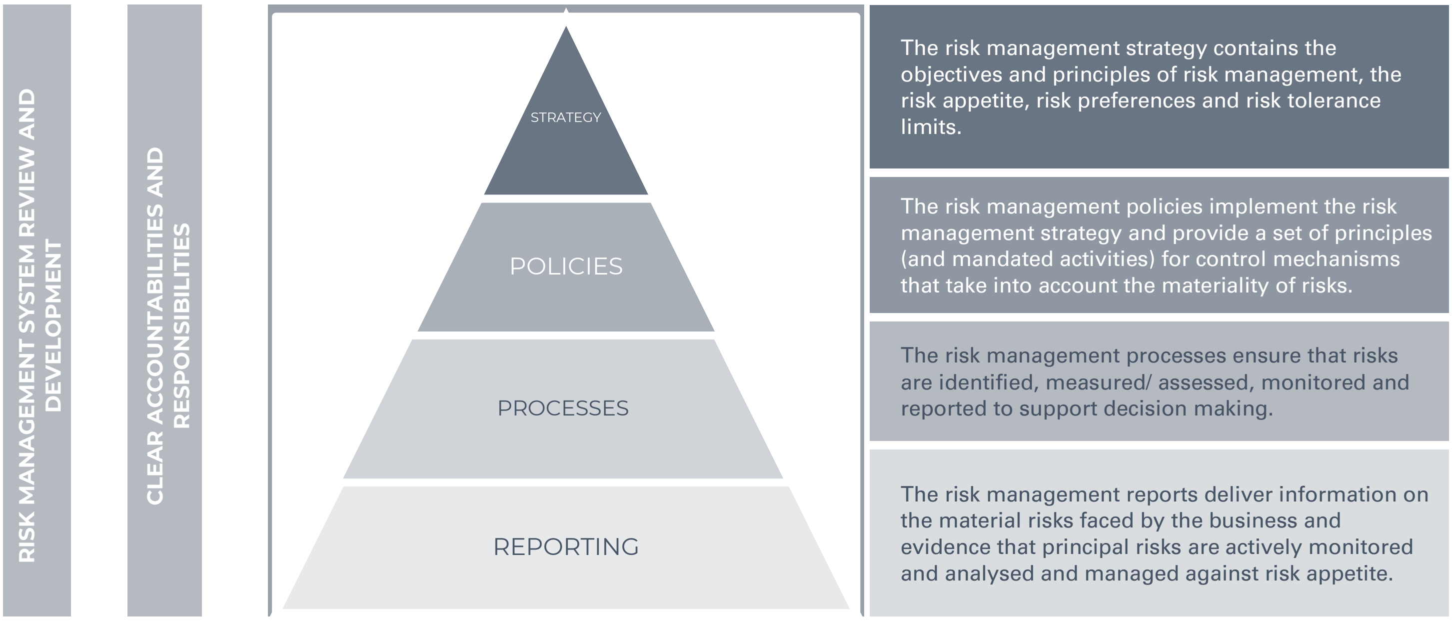
RISK MANAGEMENT

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

RISK MANAGEMENT SYSTEM

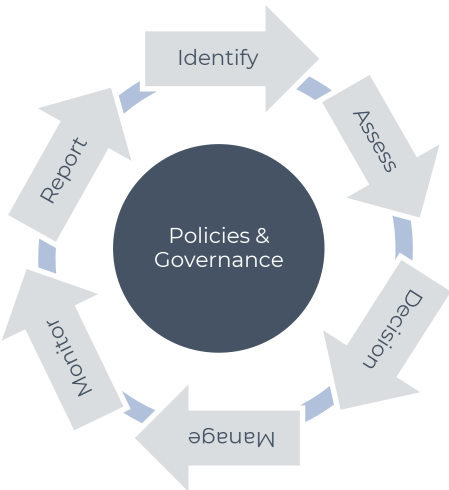
The risk management system supports the identification, assessment, and reporting of risks along with coordinated and economical application of resources to monitor and control the probability and/or impact of adverse outcomes within the board's risk appetite or to maximise realisation of opportunities.



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 business.

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

Group and divisional risk management processes are enhanced by stress and scenario testing, which evaluates the impact on the group of certain adverse events occurring separately or in combination. The results, conclusions and any recommended actions are included within divisional and group ORSA Reports to the relevant boards. There is a strong correlation between these adverse events and the risks identified in 'Principal risks and uncertainties' (pages 32 to 34). The outcome of this testing provides context against which the group can assess whether any changes to its risk appetite or to its management processes are required.



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 embedded.

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.

COVID-19

During 2020 the COVID-19 pandemic had a global impact on demographic, social and economic factors. Recognising that, through 2021, there is potential risk of related operational disruption and economic volatility, the information in the following pages has been updated to reflect the ongoing COVID-19 pandemic.

RISK MANAGEMENT – PRINCIPAL RISKS AND UNCERTAINTIES

The following tables outline the principal risks and uncertainties of the group and the controls in place to mitigate or manage their impact. 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. Those risks with potential for a material financial impact are covered within the sensitivities (page 23).

PR1 INVESTMENT AND LIQUIDITY RISK

DESCRIPTION

Exposure to financial losses or value reduction arising from adverse movements in currency, 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.

Worldwide developments in Environmental, Social, and Governance (ESG) responsibilities and reporting have the potential to influence market risk in particular, for example the risks arising from transition to a carbon neutral industry, with corresponding changes in consumer preferences and behaviour.

COVID-19

COVID-19 has arguably introduced greater uncertainty into investment markets, given that the longer-term effects of government enforced social and economic restrictions remains unclear, as does the extent to which those restrictions may need to continue or be repeated in future as the virus continues to affect different parts of the world.

PR2 REGULATORY CHANGE RISK (INCLUDING BREXIT)

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 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 include 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. Chesnara will monitor the consultation and discussions arising under EIOPA's Solvency II Review as well as the equivalent review taking place in the UK by the PRA, and in the context of Brexit and the UK's ultimate position regarding SII equivalence.

Regulatory developments continue to drive a high level of change activity across the group, with items such as operational resilience, climate change and IFRS17 being particularly high profile. Such regulatory initiatives carry the risk of expense overruns should it not be possible to adhere to them in a manner that is proportionate to the nature and scale of Chesnara's businesses. 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.

PR3 ACQUISITION RISK

DESCRIPTION

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

PR3 ACQUISITION RISK (CONTINUED)

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.

PR4 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.

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.

Persistency risk arises if policyholders choose to terminate their policy earlier than is expected, via a policy surrender, lapse or via transfers out. 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). 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.

COVID-19

COVID-19 increased the number of deaths arising in 2020 and this will continue into 2021 and potentially beyond. 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. Chesnara does not expect the pandemic to have a material impact on mortality experience and costs in the long-term.

PR5 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.

A key 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. Similarly, 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.

Chesnara has an ongoing expense management programme and various strategic projects aimed at controlling expenses. Recent examples include the Fund Manager Rationalisation project in the UK and the IT transformation project within Scildon.

COVID-19

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

RISK MANAGEMENT – PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

PR6 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 and implementation of additional controls. There is potential for COVID-19 to influence the operating environment on a long-term basis and drive changes in competitor, regulator or counterparty (e.g. broker) behaviours

PR7 IT / DATA SECURITY & CYBER RISK

DESCRIPTION	Risk of IT/ data security failures or impacts of malicious cyber-crime (including ransomware) 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. Chesnara continues to invest in the incremental strengthening of its operational resilience and has introduced additional automated controls to protect our data and infrastructure with regular monitoring to detect and prevent a successful cyber-attack.
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.

PR8 NEW BUSINESS RISK

DESCRIPTION	Adverse new business performance compared with projected value.
RISK APPETITE	Chesnara does not wish to write new business that does not generate positive new business value (on a commercial basis) over the business planning horizon.
POTENTIAL IMPACT	If new business performance is significantly lower than the projected value, this will typically lead to reduced value growth in the medium to long-term. A sustained low-level performance may lead to insufficient new business profits to justify remaining open to new business.
COVID-19	COVID-19 caused some volatility in new business volumes across markets as well as in individual business' volumes during 2021 as a result of restrictions on face-to-face sales meetings and customer demand. There is potential for the economic impacts of COVID-19, such as lower interest rates, to adversely affect new business profitability and this is being closely monitored.

GOING CONCERN

Going concern

After making appropriate enquiries, including 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 the financial statements.

In performing this work, the board has considered the current solvency and cash position of the group and company, coupled with the group's and company's projected solvency and cash position as highlighted in its most recent business plan and Own Risk and Solvency Assessment (ORSA) process. These processes consider the financial projections of the group and its subsidiaries on both a base case and a range of stressed scenarios, covering projected solvency, liquidity, EcV and IFRS positions. In particular these projections assess the cash generation of the life insurance divisions and how these flow 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 scenarios, covering solvency, cash generation and Economic Value, can be found on page 23 under the section headed 'Capital Management Sensitivities'. The directors believe these scenarios will encompass any potential future impact of COVID-19 on the group as Chesnara's most material ongoing exposure to COVID-19 is any associated future investment market impacts. Underpinning the projections process outlined above are a number of assumptions. The key ones include:

- We do not assume that a future acquisition needs to take place to make this assessment.
- We make long term investment return assumptions on equities and fixed income securities.
- The base case scenario assumes exchange rates remain stable, and the impact of adverse rate changes are assessed through scenario analysis.
- Levels of new business volumes and margins are assumed.
- The projections apply the most recent actuarial assumptions, such as mortality and morbidity, lapses and expenses.

Due to the group's strong capital position and the group's business model, although the COVID-19 outbreak caused significant global economic disruption, the group and the company remain well capitalised and has sufficient liquidity. No significant strengthening of mortality assumptions has been required as a result of COVID-19 at this stage. As such we can continue to remain confident that the group will continue to be in existence in the foreseeable future. The information set out on pages 21 and 22 indicates a strong Solvency II position as at 30 June 2021 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.

SECTION C: IFRS FINANCIAL STATEMENTS

DIRECTORS' RESPONSIBILITY STATEMENT

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with United Kingdom adopted 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 August 2021	25 August 2021

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

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2021 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to [8]. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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 Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the group will be prepared in accordance with United Kingdom adopted International Financial Reporting Standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

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

Scope of review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council 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 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 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance 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

Deloitte LLP
Manchester
United Kingdom

25 August 2021

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Note	Unaudited Six months ended 30 June 2021 £000	Unaudited Six months ended 30 June 2020 £000	Year ended 31 December 2020 £000
Insurance premium revenue		152,291	139,424	293,365
Insurance premium ceded to reinsurers		(20,610)	(20,274)	(42,907)
Net insurance premium revenue		**131,681**	**119,150**	**250,458**
Fee and commission income		45,732	45,373	92,698
Net investment return		621,272	(369,955)	254,568
Other operating income		23,491	19,656	40,181
Total income net of investment return		**822,176**	**(185,776)**	**637,905**
Insurance contract claims and benefits incurred				
Claims and benefits paid to insurance contract holders		(255,462)	(196,703)	(420,031)
Net (decrease)/increase in insurance contract provisions		(38,308)	148,092	6,869
Reinsurers' share of claims and benefits		14,149	20,027	48,178
Net insurance contract claims and benefits		(279,621)	(28,584)	(364,984)
Change in investment contract liabilities		(470,272)	275,376	(110,878)
Reinsurers' share of investment contract liabilities		2,635	(2,136)	1,340
Net change in investment contract liabilities		(467,637)	273,240	(109,538)
Fees, commission and other acquisition costs		(11,848)	(11,215)	(23,625)
Administrative expenses		(33,316)	(35,301)	(70,952)
Other operating expenses				
Charge for impairment acquired value of in-force business		–	(11,608)	(27,623)
Charge for amortisation of acquired value of in-force business		(4,107)	(4,666)	(9,562)
Charge for amortisation of acquired value of customer relationships		(28)	(30)	(63)
Other		(3,698)	(3,726)	(5,062)
Total expenses net of change in insurance contract provisions and investment contract liabilities		**(800,255)**	**178,110**	**(611,409)**
Total income less expenses		**21,921**	**(7,666)**	**26,496**
Share of loss of associate		–	(128)	–
(Loss)/profit recognised on portfolio acquisition	7	(94)	–	388
Financing costs		(990)	(1,279)	(2,299)
Profit/(loss) before income taxes	4	**20,837**	**(9,073)**	**24,585**
Income tax (expense)/credit		(2,982)	2,319	(3,394)
Profit/(loss) for the period	3,4	**17,855**	**(6,754)**	**21,191**
Foreign exchange translation differences arising on the revaluation of foreign operations		(15,948)	21,865	22,618
Revaluation of pension obligations			–	–
Revaluation of investment property		(3)	36	(464)
Other comprehensive income for the year, net of tax		**(15,951)**	**21,901**	**22,154**
Total comprehensive income for the period		**1,904**	**15,147**	**43,345**
Basic earnings per share (based on profit for the period)	2	11.90p	(4.50)p	14.12p
Diluted earnings per share (based on profit for the period)	2	11.81p	(4.47)p	14.03p

The notes and information on pages 44 to 53 form part of these financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	Note	Unaudited as at 30 June 2021 £000	2020 £000	Year ended 31 December 2020 £000
Assets				
Intangible assets				
Deferred acquisition costs		65,417	68,494	69,051
Acquired value of in-force business		54,701	77,597	61,655
Acquired value of customer relationships		358	428	409
Goodwill		–	–	–
Software assets		8,486	7,419	8,508
Property and equipment		7,635	9,562	8,718
Investment in associates		–	–	–
Investment properties		1,073	1,091	1,124
Reinsurers' share of insurance contract provisions		190,737	193,837	197,068
Amounts deposited with reinsurers		38,014	34,436	37,026
Financial assets				
Equity securities at fair value through income		5,562	389,237	10,180
Holdings in collective investment schemes at fair value through income		6,871,529	5,501,076	6,714,303
Debt securities at fair value through income		1,002,546	1,322,343	1,098,559
Policyholders' funds held by the group		502,051	285,285	332,117
Mortgage loan portfolio		319,652	30,948	344,918
Derivative financial instruments		137	449	830
Total financial assets		8,701,477	7,529,338	8,500,907
Insurance and other receivables		44,135	47,332	45,048
Prepayments		12,431	11,220	13,349
Reinsurers' share of accrued policyholder claims		18,096	14,284	12,716
Income taxes		5,978	6,535	4,566
Cash and cash equivalents		72,595	203,111	105,351
Total assets	4	**9,221,133**	**8,204,684**	**9,065,496**
Liabilities				
Insurance contract provisions		3,874,578	3,562,853	3,958,037
Other provisions		681	583	613
Financial liabilities				
Investment contracts at fair value through income		4,135,734	3,636,513	4,035,040
Liabilities relating to policyholders' funds held by the group		502,051	285,285	332,117
Lease contract liabilities		2,361	3,028	2,844
Borrowings	5	51,574	79,513	66,955
Derivative financial instruments		126	681	3
Total financial liabilities		4,691,846	4,005,020	4,436,959
Deferred tax liabilities		16,450	18,361	19,086
Reinsurance payables		4,403	4,787	2,863
Payables related to direct insurance and investment contracts		101,988	90,889	96,337
Deferred income		3,061	3,610	3,355
Income taxes		6,002	4,834	9,427
Other payables		52,312	41,547	50,107
Bank overdrafts		1,918	2,101	1,645
Total liabilities	4	**8,753,239**	**7,734,585**	**8,578,429**
Net assets		**467,894**	**470,099**	**487,067**
Shareholders' equity				
Share capital		43,768	43,768	43,768
Share premium		142,172	142,085	142,085
Other reserves		14,821	30,519	30,772
Retained earnings	3	267,133	253,727	270,442
Total shareholders' equity		**467,894**	**470,099**	**487,067**

The notes and information on pages 44 to 53 form part of these financial statements.

Approved by the Board of Directors and authorised for issue on 25 August 2021 and signed on its behalf by:

Luke Savage
Chairman

John Deane
Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Unaudited Six months ended 30 June 2021 £000	Unaudited Six months ended 30 June 2020 £000	Year ended 31 December 2020 £000
Profit/(loss) for the period	**17,855**	**(6,754)**	**21,191**
Adjustments for:			
Depreciation of property and equipment	351	267	637
Amortisation of deferred acquisition costs	6,818	6,166	12,845
Impairment of acquired value of in-force business	–	–	27,623
Amortisation of acquired value of in-force business	3,684	16,274	9,562
Amortisation of acquired value of customer relationships	28	30	63
Amortisation of software assets	36	741	1,292
Depreciation on right of use assets	320	350	757
Interest on lease liabilities	23	23	55
Share based payment	282	242	492
Tax paid	2,961	(2,327)	3,128
Interest receivable	(1,268)	139	(2,987)
Dividends receivable	(1,529)	(3,363)	(1,929)
Interest expense	967	1,290	2,244
Impairment losses	–	–	1,019
Fair value gains on financial assets	(597,225)	(89,568)	(138,119)
Share of loss/(profit) of associate	–	128	–
Increase in intangible assets related to insurance and investment contracts	(6,484)	(6,504)	(15,316)
Interest received	2,395	1,890	5,335
Dividends received	2,401	2,336	3,241
Changes in operating assets and liabilities:			
Decrease /(increase) in financial assets	68,929	650,198	(150,789)
Decrease/(increase) in reinsurers share of insurance contract provisions	2,857	(2,637)	(6,981)
(Increase)/decrease in amounts deposited with reinsurers	(988)	2,894	304
(Increase)/decrease in insurance and other receivables	(2,172)	9,705	6,763
Decrease/(increase) in prepayments	275	(2,249)	(4,227)
Increase/(decrease) in insurance contract provisions	21,089	(174,638)	233,055
Increase/(decrease) in investment contract liabilities	482,409	(277,660)	36,539
Increase/(decrease) in provisions	102	27	39
Increase/(decrease) in reinsurance payables	1,674	1,326	(523)
Increase/(decrease) in payables related to direct insurance and investment contracts	7,128	2,005	7,451
Increase/(decrease) in other payables	2,708	6,943	6,188
Cash generated from operations	**15,626**	**137,274**	**58,952**
Income tax paid	(9,440)	(5,969)	(6,456)
Net cash generated from operating activities	**6,186**	**131,305**	**52,496**
Cash flows from investing activities			
Development of software	(1,209)	(1,706)	2,734
Purchases of property and equipment	741	(1,892)	(857)
Net cash (utilised)/generated by investing activities	**(468)**	**(3,598)**	**1,877**
Cash flows from financing activities			
Proceeds from issue of share capital	–	1	1
Proceeds from issue of share premium	87	32	32
Repayment of borrowings	(12,777)	(12,772)	(26,094)
Repayment of principal under lease liabilities	(404)	(285)	(695)
Dividends paid	(21,445)	(20,812)	(32,294)
Interest paid	(989)	(1,278)	(2,295)
Net cash utilised by from financing activities	**(35,528)**	**(35,114)**	**(61,345)**
Net (decrease)/increase in cash and cash equivalents	**(29,810)**	**92,593**	**(6,972)**
Cash and cash equivalents at beginning of period	103,706	106,782	106,782
Effect of exchange rate changes on cash and cash equivalents	(3,219)	1,635	3,896
Cash and cash equivalents at end of the period	**70,677**	**201,010**	**103,706**

The notes and information on pages 44 to 53 form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Unaudited six months ended 30 June 2021

	Share capital £000	Share premium £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2021	**43,768**	**142,085**	**30,772**	**–**	**270,442**	**487,067**
Profit for the period	–	–	–	–	17,855	17,855
Dividends paid	–	–	–	–	(21,446)	(21,446)
Foreign exchange translation differences	–	–	(15,948)	–	–	(15,948)
Revaluation of pension obligations	–	–	(3)	–	–	(3)
Issue of share capital	–	–	–	–	–	–
Issue of share premium	–	87	–	–	–	87
Share based payment	–	–	–	–	282	282
Equity shareholders' funds at 30 June 2021	**43,768**	**142,172**	**14,821**	**–**	**267,133**	**467,894**

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**

Year ended 31 December 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**
Profit for the year	–	–	–	–	21,191	21,191
Issue of share capital	1	–	–	–	–	1
Issue of share premium	–	32	–	–	–	32
Dividends paid	–	–	–	–	(32,294)	(32,294)
Foreign exchange translation differences	–	–	22,618	–	–	22,618
Revaluation of investment property	–	–	(464)	–	–	(464)
Share based payment	–	–	–	–	492	492
Equity shareholders' funds at 31 December 2020	**43,768**	**142,085**	**30,772**	**–**	**270,442**	**487,067**

The notes and information on page 44 to 53 form part of these financial statements.

1 Basis of preparation

The annual financial statements of Chesnara are prepared in accordance with United Kingdom adopted International Financial Reporting Standards. This condensed set of consolidated financial statements has been prepared in accordance with United Kingdom adopted IAS 34 'Interim Financial Reporting'. 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 2020.

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 2020.

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 2020 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 statement 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, a period of not less than 12 months from the date of this report. 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 35.

Judgements and estimates

Critical accounting judgements and key sources of estimation and uncertainty remain largely unchanged from those described in Note 3 of the 2020 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. This assessment concluded that no impairment was necessary following the impairment that was recognised in the year end 2020 financial statements.

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 no longer-term adjustments were required to the mortality and morbidity assumptions at this stage, although mortality experience since the outbreak of the pandemic remains under close scrutiny.

2 Earnings per share

Earnings per share are based on the following:

	Unaudited Six months ended 30 June 2021	Unaudited Six months ended 30 June 2020	Year ended 31 December 2020
Profit/(loss) for the period attributable to shareholders (£000)	17,855	(6,754)	21,191
Weighted average number of ordinary shares	150,091,045	150,062,807	150,062,807
Basic earnings per share	11.90p	(4.50)p	14.12p
Diluted earnings per share	11.81p	(4.47)p	14.03p

The weighted average number of ordinary shares in respect of the six months ended 30 June 2021 is based upon 150,065,457 shares in issue at the beginning of the period and 150,145,602 at the end of the period. No shares were held in treasury.

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 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 2020 is based upon 150,061,567 shares in issue at the beginning of the period and 150,065,457 shares in issue at the end of the period. No shares were held in treasury.

There were 1,092,286 share options outstanding at 30 June 2021 (30 June 2020: 1,018,475). Accordingly, there is dilution of the average number of ordinary shares in issue. There were 1,026,664 share options outstanding as at 31 December 2020.

3 Retained earnings

	Unaudited Six months ended 30 June 2021 £000	Unaudited Six months ended 30 June 2020 £000	Year ended 31 December 2020 £000
Retained earnings attributable to equity holders of the parent company comprise:			
Balance at 1 January	**270,442**	**281,053**	**281,053**
Profit/(loss) for the period	17,855	(6,754)	21,191
Share based payment	282	242	492
Dividends:			
Final approved and paid for 2019	–	(20,814)	(20,814)
Interim approved and paid for 2020	–	–	(11,480)
Final approved and paid for 2020	(21,446)	–	–
Balance at period end	**267,133**	**253,727**	**270,442**

The interim dividend in respect of 2020, approved and paid in 2020 was paid at the rate of 7.65p per share.

The final dividend in respect of 2020, approved and paid in 2021, was paid at the rate of 14.29p per share so that the total dividend paid to the equity shareholders of the company in respect of the year ended 31 December 2020 was made at the rate of 21.94p per share.

An interim dividend of 7.88p per share in respect of the year ending 31 December 2021 payable on 22 October 2021 to equity shareholders of the company registered at the close of business on 10 September 2021, the dividend record date, was approved by the Directors after the balance sheet date. The resulting dividend of £11.8m 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 2021 and the year ended 31 December 2020:

	Six months ended 30 June 2021 Pence	Year ended 31 December 2020 Pence
Interim – approved/paid	7.88	7.65
Final – proposed/paid	–	14.29
Total	**7.88**	**21.94**

4 Operating segments

The group considers that it has no product or distribution-based business segments. It reports segmental information on the same basis as reported internally to the Chief Operating Decision Maker, which is the Board of Directors of Chesnara plc.

The segments of the group as at 30 June 2021 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 2020 Annual Report and Accounts.

Movestic: This segment comprises the group’s Swedish life and pensions business, Movestic Livförsäkring AB (Movestic) and its subsidiary and associated companies, which are open to new business and which are responsible for conducting both unit-linked and pensions and savings business and providing some life and health product offerings.

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 2021.

4 Operating segments (continued)

(i) Segmental income statement for the six months ended 30 June 2021

	CA	Movestic	Waard Group	Scildon	Other Group Activities	Total
	£000	£000	£000	£000	£000	£000
Insurance premium revenue	18,674	7,200	13,822	112,595	-	152,291
Insurance premium ceded to reinsurers	(7,846)	(2,880)	(975)	(8,909)	-	(20,610)
Net insurance premium revenue	**10,828**	**4,320**	**12,847**	**103,686**	**-**	**131,681**
Fee and commission income	11,081	8,856	39	25,756	-	45,732
Net investment return	106,481	419,302	5,208	90,278	3	621,272
Other operating income	6,740	16,751	-	-	-	23,491
Segmental revenue, net of investment return	**135,130**	**449,229**	**18,094**	**219,720**	**3**	**822,176**
Net insurance contract claims and benefits incurred	(63,348)	(656)	(14,637)	(200,980)	-	(279,621)
Net change in investment contract liabilities	(48,673)	(418,964)	-	-	-	(467,637)
Fees, commission and other acquisition costs	(171)	(11,729)	(210)	(933)	-	(13,043)
Administrative expenses:						
Amortisation charge on software assets	-	(1,453)	-	(204)	-	(1,657)
Depreciation charge on property and equipment	-	(125)	(51)	(459)	-	(635)
Other	(7,923)	(5,311)	(1,895)	(11,160)	(4,735)	(31,024)
Operating expenses	(1)	(3,698)	-	-	1	(3,698)
Financing costs	-	(609)	(1)	-	(380)	(990)
Profit/(loss) before tax and consolidation adjustments	**15,014**	**6,684**	**1,300**	**5,984**	**(5,111)**	**23,871**
Other operating expenses:						
Charge for amortisation of acquired value of in-force business	(721)	(1,247)	(423)	(1,716)	-	(4,107)
Charge for amortisation of acquired value of customer relationships		(28)	-	-	-	(28)
Fees, commission and other acquisition costs		901	-	294	-	1,195
Segmental income less expenses	**14,293**	**6,310**	**877**	**4,562**	**(5,111)**	**20,931**
Post completion loss on portfolio acquisition	**-**	**-**	(94)	-	-	(94)
Profit/(loss) before tax	**14,293**	**6,310**	**783**	**4,562**	**(5,111)**	**20,837**
Income tax (expense)/credit	(2,603)	(8)	(228)	(1,125)	982	(2,982)
Profit/(loss) after tax	**11,690**	**6,302**	**555**	**3,437**	**(4,129)**	**17,855**

(ii) Segmental balance sheet as at 30 June 2021

	CA	Movestic	Waard Group	Scildon	Other Group Activities	Total
	£000	£000	£000	£000	£000	£000
Total assets	2,523,294	4,114,246	420,281	2,098,354	64,958	9,221,133
Total liabilities	(2,410,052)	(4,004,127)	(376,299)	(1,929,613)	(33,148)	(8,753,239)
Net assets	**113,242**	**110,119**	**43,982**	**168,741**	**31,810**	**467,894**
Investment in associates	–	–	–	–	–	–
Additions to non-current assets	–	31	–	2,272	–	2,303

4 Operating segments (continued)

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

	CA	Movestic	Waard Group	Scildon	Other Group Activities	Total
	£000	£000	£000	£000	£000	£000
Insurance premium revenue	21,496	8,288	1,300	108,340	–	139,424
Insurance premium ceded to reinsurers	(8,580)	(2,879)	(47)	(8,768)	–	(20,274)
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)
Other operating income	5,253	14,403	–	–	–	19,656
Segmental revenue, net of investment return	**(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 profit 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 impairment of acquired value of in-force business	–	–	–	(11,608)	–	(11,608)
Charge for amortisation of acquired value of in-force business	(1,252)	(1,277)	(330)	(1,807)	–	(4,666)
Charge for amortisation of acquired value of customer relationships	–	(30)	–	–	–	(30)
Fees, commission and other acquisition costs	–	1,061	–	577	–	1,638
Profit/(loss) before tax	**(895)**	**3,787**	**(513)**	**(5,631)**	**(5,821)**	**(9,073)**
Income tax (expense)/credit	140	9	137	962	1,071	2,319
Profit/(loss) after tax	**(755)**	**3,796**	**(376)**	**(4,669)**	**(4,750)**	**(6,754)**

(iv) Segmental balance sheet as at 30 June 2020

	CA	Movestic	Waard Group	Scildon	Other Group 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)	(1,864,927)	(48,666)	(7,734,585)
Net assets	**107,933**	**98,003**	**47,745**	**183,465**	**32,953**	**470,099**
Investment in associates	–	–	–	–	–	–
Additions to non-current assets	–	9,208	–	2,072	–	11,280

4 Operating segments (continued)

(v) Segmental income statement for the year ended 31 December 2020

	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other Group Activities £000	Total £000
Insurance premium revenue	40,653	16,296	12,768	223,648	–	293,365
Insurance premium ceded to reinsurers	(16,650)	(6,674)	(577)	(19,006)	–	(42,907)
Net insurance premium revenue	**24,003**	**9,622**	**12,191**	**204,642**	**–**	**250,458**
Fee and commission income	23,336	20,229	88	49,045	–	92,698
Net investment return	85,717	89,539	5,735	73,367	210	254,568
Other operating income/(expense)	11,703	28,037	441	–	–	40,181
Segmental revenue, net of investment return	**144,759**	**147,427**	**18,455**	**327,054**	**210**	**637,905**
Net insurance contract claims and benefits incurred	(72,311)	(952)	(10,362)	(281,359)	–	(364,984)
Net change in investment contract liabilities	(18,515)	(91,023)	–	–	–	(109,538)
Fees, commission and other acquisition costs	(350)	(22,918)	(684)	(2,974)	–	(26,926)
Administrative expenses:						
Amortisation charge on software assets	–	(1,438)	–	(209)	–	(1,647)
Depreciation charge on property and equipment	–	(124)	(53)	(470)	–	(647)
Other	(17,388)	(12,258)	(3,131)	(27,390)	(8,491)	(68,658)
Operating (expenses)/income	(500)	(4,565)	–	–	3	(5,062)
Financing costs	(1)	(1,209)	(2)	–	(1,087)	(2,299)
Profit/(loss) before tax and consolidation adjustments	**35,694**	**12,940**	**4,223**	**14,652**	**(9,365)**	**58,144**
Consolidation adjustments:						
Charge for impairment of acquired value of in-force business	(1,000)	–	–	(26,623)	–	(27,623)
Charge for amortisation of acquired value of in-force business	(2,423)	(2,640)	(720)	(3,779)	–	(9,562)
Charge for amortisation of acquired value of customer relationships	–	(63)	–	–	–	(63)
Fees, commission and other acquisition costs	–	2,126	–	1,175	–	3,301
Segmental income less expenses	**32,271**	**12,363**	**3,503**	**(14,575)**	**(9,365)**	**24,197**
Post completion gain on portfolio acquisition	–	–	388	–	–	388
Profit/(loss) before tax	**32,271**	**12,363**	**3,891**	**(14,575)**	**(9,365)**	**24,585**
Income tax (expense)/credit	(6,081)	(235)	(883)	2,301	1,504	(3,394)
Profit/(loss) after tax	**26,190**	**12,128**	**3,008**	**(12,274)**	**(7,861)**	**21,191**

(vi) Segmental balance sheet as at 31 December 2020

	CA £000	Movestic £000	Waard Group £000	Scildon £000	Other Group Activities £000	Total £000
Total assets	2,564,764	3,874,967	437,099	2,124,020	64,646	9,065,496
Total liabilities	(2,429,712)	(3,764,907)	(391,590)	(1,950,768)	(41,452)	(8,578,429)
Net assets	**135,052**	**110,060**	**45,509**	**173,252**	**23,194**	**487,067**
Investment in associates	–	–	–	–	–	–
Additions to non-current assets	–	13,028	2,396	3,929	–	19,353

5 Borrowings

	Unaudited 30 June 2021 £000	2020 £000	31 December 2020 £000
Bank loan	30,437	46,953	39,010
Amount due in relation to financial reinsurance	21,137	32,560	27,945
Total	**51,574**	**79,513**	**66,955**

The bank loan subsisting at 30 June 2021 comprised the following:

- On 3 April 2017 tranche one of a new facility was drawn down, amounting to £40.0m. This facility is unsecured and is repayable in ten six-monthly instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.00 percentage points above the London Inter-Bank Offer Rate and is repayable over a period which varies between one and six months at the option of the borrower. The 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 provided access to higher levels of debt financing from a wider panel of lenders, which in turn enabled 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 enabled Chesnara to access an increased level of funds efficiently, which in turn supports our acquisition strategy.
- In early July 2021, the existing debt arrangements were replaced with a Revolving Credit Facility (RCF). The RCF is operated on a syndicated basis and provides an unsecured multi-currency debt facility up to the value of £100m sterling equivalent. The facility is initially for a term of 3 years, extendable by up to two 12 month periods upon request. The RCF also has an accordion option which can extend the loan capacity by up to a further £50m upon request. This new facility 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, in a timely and efficient manner.

The fair value of the sterling bank loan at 30 June 2021 was £12.0m (31 December 2020: £15.0m).

The fair value of the euro denominated bank loan at 30 June 2021 was £18.5m (31 December 2020: £24.1m).

The fair value of amounts due in relation to financial reinsurance was £22.0m (31 December 2020: £27.5m).

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).

During the period, the level 2 assets which were included in the category "Holdings in collective investment schemes" as at 31 December 2020, were sold. There are no non-recurring fair value measurements.

The group held the following financial instruments at fair value at 30 June 2021.

Fair value measurement at 30 June 2021

Financial assets	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities				
Listed	5,562	–	–	5,562
Holdings in collective investment schemes	6,694,848	–	176,681	6,871,529
Debt securities - fixed rate				
Government Bonds	553,678	–	–	553,678
Corporate Bonds	444,966	94	–	445,060
Debt securities - floating rate Listed	3,808	–	–	3,808
Total debt securities	1,002,452	94	–	1,002,546
Policyholders' funds held by the group	502,051	–	–	502,051
Derivative financial instruments	–	137	–	137
Total	**8,204,913**	**231**	**176,681**	**8,381,825**
Current				1,200,454
Non-current				7,181,371
Total				**8,381,825**
Financial liabilities				
Investment contracts at fair value through income	–	4,135,734	–	4,135,734
Liabilities related to policyholders' funds held by the group	502,051	–	–	502,051
Derivative financial instruments	–	126	–	126
Total	**502,051**	**4,135,860**	**–**	**4,637,911**

Fair value measurement at 31 December 2020

Financial assets	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equities				
Listed	10,180	–	–	10,180
Holdings in collective investment schemes	6,521,054	7,825	185,424	6,714,303
Debt securities - fixed rate				
Government Bonds	627,464	–	–	627,464
Corporate Bonds	466,822	393	–	467,215
Debt securities - floating rate Listed	3,880	–	–	3,880
Total debt securities	1,098,166	393	–	1,098,559
Policyholders' funds held by the group	332,117	–	–	332,117
Derivative financial instruments	–	830	–	830
Total	**7,961,517**	**9,048**	**185,424**	**8,155,989**
Current				2,320,635
Non-current				5,835,354
Total				**8,155,989**
Financial liabilities				
Investment contracts at fair value through income	–	4,035,040	–	4,035,040
Liabilities related to policyholders' funds held by the group	332,117	–	–	332,117
Derivative financial instruments	–	3	–	3
Total	**332,117**	**4,035,043**	**–**	**4,367,160**

6 Financial instruments fair value disclosures (continued)

Holdings in collective investment schemes
The fair value of holdings in collective investment schemes 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 2021 £'000	**30 June 2020 £'000**	**31 December 2020 £'000**
At start of period	**185,424**	–	–
Transfers into level 3	–	32,463	32,463
Total gains and losses recognised in the income statement	(279)	(1,189)	3,249
Purchases	–	132,229	143,589
Settlements	–	–	–
Exchange rate adjustment	(8,464)	7,501	6,123
At the end of period	**176,681**	**171,004**	**185,424**

6 **Financial instruments fair value disclosures (continued)**

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

	Carrying amount			Fair value		
	30 June 2021 £000	30 June 2020 £000	31 December 2020 £000	30 June 2021 £000	30 June 2020 £000	31 December 2020 £000
Financial liabilities:						
Borrowings	51,574	79,513	66,955	52,461	81,340	68,371

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.

7 **Portfolio Acquisition**

On 31 December 2020, Waard entered into an agreement to acquire a portfolio of term life insurance policies (TLI), Unit Linked policies (UL) and funeral insurance policies (FUN) from Dutch insurance provider Brand New Day Levensverzekeringen N.V. (BND). The TLI and FUN portfolio was accompanied by cash assets of EUR 10,059,503 and the unit linked assets of EUR 3,488,343.42. The portfolio was successfully migrated on 10 April 2021.

The transaction has given rise to a post completion loss on acquisition of £0.1m calculated as follows:

	Fair value £'000
Assets	
Unit Linked Assets	2,994
Cash	8,634
Total assets	**11,628**
Liabilities	
Insurance contract provisions	11,722
Total liabilities	**11,722**
Net assets	**(94)**
Net liabilities acquired	**11,722**
Total consideration received	**11,628**
Post completion loss on portfolio acquisition	**(94)**

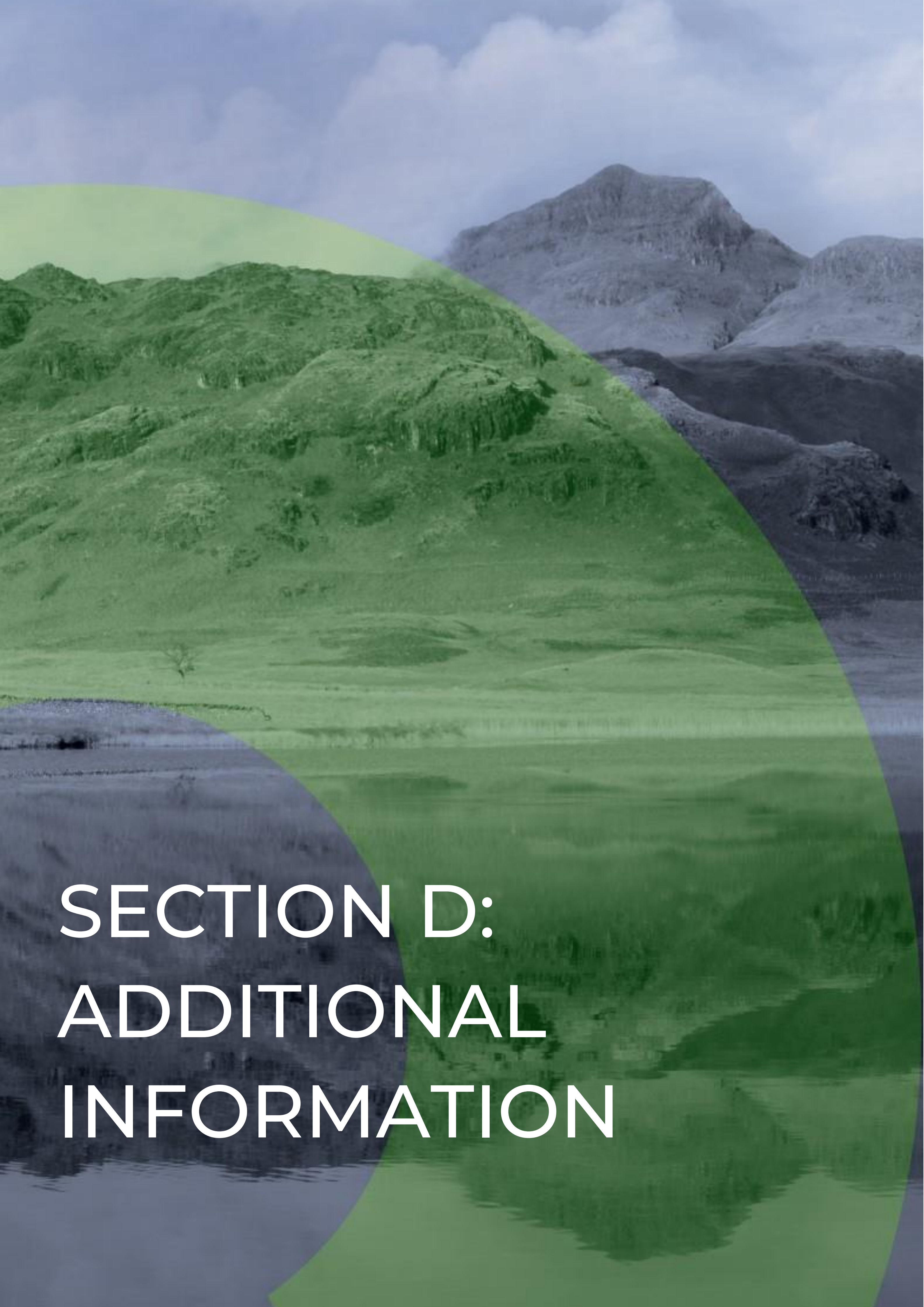
Loss on acquisition: A loss of £0.1m has been recognised on acquisition. This loss on acquisition has been recorded as a "post completion loss on portfolio acquisition" on the face of the statement of comprehensive income.

Acquisition-related costs: Waard concluded the deal and obtained control as of 14 April 2021. The portfolio was acquired for purchase price EUR 1 as of effective cut-off date 1 July 2020. For the period between cut-off date until completion date 14 April 2021 a roll-forward period was agreed. No advisory expenses directly related to the deal were accounted for by Waard. These expenses were borne by affiliated companies Chesnara PLC and Chesnara Holdings B.V. As a result, no addition to the consideration was paid.

The assets and liabilities acquired are included within changes in insurance provisions and financial assets within operating cash flows on the face of the cash flow statement.

8 **Approval of consolidated report for the six months ended 30 June 2021**

This condensed consolidated report was approved by the Board of Directors on 25 August 2021. 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

26 August 2021
Results for the six months ended 30 June 2021 announced

09 September 2021
Interim Ex-dividend date

10 September 2021
Interim dividend record date

24 September 2021
Last date for dividend reinvestment plan elections

22 October 2021
Interim dividend payment date

31 December 2021
End of financial year

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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, these measures aim to assess performance from the perspective of all stakeholders.

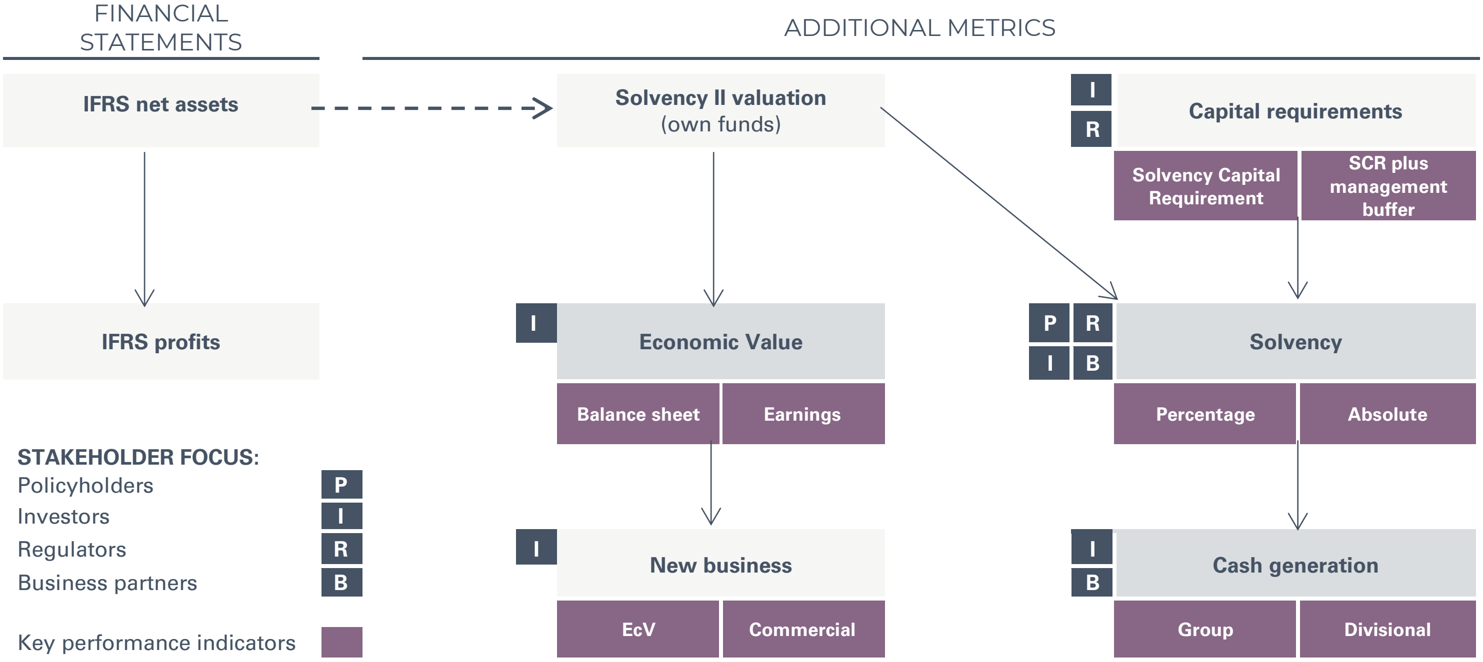
FINANCIAL ANALYSIS OF A LIFE AND PENSION BUSINESS

The IFRS results form the core of the Half Year Report and hence retain prominence as a key financial performance metric. However, this Half Year Report also adopts several Alternative Performance Measures (APMs).

These measures compliment the IFRS metrics and present additional insight into the financial position and performance of the business, from the perspective of all stakeholders.

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.

Further detail on APMs can be found in the appendix on pages 59 and 60.



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 **21** to **23** & **59** to **62**

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 long-term 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 **27** to **29** & **59** to **60**

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 pages **26** & **59** to **62**

OPERATIONAL AND OTHER PERFORMANCE MEASURES

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

KEY STAKEHOLDERS

KEY: ● Primary interest ○ Secondary interest

Measure	Policyholder	Investor	Regulators	Business partner *	What is it and why is it important?	Page
Customer service levels	●	○	●	○	How well we service our customers is of paramount importance and so through various means we aim to assess customer service levels. The business reviews within the Half Year Report refer to a number of indicators of customer service levels.	14-19
Broker satisfaction	●	○	○	●	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.	16-19
Policy investment performance	●	○	●	○	This is a measure of how the assets are performing that underpin policyholder returns. It is important as it indicates to the customer the returns that their contributions are generating.	14-19
Industry performance assessments	●	○	○	○	This is a comparative measure of how well our investments are performing against the rest of the industry, which provides valuable context to our performance.	14-19
Funds under management	○	●	○	○	This shows the value of the investments that the business manages. This is important because scale influences operational sustainability in run-off books and operational efficiency in growing books. Funds under management are also a strong indicator of fee income.	4 & 41
Policy count	○	○	○	○	Policy count is the number of policies that the group manages on behalf of customers. This is important to show the scale of the business, particularly to provide context to the rate at which the closed book business is maturing. In our open businesses, the policy count shows the net impact of new business versus policy attrition.	13
Total shareholder returns		●	○		This includes dividend growth and yield and shows the return that an investor is generating on the shares that they hold. It is highly important as it shows the success of the business in translating its operations into a return for shareholders.	See annual Report & Accounts
New business profitability		●			This shows our ability to write profitable new business which increases the value of the group. This is an important indicator given one of our core objectives is to "enhance value through profitable new business".	16-19
New business market share		○			This shows our success at writing new business relative to the rest of the market and is important context for considering our success at writing new business against our target market shares.	16-19
Gearing ratio		●	○		The gearing is a ratio of debt to debt plus IFRS net assets and shows the extent to which the business is funded by external debt versus internal resources. The appropriate use of debt is an efficient source of funding but in general Chesnara seeks to avoid becoming overly dependent on permanent debt on the balance sheet.	See annual Report & Accounts
Knowledge, skills and experience of the Board of Directors	○	●	●	○	This is a key measure given our view that the quality, balance and effectiveness of the Board of Directors has a direct bearing on delivering positive outcomes to all stakeholders.	See annual Report & Accounts

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

ALTERNATIVE PERFORMANCE MEASURES

Throughout our Half Year Report we use Alternative Performance Measures (APMs) to supplement the assessment and reporting of the performance of the group. These measures are those that are not defined by statutory reporting frameworks, such as IFRS or Solvency II.

The APMs aim to assess performance from the perspective of all stakeholders, providing additional insight into the financial position and performance of the group and should be considered in conjunction with the statutory reporting measures such as IFRS and Solvency II.

The following table identifies the key APMs used in this report, how each is defined and why we use them. Further information can be found in the Overview (Section A), with detailed reference within the Financial Review (pages 26 to 31).

APM	What is it?	Why do we use it?	Ref
Economic Value (EcV)	EcV is a financial metric that is derived from Solvency II Own Funds 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. We define EcV as being the Own Funds adjusted for contract boundaries, risk margin and restricted with-profit surpluses. As such, EcV and Own Funds have many common characteristics and tend to be impacted by the same factors.	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.	See EcV analysis on page 28
Economic Value (EcV) earnings	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.	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.	See EcV Earnings analysis on page 27
EcV operating earnings	This is the element of EcV earnings (see above) that are generated from the 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.	EcV operating earnings are important as they provide an indication of the underlying value generated by the business. It can help identify profitable activities and also inefficient processes and potential management actions.	See EcV Earnings analysis on page 27
EcV economic earnings	This is the element of EcV earnings (see above) that are derived from investment market conditions in the period and any economic assumption changes in the future.	EcV economic earnings are important in order to measure the additional value generated from investment market factors.	See EcV Earnings analysis on page 27
Commercial new business profit	A more commercially relevant measure of new business profit than that recognised directly under the Solvency II regime, allowing for a modest level of return, over and above risk-free, and exclusion of the incremental risk margin Solvency II assigns to new business.	This provides a fair commercial reflection of the value added by new business operations and is more comparable with how new business is reported by our peers, improving market consistency.	See Business Review section on pages 14 to 19

ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

APM	What is it?	Why do we use it?	Ref
Group 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.	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'.	See cash generation on page 26 and reconciliation on page 62
Divisional 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. 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.	It is an important indicator of the underlying operating performance of the business before the impact of group level operations and consolidation adjustments.	See cash generation on page 26
Commercial 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. Commercial cash generation excludes the impact of technical adjustments, modelling changes and exceptional corporate activity; representing the underlying commercial cash generated by the business.	Commercial cash generation aims to provide stakeholders with enhanced insight into cash generation, drawing out components of the result relating to technical complexities or exceptional items. The result is deemed to better reflect the underlying commercial performance, show key drivers within that.	See cash generation on page 26 and annual Report & Accounts
Funds under management (FuM) IFRS	FuM reflects the value of the financial assets that the business manages, as reported in the IFRS Consolidated Balance Sheet.	FuM are important as it provides an indication of the scale of the business, and the potential future returns that can be generated from the assets that are being managed.	See Consolidated Balance Sheet on page 41
Operating profit, excluding AVIF impairment IFRS	A measure of the pre-tax profit earned from the company's ongoing business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future. This also excludes any intangible asset adjustments that are not practicable to ascribe to either operating or economic conditions.	Operating earnings are important as they provide an indication of the underlying profitability of the business. It can help identify profitable activities and also inefficient processes and potential management actions.	See reconciliation to pre-tax profit on page 29 and annual Report & Accounts
Economic profit, excluding AVIF impairment IFRS	A measure of pre-tax profit earned from investment market conditions in the period and any economic assumption changes. This also excludes any intangible asset adjustments that are not practicable to ascribe to either operating or economic conditions.	Economic earnings are important in order to measure the surplus generated from investment market factors.	See reconciliation to pre-tax profit on page 29 and annual Report & Accounts
Acquisition value gain (incremental value)	Acquisition value gains reflect the incremental Economic Value added by a transaction, exclusive of any additional risk margin associated with absorbing the additional business.	The EcV gain from acquisition will be net of any associated increase in risk margin. The risk margin is a temporary Solvency II dynamic which will run off over time.	See Chairman's Statement and Acquire Life & Pensions Businesses on page 20
Leverage / gearing	A financial measure that demonstrates the degree to which the company is funded by debt financing versus equity capital, presented as a ratio. It is defined as bank debt divided by bank debt plus equity, as measured under IFRS.	It is an important measure as it indicates the overall level of indebtedness of Chesnara and it is also a key component of the bank covenant arrangements held by Chesnara.	See Financial Management in annual Report & Accounts

RECONCILIATION OF METRICS

As illustrated in the diagram on page 57, the key interaction between our statutory reporting rules under IFRS and the alternative performance measures is with the Solvency II valuation and the Own Funds balance.

A reconciliation from IFRS net assets to Solvency II Own Funds is shown below:

£m	30 Jun 2021	31 Dec 2020	Rationale
Group IFRS net assets	**467.9**	**487.1**	
Removal of intangible assets; AVIF, DAC and DIL	(126.4)	(137.7)	Intangible assets that cannot be sold separately have no intrinsic value under Solvency II rules.
Removal of IFRS reserves, net of reinsurance	8,283.9	8,082.0	Actuarial reserves are calculated differently between the two methodologies and hence IFRS reserves are replaced with Solvency II technical provisions. The main differences in methodology are discussed further below.
Inclusion of SII technical provisions, net of reinsurance	(8,038.2)	(7,856.1)	
Other valuation differences	0.6	10.9	Other immaterial valuation differences.
Deferred tax valuation differences	(0.4)	4.4	These are the deferred tax impacts as a result of the adjustments above.
Foreseeable dividends	(11.8)	(21.4)	Under Solvency II rules, future 'foreseeable dividends' are required to be recognised within Own Funds. Under IFRS rules, dividends are recognised when paid.
Ring-fenced surpluses	(1.8)	(1.5)	Solvency II requires that Own Funds are reduced by any surpluses that are restricted. For Chesnara this relates to surpluses within the two S&P with-profits funds, which are temporarily restricted. These restrictions are removed through periodic capital transfers.
Group SII Own Funds	**573.8**	**567.7**	

The main differences between the two methodologies for calculating actuarial reserves are as follows:

- IFRS reserves continue to be largely based on the Solvency I regimes in place in each of the divisions. The main difference between IFRS and Solvency I is the inclusion of an additional cost of guarantee reserve in each of the with-profit funds in CA plc.
- IFRS assumptions contain prudence margins, whereas the Solvency II assumptions are best estimate.
- Solvency II requires the establishment of contract boundaries to determine whether an insurance obligation or reinsurance obligation is to be treated as existing or future business, with only existing business considered in scope for the calculation of technical provisions.
- Solvency II requires the inclusion of a risk margin to reflect inherent uncertainties within the estimated liabilities.
- Other valuation differences, such as IFRS future liability cash flows are discounted using a valuation rate of interest based on the risk-adjusted yield on held assets, whereas Solvency II uses a swaps-based risk-free discount curve, as prescribed by EIOPA.

RECONCILIATION OF METRICS (CONTINUED)

Solvency II position
Solvency II is the solvency regime that applies to the group. Over and above IFRS, Solvency II imposes a capital requirement on the group.

A summary of the solvency position of the group at 30 June 2021 and 31 December 2020 is as follows:

£m	30 Jun 2021	31 Dec 2020
Group SII Own Funds (OF)	573.8	567.7
Solvency Capital Requirement (SCR)	375.1	363.7
Solvency surplus	198.7	204.0
Solvency ratio	153%	156%

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. For further information on cash generation please refer to page 26 and the Financial Review section.

Cash generation can be derived from the opening and closing solvency positions as follows:

	£m
Opening solvency II surplus, including management buffer of 10%:	
Own Funds - 31 Dec 2020	567.7
SCR – 31 Dec 2020	363.7
Management buffer (10% of SCR)	36.4
Surplus available for distribution - 31 Dec 2020	**167.6**
Closing solvency II surplus, including management buffer of 10%:	
Own Funds – 30 Jun 2021	573.8
SCR – 30 Jun 2021	375.1
Management buffer (10% of SCR)	37.5
Surplus available for distribution - 30 Jun 2021	**161.2**

The closing Solvency II position at 30 June 2021 reflects the payment of the 2020 final dividend of £21.4m paid in May and reflects a foreseeable dividend of £11.8m due to be paid later in 2021. As these are distributions to shareholders, akin to IFRS profit reporting, these do not form part of the cash generation metric and should be excluded. Consequently, group Cash generation can be derived as follows:

	£m
Closing surplus available for distribution less opening available surplus for distribution	(6.5)
Add back: Foreseeable interim dividend	11.8
Group cash generation	**5.4**

GLOSSARY

AGM	Annual General Meeting.
ALM	Asset Liability Management - management of risks that arise due to mismatches between assets and liabilities.
APE	Annual Premium Equivalent - an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.
CA	Countrywide Assured plc.
CALH	Countrywide Assured Life Holdings Limited and its subsidiary companies.
BAU Cash Generation	This represents divisional cash generation plus the impact of non-exceptional group activity.
BLAGAB	Basic life assurance and general annuity business
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.
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.
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.
DNB	De Nederlandsche Bank is the central bank of the Netherlands and is the regulator of our Dutch subsidiaries.
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.
Dutch Business	Scildon and the Waard Group, consisting of Waard Leven N.V., Waard Schade N.V. and Waard Verzekeringen B.V.
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).
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.
FCA	Financial Conduct Authority.
FI	Finansinspektionen, being the Swedish Financial Supervisory Authority.
Form of Proxy	The form of proxy relating to the General Meeting being sent to shareholders with this document.
FSMA	The Financial Services and Markets Act 2000 of England and Wales, as amended.
Group	The company and its existing subsidiary undertakings.
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.
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.
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 regulated undertakings.
Group Solvency	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.
HCL	HCL Insurance BPO Services Limited.
IFRS	International Financial Reporting Standards.
IFA	Independent Financial Adviser.
KPI	Key performance indicator.
Leverage (gearing)	A financial measure that demonstrates the degree to which the company is funded by debt financing versus equity capital, usually presented as a ratio.
London Stock Exchange	London Stock Exchange plc.
LTI	Long-Term Incentive Scheme - A reward system designed to incentivise executive directors' long-term performance.
Movestic	Movestic Livförsäkring AB.
Modernac	Modernac SA, a previously associated company 49% owned by Movestic.
New business	The present value of the expected future cash inflows arising from business written in the reporting period.
Official List	The Official List of the Financial Conduct Authority.
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).
Ordinary Shares	Ordinary shares of five pence each in the capital of the company.
ORSA	Own Risk and Solvency Assessment.
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.
PRA	Prudential Regulation Authority.
QRT	Quantitative Reporting Template.
ReAssure	ReAssure Limited.
Resolution	The resolution set out in the notice of General Meeting set out in this document.
RMF	Risk Management Framework.
Scildon	Scildon NV.
Shareholder(s)	Holder(s) of Ordinary Shares.
Solvency II	A fundamental review of the capital adequacy regime for the European insurance industry. Solvency II aims to establish a set of EU-wide capital requirements and risk management standards and has replaced the Solvency I requirements.
Standard Formula	The set of prescribed rules used to calculate the regulatory SCR where an internal model is not being used.
STI	Short-Term Incentive Scheme - A reward system designed to incentivise executive directors' short-term performance.
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.
Swedish Business	Movestic and its subsidiaries and associated companies.
S&P	Save & Prosper Insurance Limited and Save & Prosper Pensions Limited.
TCF	Treating Customers Fairly - a central PRA principle that aims to ensure an efficient and effective market and thereby help policyholders achieve fair outcomes.
TSR	Total Shareholder Return, measured with reference to both dividends and capital growth.
UK or United Kingdom	The United Kingdom of Great Britain and Northern Ireland.
UK Business	CA and S&P.
VA	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.
Waard	The Waard Group

NOTE ON TERMINOLOGY

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

CA	which comprises the original business of Countrywide Assured plc, the group's original UK operating subsidiary; City of Westminster Assurance Company Limited, which was acquired by the group in 2005, the long-term business of which was transferred to Countrywide Assured plc during 2006; 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, Waard Verzekeringen; 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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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