

30 March 2023

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Chesnara plc (CSN.L)
(“Chesnara” or “the Company”)

INCREASED ACQUISITION MOMENTUM WITH STRONG CASH GENERATION, SUPPORTING A PROPOSED 3% INCREASE IN FINAL DIVIDEND

Chesnara reports its 2022 full year results. Key highlights are:

- Completion of the Sanlam Life & Pensions and Robein Leven transactions, with the acquisition of Conservatrix's insurance portfolio completed on 1 January 2023
- Strong group commercial cash generation of £46.6m
- Robust solvency of 197%, above normal 140-160% operating range
- Economic value (“EcV”) of £532.3m (354p per share), pro forma for Conservatrix acquisition
- Proposed 3% increase to the full year dividend (total 2022 dividend of 23.28p per share)

Commenting on the results, Steve Murray, Group CEO, said:

“The completion of three transactions over the past 12 months has shown that we have real momentum behind our acquisition strategy. The wider business has performed robustly despite the high level of market volatility reducing the group's Economic Value. We retain a strong and resilient solvency position with substantial cash balances at the holding company level, supporting our continued track record of growing our dividend. We remain optimistic about our ability to participate in future M&A and continue to be highly confident in our ability to finance and execute such transactions on attractive terms for both vendors and our shareholders.”

A full year results presentation is being held at 9:30am on 30 March 2023 – participants can register [here](#).

Further details on the financial results are as follows:

2022 FULL YEAR FINANCIAL AND STRATEGIC HIGHLIGHTS

CASH GENERATION AND DIVIDENDS - 18 YEARS OF DIVIDEND GROWTH

- Total divisional base cash generation⁽¹⁾ for FY 2022 was £61.9m (FY 2021: £31.1m) despite volatile market conditions. Divisional commercial cash generation⁽¹⁾ for FY 2022 was £25.9m (FY 2021: £58.5m)
- Group commercial cash⁽¹⁾ generation of £46.6m in FY 2022 (FY 2021: £53.0m) represents 133% dividend coverage.

- The results during the year, combined with the group's balance sheet strength, support a further year of dividend growth. The Board has proposed a 2022 final dividend of 15.16p per share (2022 total dividend of 23.28p), which is a 3% increase compared to 2021 and extends the period of uninterrupted dividend growth to 18 years.

FINANCIAL RESILIENCE - WELL POSITIONED FOR FUTURE M&A

- Solvency II ratio of 197% as at 31 December 2022 (31 December 2021: 152%), materially above our normal operating range of between 140-160%. The increase has been driven in part by the issue of £200m of Tier 2 subordinated debt in February 2022 and provides significant headroom for future M&A activity.
- Cash balances at group holding companies increased over the period to £108.1m (31 December 2021: £46.1m), with resources of over £100m available for future acquisitions and to support the dividend strategy.
- Management actions have remained a focus for the group during the year, with the financial exposure to currency movements reduced through the execution of an FX hedge.
- Leverage ratio⁽²⁾ of 37.6% as at 31 December 2022 (31 December 2021: 6.4%, 30.4% on a pro forma basis) has increased due to the £200m Tier 2 debt issuance and IFRS losses during the year.

DELIVERING VALUE – EXECUTING OUR RENEWED STRATEGY

- The Sanlam Life & Pensions and Robein Leven transactions completed in April 2022, adding further scale to the group's UK and Dutch businesses respectively and increasing expected annual steady state cash generation by £6m per annum.
- The group also completed the acquisition of the insurance portfolio of Conservatrix in the Netherlands in January 2023, with the transaction expected to double Waard's steady state cash generation to £8m per annum.
- Total group capital deployed in the three acquisitions of Sanlam Life & Pensions, Robein Leven and Conservatrix totalled over £110m, of which £85m was funded from holding company cash reserves, with day 1 EcV accretion estimated at £42m and additional steady state cash generation of £10m per annum for those completed.
- Commercial new business profit⁽³⁾ of £9.5m in FY 2022 (FY 2021: £9.6m).
- In line with our FY 2021 sensitivities, Economic Value (EcV) of £511.7m as at 31 December 2022 (31 December 2021: £624.2m), has reduced over the year due to economic conditions, including the fall in equity markets and widening of credit spreads, partly offset by the positive impacts of the acquisitions of Sanlam Life & Pensions and Robein Leven. Pro forma for the Conservatrix acquisition, EcV is £532.3m (354p per share) as at 31 December 2022.
- Multiple sources of growth create a long-term commercial value which is significantly in excess of the reported Economic Value.

COMMITMENT TO SUSTAINABILITY

- The group has set new long term sustainability targets, with the aim to have net zero financed emissions by 2050 and net zero operational emissions by 2028. More detail can be found in the group's inaugural Annual Sustainability Report, which has been published today.

IFRS PRE-TAX PROFITS/LOSSES

- IFRS pre-tax losses were £147m in FY 2022 (FY 2021 IFRS pre-tax profits: £28.8m). These were driven by adverse investment conditions which resulted in a fall in asset values, which due to an inherent accounting mismatch under IFRS means assets are fair valued through the P&L and liabilities are largely not. This accounting mismatch means that IFRS results do not reflect the commercial reality of how assets and movements in their values are used to match liabilities. Insurers globally will be adopting a new accounting standard from 2023 onwards – IFRS 17 – to overcome some of these mismatches between the historical treatment of assets and liabilities.
- The group has today provided a separate update on the introduction of IFRS17.

DIVIDEND DETAILS

- The recommended final dividend of 15.16p per share is expected to be paid on 26 May 2023. The ordinary shares will be quoted ex-dividend on the London Stock Exchange as of 6 April 2023. The record date for eligibility for payment will be 11 April 2023.

ANALYST PRESENTATION

- A presentation for analysts will be held at 9.30am on 30 March 2023 at the offices of Panmure Gordon & Co, 40 Gracechurch Street, London, EC3V 0BT which will be available to join online. A replay will subsequently be posted to the corporate website at www.chesnara.co.uk.
- To join the webcast, please register using the following link [here](#).

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Notes to Editors

Chesnara (CSN.L) is a European life and pensions consolidator listed on the London Stock Exchange. It administers approximately one million policies and operates as Countrywide Assured and CASLP in the UK, as The Waard Group and Scildon in the Netherlands, and as Movestic in Sweden.

Following a three-pillar strategy, Chesnara's primary responsibility is the efficient administration of its customers' life and savings policies, ensuring good customer outcomes and providing a secure and compliant environment to protect policyholder interests. It also adds value by writing profitable new business in Sweden and the Netherlands and by undertaking value-adding acquisitions of either companies or portfolios.

Consistent delivery of the company strategy has enabled Chesnara to increase its dividend for 18 years in succession. Further details are available on the company's website (www.chesnara.co.uk).

Notes

- Note 1 **Divisional cash generation** represents the cash generated by the operating divisions of Chesnara (UK, Sweden and the Netherlands), exclusive of group level activity.
Commercial cash generation is used as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed. It excludes the impact of technical adjustments, modelling changes and corporate acquisition activity; representing the group's view of the commercial cash generated by the business.
- Note 2 The **leverage ratio** is 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 debt divided by debt plus equity, as measured under IFRS. This is consistent with how Fitch would assess us from a leverage perspective.
- Note 3 **Commercial new business profit** is 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.

The Board approved this statement on 29 March 2023.

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.

2022 HIGHLIGHTS

GROUP CASH GENERATION £82.7M 2021 £20.3M

COMMERCIAL CASH GENERATION £46.6M 2021 £53.0M

A strong cash result was delivered in 2022 with group cash generation of £82.7m (excluding the day 1 impact of the two acquisitions completed in the year), which includes £61.9m of cash generation from our divisions. The result has benefitted from the positive impact of the symmetric adjustment (which has been beneficial as a result of falling equity prices in the year). Commercial cash generation, which adjusts for items such as the symmetric adjustment gives a view of the underlying cash generation in Chesnara and is analysed in more detail in the financial review section. Commercial cash generation of £46.6m more than covers the 2022 dividend. Both cash metrics include the impact (£36.5m) of having hedged an element of our FX exposure during the year.

GROUP SOLVENCY 197% 2021 152%

The group solvency improvement is largely due to the impact of the Tier 2 debt raised, being significantly higher than the strains from the acquisitions completed in the period. Looking through these transaction impacts, the underlying solvency has increased by 10 percentage points.

FUNDS UNDER MANAGEMENT £10.6BN 2021 £9.1BN

FuM growth since the start of the year has been primarily delivered through our two completed acquisitions. Volatile economic conditions impacted asset values which has had an adverse impact on FuM.

ECONOMIC VALUE £511.7M 2021 £624.2M

The EcV result was particularly affected by falls in equity markets and bond prices in the year, moving in line with our published sensitivities. Other negative factors include the impact of dividend distributions (£34.3m). Acquisitions completed in the year contributed £21.4m to EcV.

ECONOMIC VALUE EARNINGS £(106.1)M 2021 £57.8M

The year-on-year swing is predominantly due to volatile economic conditions in the period.

COMMERCIAL NEW BUSINESS PROFIT £9.5M 2021 £9.6M

Profits from Scildon remain stable but challenging equity market conditions in Sweden have had a negative impact on their new business result versus 2021.

IFRS PRE-TAX LOSS £146.9M 2021 £28.8M PROFIT

The result contains large losses arising from economic conditions of £151.7m (2021: £11.8m), largely in our Dutch businesses. Our reserving approach in Scildon means that the result bears the full impact of interest rate increases on asset values but no credit is recognised for the associated reduction in liabilities.

IFRS TOTAL COMPREHENSIVE INCOME £(91.9)M 2021 £3.8M

There was a relatively modest foreign exchange impact of £5.8m in 2022 compared to the prior year (loss of £23.9m). Total comprehensive income benefits from a £48.6m tax credit (2021: £1.5m tax charge).

FULL YEAR DIVIDEND INCREASED FOR THE 18th CONSECUTIVE YEAR

Total dividends for the year increased by 3% to 23.28p per share (8.12p interim and 15.16p proposed final). This compares with 22.60p in 2021 (7.88p interim and 14.72p final). The two completed acquisitions and one recently

announced acquisition are expected to positively support future cash generation.

2022 HAS SEEN VOLATILE ECONOMIC CONDITIONS WITH RISING INTEREST RATES, FALLING EQUITY MARKETS AND INFLATIONARY PRESSURE

The financial results have been heavily impacted by the economic conditions in 2022, particularly in the first half of the year. The war in Ukraine and uncertainty in financial markets have been reflected in falling equity values and rising interest rates which, coupled with the impact of inflationary pressures, have led to negative investment returns and economic losses across the operating divisions. The impact of these economic factors has been felt, to varying degrees, across all of our financial metrics.

THE GROUP CONTINUES TO EXPAND THROUGH M&A

In 2022, we completed the two acquisitions announced late in 2021 and announced a further acquisition in the Netherlands. The acquisitions of Sanlam Life & Pensions (UK) Limited (now renamed CASLP) and Robein Leven in the Netherlands, both completed successfully during the second quarter of 2022, delivered a combined c9% uplift in policies within the group portfolio and a total day 1 EcV gain of £21.4m.

Expansion in the Netherlands has continued under the Waard Group in 2022 following the announcement of the acquisition of the insurance portfolio of Conservatrix NV, which subsequently completed early in 2023. This transaction delivers a material increase in Waard's policies under administration of c60%.

We remain optimistic about the outlook for future deals.

These financial highlights include the use of Alternative Performance Measures (APMs) that are not required to be reported under International Financial Reporting Standards.

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 represents the best estimate of 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.

9 – Commercial cash generation is used as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed. It excludes the impact of technical adjustments, modelling changes and corporate acquisition activity; representing the group's view of the Commercial cash generated by the business.

MEASURING OUR PERFORMANCE

Throughout our Report & Accounts we use measures to assess and report how well we have performed. The range

of measures is broad and includes many measures that are not based on IFRS. The financial analysis of a life and pensions business also needs to recognise the importance of Solvency II figures, the basis of regulatory solvency. In addition, the measures aim to assess performance from the perspective of all stakeholders.

FINANCIAL ANALYSIS OF A LIFE AND PENSION BUSINESS

The IFRS results form the core of the Report & Accounts and hence retain prominence as a key financial performance metric. However, this preliminary announcement 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 list below shows the core financial metrics that sit alongside the IFRS results, together with their associated KPIs and interested parties.

FINANCIAL STATEMENT KPIS:

- IFRS net assets
- IFRS profits

ADDITIONAL METRICS:

- Solvency
 - Own Funds
 - Solvency Capital Requirement (SCR)
 - SCR plus management buffer
 - Solvency position (absolute value)
 - Solvency position ratio
- Cash generation
 - Group base and commercial cash generation
 - Divisional base and commercial cash generation
- Economic Value
 - Balance sheet
 - Earnings
- New business
 - EcV
 - Commercial

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).

ECONOMIC VALUE

Economic Value (EcV) is deemed to be a more meaningful measure of the long-term value of the group than Own Funds. 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. By factoring in real world investment returns and removing the impact of risk margins, the group determines the value of new business on a commercial basis.

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.

Commercial cash generation excludes the impact of technical adjustments, modelling changes and corporate acquisition activity; representing the group's view of cash generated by the business.

OPERATIONAL AND OTHER PERFORMANCE MEASURES

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

MEASURE	WHAT IS IT AND WHY IS IT IMPORTANT?
Customer service levels	How well we service our customers is of paramount importance and so through various means we aim to assess customer service levels. The business reviews within the Report & Accounts refer to a number of indicators of customer service levels.
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 Report & Accounts, including direct broker assessment ratings for Movestic and general assessment of how our brands fare in industry performance awards in the Netherlands.
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, and options available to invest in funds that focus on environmental, social and governance factors.
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.
Emissions and water/energy usage	Tracking our scope 1, 2 and 3 (non-financed) emissions is a core part of our transition to be a net zero and sustainable group.
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.
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.
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.
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".
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.
Gearing ratio	The gearing is a ratio of debt to IFRS net assets and shows the extent to which the business is funded by external debt versus internal resources (defined as debt divided by debt plus equity). The appropriate use of debt is an efficient source of funding.
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. This includes holding the management teams accountable for the delivery of set objectives and the proper assessment of known and emerging risks and opportunities, e.g. those arising from climate change.

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

CHAIR'S STATEMENT

I am delighted to report that our divisions have continued to deliver a strong level of cash generation despite significant economic volatility during the year. This has supported an increase in our dividend for an 18th consecutive year.

LUKE SAVAGE, CHAIR

CASH EMERGENCE, DIVIDEND AND FINANCIAL STABILITY

Chesnara has a strong track record of delivering cash generation across a variety of market conditions. 2022 has been no different, with total divisional cash generation of £61.9m leaving us well positioned to further extend our 18 years of continued dividend growth. Our shareholders will receive 23.28p per share, an increase of 3%.

Financial stability is at the heart of the Chesnara business and its financial model. First and foremost, it is fundamental to providing financial security to our customers. Strong and stable solvency is also critical to the investment case for both our equity and debt investors.

In light of this, I am pleased to report our solvency position remains robust, with a closing Solvency II ratio of 197%, significantly above our normal operating range, providing us with considerable strategic optionality. Our solvency position remains underpinned by a well-diversified business model, a focus on responsible risk-based management and resilient and reliable cash flows from our businesses. Our previously announced Tier 2 debt raise in February 2022 was also a material contributor to our improved solvency ratio.

PEOPLE AND DELIVERY

Following the initial impact from the pandemic, operating conditions have stabilised and across the group we have settled into effective and flexible hybrid working conditions. However, while operating conditions have become less challenging we are aware that our workforce is becoming increasingly challenged by the wider cost of living crisis. With this in mind, we have supported all UK staff whose salaries are below the higher rate tax threshold with two one-off payments in August and December broadly in line with the estimated increase in average household expenditure witnessed to date. We have also offered pay increases which are sympathetic to inflationary pressures our employees are exposed to. Beyond financial reward we have rolled out a Wellness Support programme. This offers tailored one-to-one lifestyle coaching designed to help staff manage the challenges associated with increasingly stressful but often sedentary lifestyles. The programme initially covers the UK head office but delivery of similar programmes will become a core requirement across the wider group as a key objective of our Sustainability Programme.

Across the group our people have continued to deliver. We have completed the acquisitions of Sanlam Life & Pensions (UK) Limited in the UK and Robein Leven in the Netherlands. On both deals our teams have been working hard integrating those new businesses into the group. Positive progress has been made on the Sanlam integration, including planning for the Part VII process. The integration of Robein Leven is now largely complete. Furthermore, we completed the acquisition of the insurance portfolio of Conservatrix in the Netherlands on 1 January 2023. This transaction transforms our Dutch closed life business, Waard, increasing its policies under administration by over 60% and creating a second material closed book consolidation business alongside Chesnara's existing UK platform.

In Sweden, there has been a strong focus on improving the transfer ratio with a marked reduction in the rate at which business transfers out from our portfolio. There are also positive early signs of improved new business as local management focus on maximising the expected opportunity from recent regulatory changes in Sweden.

Staff have also been working hard to ensure we can meet the requirements of IFRS 17 which became effective from the start of 2023. Our programme is progressing well and we are on track to produce the half year 2023 figures as required. We retain our view that the transition to IFRS 17 will have minimal commercial impact on how we manage the business, the risks it is exposed to or the financial outcomes we expect. This, together with the successful Tier 2 debt raise in February 2022, leaves us well placed to fund future acquisition activity.

One final action I wanted to highlight is the implementation of a foreign currency hedge during the second half of the year. This has materially reduced our exposure to FX movements between sterling and both the euro and Swedish krona. In addition to reducing the real world exposure, the hedge has also materially reduced the level of currency risk capital we have to hold thereby increasing the headline solvency ratio by c11 percentage points.

Of course, these major developments are in addition to continuing to deliver all customer and regulatory business-as-usual responsibilities.

In short, it has been a period of significant operational delivery and I would like to take this opportunity to thank staff for their continued commitment and efforts.

PURPOSE

At Chesnara, we help protect customers and their dependents through the provision of life, health, and disability cover or by providing savings and pensions to meet future financial needs. These are very often customers that have come to us through acquisition, and we are committed to ensuring that they are positively supported by us.

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.

Our equity investors are a key stakeholder, and I am pleased that we have announced a 3% increase in the 2022 dividend to 23.28 pence per share. Our debt investors have also received their first full year's worth of debt coupon payments since the Tier 2 raise in February 2022.

We have also been fully respectful of Environmental, Social and Governance ('ESG') matters. In particular, we have positioned governance as being a core foundation to the business model and have a well-established governance framework.

Over recent years we have increased our focus on environmental matters and we have accelerated and deepened this focus during the year. As we take stock of our environmental status, we continue to believe that our current position is relatively strong across all divisions and there are many examples of positive environmental actions. That said, we are also extremely conscious that we need to more formally substantiate our environmental footprint and, based on this assessment, agree and report targets for how we commit to reduce to net zero.

A group wide sustainability programme has been initiated during the period which is building on the excellent work done in the divisions thus far. The programme has Executive and Non-Executive sponsorship, with David Rimmington leading executive oversight of the programme and Jane Dale chairing our new Group Sustainability Committee. This work will look to transform Chesnara into a sustainable business. The scale of the task for us and the rest of the industry is huge and an initial priority for the programme will be to formally measure our scope 3 financed emissions, to go with our understanding of the impact of our operating framework. This will allow us to establish a formal road map to the ultimate net zero target and an action-based transition plan to demonstrate how we will deliver the associated real world change. We have produced our inaugural Annual Sustainability Report (available on the Chesnara website) which provides details on our commitments and long term targets, as well as key activities for the wider sustainability strategy.

OUTLOOK

Sources of future growth remain strong. The reduction in Economic Value during the period has been driven largely by the impact of the war in Ukraine and wider geopolitical factors have had on equity markets. However, we retain our view that, despite such short-term market volatility, equities continue to offer a source of long term value enhancement. Furthermore, with the completion of the Conservatrix acquisition, we expect a level of value recovery during the first quarter of 2023.

In addition, the outlook for acquisitions is positive. We continue to expect the market to be active and we have taken actions to enhance our ability to participate in that market, including the issuance of our inaugural Tier 2 bond in February 2022.

Luke Savage,
Chair
29 March 2023

CHIEF EXECUTIVE OFFICER'S REPORT

The acquisition of the Conservatrix insurance portfolio was the third transaction Chesnara has announced over the past year, highlighting the renewed growth momentum behind our M&A strategy

STEVE MURRAY, CEO

INTRODUCTION & RESULTS

As I look back on 2022, it is hard to underestimate the extreme and volatile economic and geopolitical backdrop we have all witnessed and operated in. As part of my annual 2021 report, I highlighted Chesnara's track record of delivering through a very wide range of market conditions over its history and we have done so yet again in 2022, both in terms of cash generation and acquisitions. We have generated £46.6m of Commercial cash, representing 133% coverage of the 2022 total dividend. Commercial cash provides good insight into the underlying cash generation dynamics of the group. The symmetric adjustment (a feature of our capital model which means we hold more capital when equity markets rise sharply and can then release capital if we see corresponding falls) and the implementation of a FX hedge have generated additional cash, resulting in total group cash generation of £82.7m (excluding the impact of acquisitions). This level of cash generation against such a negative external market backdrop clearly demonstrates the resilience of our business model and is expected to enable our divisions to pay c£74m of dividends to Chesnara plc in early 2023. Our solvency position remains strong and well above our normal operating range of 140%-160%, leaving us well positioned to fund our M&A strategy and withstand future financial volatility.

In 2022, we have re-energised our strategy whilst remaining focused on doing three things:

1. Running in-force insurance and pensions books efficiently and effectively.

- We now look after c1 million policyholders and customers who have c£11.0bn of their assets with us, following the acquisition of Conservatrix's insurance portfolio which completed on 1 January 2023.
- We have seen the benefits of positive retention activity. In Sweden, we have seen a marked reduction in the rate at which policies have been transferring out from the Movestic portfolio.
- Our business model has meant there has been a relatively immaterial impact on our balance sheet from the high inflationary backdrop across the UK and Europe.

2. Seeking out and delivering value enhancing M&A opportunities:

- This is an area where we have seen extensive activity across the group compared to recent years. During 2022, we completed the acquisitions of CASLP and Robein Leven and the integration of these businesses within the group is well underway.
- In July 2022, we also announced the acquisition of the insurance portfolio of Conservatrix in the Netherlands and the deal completed on 1 January 2023. A capital contribution of £35m has been provided by the group to support the solvency position of the Conservatrix business, ensuring that Conservatrix customers will benefit from becoming part of a well-capitalised group after a significant period of uncertainty. Our updated expectation is the transaction will add c£21m to Economic Value and deliver steady state cash generation of c£4m each year, supporting our dividend strategy. As a reminder, CASLP and Robein Leven combined added £21.4m in EcV and should deliver additional steady state cash generation of c£6m each year.
- Our February Tier 2 debt raise of £200m proved to be very well timed to support this activity, with capital resources required to support our three announced transactions totalling over £110m, of which £85m was funded from holding company cash reserves. And it provides financial flexibility to support further acquisitions where we continue to have material resources of over £100m.

3. Writing focused, profitable new business where we are satisfied an appropriate return can be made.

- During the period we have delivered record market shares of term new business in Scildon. Against a backdrop where the overall term market shrank in 2022, we have seen a 3.5% period on period increase in total volumes. In Movestic we have seen increments return to pre COVID-19 levels plus an encouraging trend in new transfer business. The inflated levels of transfers out we have seen over the last 24 months are also now back in line with our longer term assumptions.

Remaining focussed on these three strategic aims has had a positive impact on the results in the period and importantly enhanced the outlook for the group. However, these positive impacts have been more than offset by the adverse short term impacts of very volatile economic and market conditions on the IFRS and Economic Value (EcV) results during the period, where we have reported losses of £146.9m and £106.1m respectively.

CONTINUED DELIVERY OF RESILIENT CASH GENERATION AND ROBUST SOLVENCY

At the heart of the Chesnara financial model and investment case is resilient cash generation and stable solvency.

RESILIENT CASH GENERATION

The total group cash generation (excluding the impact of acquisitions) during the year was £82.7m (2021: £20.3m). As a reminder, we define cash as the movement in the group's surplus Own Funds above the group's internally required capital. The surplus can be impacted by equity markets and currency movements in the near term and by

consolidation adjustments. The divisional results pre-consolidation give a good reflection of the dividend potential rather than looking at the consolidated group figures in isolation.

The total divisional cash generation for the year was £61.9m (2021: £31.1m) and creates significant future dividend paying capacity. The headline divisional cash generation was positively impacted by £36.0m through technical factors such as the symmetric adjustment*. As I mentioned above, this is a feature of the Solvency II Standard Formula whereby reduced capital levels need to be held following periods of sharp equity market falls, such as we have seen this year.

To get a further sense of the inherent cash generation in Chesnara, our alternative Commercial cash metric looks through the symmetric adjustment and foreign exchange translation impacts, along with other less material technical impacts (see Financial Review section for more detailed cash generation analysis).

At a total divisional level, we have generated £25.9m of Commercial cash. We have options to complement any base cash generation by taking capital enhancing management actions. During the latter part of the year, we triggered one such management action and took out a hedge to reduce our exposure to foreign exchange rate movements which created c£26m of additional solvency surplus. This, together with the divisional results, provides coverage well in excess of the shareholder dividend.

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

Cash generation by territory:

Divisional cash generation

£m	2022
UK	40.8
Sweden	16.1
Netherlands	5.0
Total	61.9

Commercial cash generation

£m	
UK	22.0
Sweden	(1.1)
Netherlands	5.0
	25.9
Other group	20.8
Total	46.6

TOTAL COMMERCIAL CASH GENERATION REPRESENTS 133% COVERAGE OF THE 2022 SHAREHOLDER DIVIDEND

The Chesnara parent company cash and instant access liquidity fund balance at 31 December 2022 has increased to c£108m (31 December 2021: £46.1m), which provides future acquisition funding capacity and further supports the sustainable funding of the group dividend. Cash reserves have increased largely as a result of the £200m Tier 2 debt raise in February 2022. This has been offset by the repayment of the pre-existing RCF balances of £31.2m, £62.9m funding for the Sanlam Life & Pensions (UK) Limited (now renamed CASLP) acquisition and a £21.5m capital injection to Waard to support the Conservatrix acquisition. Waard were able to fund the acquisition of Robein Leven without additional capital support from the group. Excluding these items, the underlying balance has remained largely constant as divisional dividend receipts have broadly matched the shareholder dividend payment and other working capital outflows.

Looking forward, we continue to have a strong line of sight to future cash generation over the medium and longer term from the unwind of risk margin and SCR, investment returns above risk free rates, wider synergies and management actions. And that's before further potential benefits from new business and further acquisitions.

STRONG SOLVENCY

During the year we have seen a sharp increase in the group solvency ratio to 197%. The table that follows illustrates that this increase is largely due to the Tier 2 debt issuance, partly offset by the capital resources (mainly the payment of consideration) required to complete the CASLP and Robein Leven acquisitions, together with the impact of a swing in the scale and direction of the symmetric adjustment. Excluding these individually material movements the ratio has continued to remain stable.

	Solvency ratio %*	Solvency surplus £m
2018	158	202.4
2019	155	210.8
2020	156	204.0
2021	152	190.7
2022	197	298.4

**Normal operating solvency range = 140% to 160%*

The closing headline solvency ratio of 197% is significantly above our normal operating range of between 140% and 160%. The solvency ratio does not adopt any of the temporary benefits available from Solvency II transitional arrangements (though we do apply the volatility adjustment in our UK and Dutch divisions). However, the ratio is impacted by the symmetric adjustment; a feature of the Solvency II Standard Formula whereby additional capital needs to be held following periods of strong equity growth. At the end of 2021, the symmetric adjustment was suppressing the solvency ratio by 8%. We noted that this suppressing impact was likely to reverse out over time. This is indeed exactly what we have observed during 2022 when equity markets have fallen, with the symmetric adjustment shifting to a position where it is now enhancing the headline ratio by 10 percentage points.

	Solvency ratio %
SII % 31 Dec 2021	152
Tier 2 impact	49
Robein impact	(1)
SLP impact	(13)
FX hedge	11
Symmetric adjustment impact	10
Annual dividend payments	(10)
Normal business	(1)
SII % 31 Dec 2022	197

We expect to utilise this additional capital surplus as we undertake acquisitions, which should result in the ratio reverting back within the robust and stable 140% to 160% historical range. The recently completed Conservatrix acquisition is expected to reduce the solvency ratio by approximately 15 percentage points to 182% on a pro forma basis as at 31 December 2022. Strategically, it is our intention to deploy further capital in support of value enhancing acquisitions in the future.

THE LONG TERM OUTLOOK FOR GROWTH REMAINS POSITIVE, PARTICULARLY THROUGH M&A

In our 2021 full year accounts, we introduced the concept of the Chesnara 'fan' which illustrates the additional areas of growth potential the group may benefit from that aren't reflected in our Economic Value metric.

We also stated that "Over the medium term, we expect all components of the growth model to be positive, although there can be a level of shorter-term volatility in each element."

Although a one year time period is short, it is worth looking at how the results for 2022 map against the value growth components of the Chesnara 'fan'.

A key element of the growth model is real world investment returns. The reported EcV of the group assumes risk free returns on shareholder and policyholder assets. Given the direct link to external market performance this source of value is the most volatile of the growth sources. In 2021, real world returns represented growth of c£110m. A large proportion of this has reversed with a corresponding loss in 2022 of c£109m. Despite this volatility in the short term, over the long term we expect average returns in excess of risk free, as we have seen historically. Valuing the group assuming relatively conservative returns above the risk free yield, for example using an average of 5% total equity returns per annum, would add significantly upwards of £150m of incremental EcV. In addition, we might reasonably expect a significant proportion of the recent losses to be reversed in the event that markets recovered.

Over time, we expect improvements to operational effectiveness to be a source of value creation, be that through M&A synergies, scale or other positive management actions. During the first half of the year, Countrywide Assured in particular has benefitted from synergies from the CASLP acquisition. Over recent years, including 2021, we have suffered some operational losses particularly relating to investments made in IT systems in Scildon, some regulatory changes, and higher than expected pension transfer outflows in Sweden. It is hugely encouraging to report that there has been a marked reduction in the rate at which business has transferred from the Swedish portfolio in 2022 and we start 2023 with outflow rates being back in line with the long term assumption. The Countrywide Assured expense synergies together with the positive transfer experience in Sweden mean the outlook for operational value growth is much improved.

The other value growth components have all been a source of actual growth during the period. The Own Funds of the group have increased by c£20m directly as a result of risk margin reductions. Acquisitions completed in the period have also added £21.4m of EcV on a marginal costing basis and the Conservatrix deal completed on 1 January 2023 is expected to add a further c£21m of EcV.

FOCUSSED WRITING OF NEW BUSINESS

Writing new business is the third area of focus in the Chesnara strategy. Not only is new business value adding in its own right, importantly it adds scale which in turn enhances operational effectiveness and improves the sustainability of the financial model. During 2022, we have seen steady commercial new business profits of £9.5m.

EQUITY MARKET PERFORMANCE HAS DRIVEN A MARKED REDUCTION IN EcV

Despite a degree of recovery towards the end of the year, we have seen falls in equity markets over the period, particularly in Sweden, and this has been the primary reason why we are reporting a group EcV loss of £106.1m for the year. The overall movement in the group's EcV over the period includes a £21.4m positive impact of the two acquisitions that we completed in the year.

We have grown our Funds Under Management (FuM) in 2022, largely through the completion of CASLP and Robein Leven. This growth was largely offset by the negative effects of increasing yields and falling equity markets on the value of funds.

Growth in FuM

Funds Under Management	£bn	£bn
2018		7.1
2019		7.7
2020		8.5
2021		9.1
2022	7.5	
2022 acquisitions	3.1	
2022 pro forma Conservatrix	0.4	
2022 total		11.0

Growth in policies in force

Policies	000's	000's
----------	-------	-------

2019	891
2020	894
2021	877
2022	853
2022 acquisitions	81
2022 pro forma Conservatrix	70
2022 total	1,004

AN INCREASED FOCUS ON ACQUISITION ACTIVITY

The primary purpose of Chesnara when it was formed back in 2004 was to acquire other closed book businesses and acquisition activity has been a core component of our historical EcV growth. As well as the immediate benefit from any price discount to EcV, acquisitions also improve the future growth outlook by enhancing the potential from the other value elements of the Chesnara ‘fan’.

Successful acquisitions have been key to Chesnara’s development historically and will remain so in the future. During 2022, we completed two acquisitions, Robein Leven in the Netherlands and CASLP in the UK. Robein Leven added further scale to Waard, the group’s Dutch closed book operations, and CASLP increased the UK Funds Under Management by £2.9bn. Together they added £21.4m of EcV on a marginal cost basis and are expected to create additional steady cash generation potential of c£6m per annum.

In July 2022, we announced the acquisition of Conservatrix in the Netherlands. This deal completed on 1 January 2023 and our updated expectation is that this deal will deliver an immediate increase of c£21m of EcV, with further value generated from future real world investment returns and the run-off of the risk margin. The new portfolio is expected to generate c£4m of steady state incremental cash per annum meaning the enlarged Waard business will generate c£8m of cash per year, covering about one quarter of the shareholder dividend. Taken together, accessing these value enhancing acquisitions required us to deploy over £110m of capital resources (of which £85m was funded from holding company cash reserves), primarily from the £200m inaugural Tier 2 debt raise we executed in February 2022.

CONFIDENCE IN OUR ABILITY TO EXECUTE FUTURE M&A

We remain optimistic about the prospect of future acquisitions and believe that we can deliver further value accretive deals. Even relatively small transactions can have a material positive cumulative impact, as the group delivers synergies from integrating businesses and portfolios into its existing operations.

2022 has continued to see an active M&A market across European insurance with sources of capital readily available to support transactions, large international insurance groups refocusing their strategies away from legacy businesses and management teams that actively managed their business portfolios being rewarded by shareholders.

Even with the current market volatility, we expect positive activity levels in insurance M&A to continue. A market with plenty of activity provides opportunities for Chesnara as a consolidator. We continue to believe there is also likely to be a little less competition in the sub £250m deal valuation end of the market that we currently participate in. The three deals that we have announced in recent times should provide positive reference points for sellers and their advisors about our renewed ability to execute M&A.

We continue to have material cash resources to deploy following the £200m Tier 2 debt issue and, after paying down existing debt, funding the CASLP deal and Conservatrix capital injection, we hold cash balances of £108m at a group level (of which a good proportion is readily available for deployment). Our revolving credit facility creates an additional level of working capital flexibility. For more transformational deals, we retain the ability to raise equity and are mindful of the potential benefits from other funding arrangements such as joint ventures or vendor part-ownership.

Our assessment of the market potential, our track record of delivery and the actions we have taken to enhance our ability to execute M&A (including the people changes highlighted below) mean we are confident that acquisitions will continue to contribute to Chesnara’s success in the future.

PEOPLE CHANGES

We announced that Sam Perowne was joining our executive team early in 2022. Sam, along with two new Independent NED appointments in February, Karin Bergstein and Carol Hagh, has extensive M&A experience. In August, we announced two further changes to our senior leadership team, with Al Lonie moving from Company Secretary to

become my Chief of Staff and Amanda Wright joining from abrdn to become General Counsel and Company Secretary.

These changes further enhance the capacity, capability and experience we have available to pursue further strategic opportunities.

In February this year, we also announced that our Scildon CEO, Gert-Jan Fritzsche will be leaving the business as we enter the next phase of Scildon's strategic development. I want to thank him for all his efforts over the past 6 years as Scildon CEO. Our market search for his replacement is well under way.

A SUSTAINABLE CHESNARA

We are committed to becoming a sustainable group. As a steward and a safe harbour for our c1 million policyholders and c£11bn of policyholder and shareholder assets, we have a real responsibility to help drive the change needed to deliver decarbonisation and a sustainable society and economy. As a business, we are still at the beginning of our journey and our principles are: "Do no harm. Do good. Act now for later." We're determined to get there and we know that speed is of the essence.

To drive our sustainability agenda, we have established our Group Sustainability Committee chaired by our Senior Independent Director, Jane Dale, which will help oversee our group sustainability programme that is being led by Dave Rimmington. The committee consists of senior management from across the group, including myself. Our inaugural Annual Sustainability Report (ASR), which we've published alongside this annual report and accounts, details our vision and commitments. This first ASR positions what we're going to do and how we're going to do it, alongside why being sustainable is so important to us. Simply put, we will make decisions based on all of our stakeholders, including the planet and its natural resources. Positive outcomes for any particular stakeholder at the cost of inappropriate outcomes for other stakeholders is not acceptable. Based on this, we're committed to:

1. **Supporting a sustainable future**, including our net zero transition plans
2. **Making a positive impact**, including our plans to invest in positive solutions
3. **Creating a fairer world**, ensuring our group is an inclusive environment for all employees, customers and stakeholders

These commitments will shape what we do and how we do it. We are working to put sustainability at the heart of everything we do and 2023 will further embed this. Our reporting will evolve as our plans and targets become more established so please take a look at our first ASR and we look forward to updating you on our progress.

OUTLOOK

Chesnara has an excellent track record of sustainable long term cash generation over its history through recessions, pandemics, global financial crisis and other variable market conditions. 2022 has seen us continue this impressive record of cash generation in difficult markets.

The war in Ukraine played a large role in the volatile start to 2022 that we saw across global markets. The Chesnara business model has delivered positive cash generation in uncertain markets before, and we have confidence it will continue to do so in future. We are not dismissive of the material reduction in Economic Value that equity market falls and interest rate rises have created during 2022 but equally, we do not see the value loss in the period as being a factor that at all compromises the medium to longer term outlook. In fact, we start 2023 with even greater optimism about the prospects we see in relation to potential acquisitions.

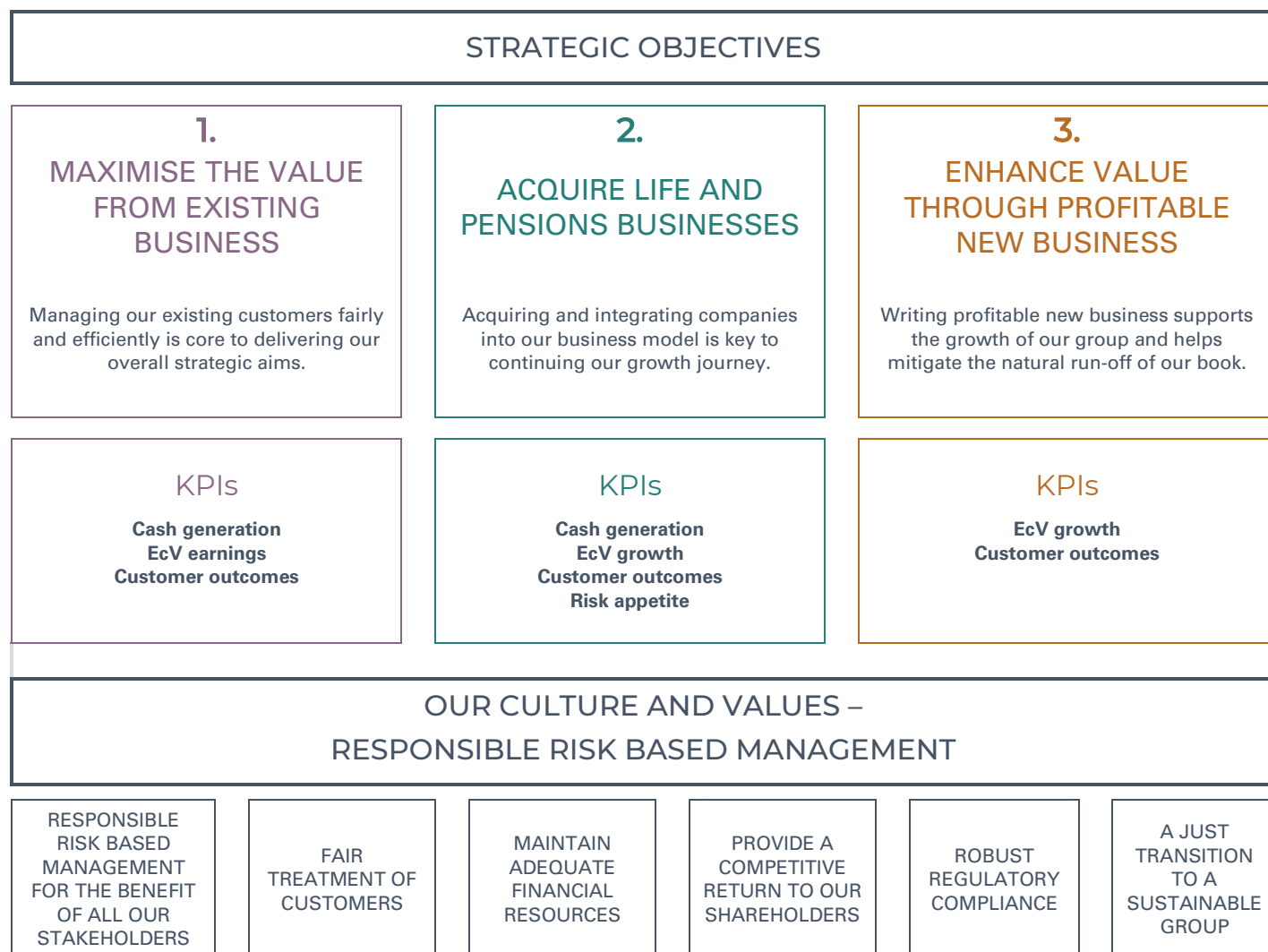
We have ambitious plans to grow the business and the achievements during 2022 leave us well positioned to do so. Finally, I want to thank our people across the UK, Sweden and the Netherlands for all their remarkable efforts during an exceptionally busy period. Their efforts, the robustness of our business model and positive outlook for M&A give me every confidence that the future remains bright for Chesnara.

Steve Murray,
Chief Executive Officer
29 March 2023

STRATEGIC REPORT

OVERVIEW OF STRATEGY

Our strategy focuses on delivering value to customers and shareholders through our three strategic pillars, executed across our three territories.



BUSINESS REVIEW | UK

The UK division is made up of Countrywide Assured plc and Sanlam Life & Pensions (UK) Limited (now renamed CASLP). CASLP was acquired by Chesnara on 28 April 2022 following the announcement to purchase the company in September 2021. The combined businesses manage c272,000 policies covering linked pension business, life insurance, endowments, annuities and some with-profit business. Countrywide Assured follows an outsourcer-based operating model, whereas CASLP's is currently largely delivered through internal resources.

MAXIMISE VALUE FROM EXISTING BUSINESS

CAPITAL AND VALUE MANAGEMENT

BACKGROUND INFORMATION

As a closed book, the division creates value through managing the following key value drivers: costs; policy attrition; investment return; and reinsurance strategy.

In general, surplus regulatory capital emerges as the book runs off. The level of required capital is closely linked to the level of risk to which the division is exposed. Management's risk-based decision-making process seeks to continually manage and monitor the balance of making value enhancing decisions whilst maintaining a risk profile in line with the board's risk appetite.

At the heart of maintaining value is ensuring that the division is governed well from a regulatory and customer perspective.

INITIATIVES AND PROGRESS IN 2022

- The acquisition of Sanlam Life & Pensions (UK) Limited (now renamed CASLP) was completed on 28 April 2022. This increased the number of policies by over 68,000 and added EcV of £54.5m to the division.
- Combined UK division delivered cash generation of £40.8m in the year, and combined foreseeable dividends of £56.0m.
- As a result of the acquisition, central overheads can now be shared across a wider policy base, which has resulted in a benefit to CA Own Funds of £8.1m.
- Work is progressing well on integrating CASLP into the division which includes preparing the business for moving to the division's target operating model for CASLP. The planned activity of transferring the policies of CASLP into CA is progressing in line with plans.
- CA completed net transfers of capital out of its with-profit funds which increased solvency surplus by £7.8m
- Investment markets have influenced the results of the division over the year. Falls in equity prices and rises in yields have generally been positive to solvency, but less favourable to the division's EcV.
- CA solvency has increased during the period, largely driven by the aforementioned group cost sharing exercise, the with-profit capital extraction and the positive benefits from increasing yields and the fall in the equity symmetric adjustment

FUTURE PRIORITIES

- Move to the planned longer-term target operating model for CASLP.
- Continue with the work that is required to deliver the planned transfer of the insurance business of CASLP into the UK's principal operating company, Countrywide Assured plc.
- Continue to focus on maintaining an efficient and cost-effective operating model.
- Identify potential management actions with a focus on those that have the potential to accelerate cash generation.
- Support Chesnara in identifying and delivering UK acquisitions.

KPIs

Economic Value - UK

£m	2018	2019	2020	2021	2022
EcV	214.7	204.6	187.4	181.9	209.3
Cumulative dividends		59.0	88.0	121.5	149.0
Total	214.7	263.6	275.4	303.4	358.3

Note: The 2022 closing value includes the additional EcV from the acquisition of CASLP, which includes the value of the acquired business plus a capital injection from Chesnara plc. There is a corresponding value outflows of £62.9m at the parent company.

Cash generation

£m	2018	2019	2020	2021	2022
Cash generation	55.8	33.6	29.5	27.4	40.8

CUSTOMER OUTCOMES

BACKGROUND INFORMATION

Delivering good customer outcomes 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.

INITIATIVES AND PROGRESS IN 2022

- Following the acquisition of CASLP, their customer-facing website was developed and we have ensured customers continue to receive the same high quality standard of service. The process of aligning, where appropriate, CASLP's and CA's customer governance framework is progressing in line with plans.
- The UK's operational resilience programme has remained a key focus. All regulatory deadlines have been met and work is now in progress on the next phase of the work, which includes identifying and remediating any weaknesses identified through the journey mapping phase of work.
- Throughout the year, the activity of seeking to stay in contact with customers and to reunite customers with unclaimed assets has continued, as has the activity on product reviews with remediation undertaken where required.
- The FCA published their final paper on Consumer Duty in July 2022. An assessment of actions needed to meet the requirements of the paper has been undertaken for the division, and a plan is being implemented.

FUTURE PRIORITIES

- Continued focus on the operational resilience programme to ensure the regulatory deadline of March 2025 is achieved.
- Execute the board agreed plans and progress any actions needed to meet the requirements of the Consumer Duty for CA and CASLP.

KPIs

Policyholder fund performance

	2022	2021
CA Pension Managed	(7.9)%	10.8%
CWA Balanced Managed Pension	(7.9)%	10.8%
S&P Managed Pension	(8.4)%	10.4%
Benchmark - ABI Mixed Inv 40%-85% shares	(9.8)%	10.8%

Throughout the year our main managed funds performed ahead of industry benchmarks.

GOVERNANCE

BACKGROUND INFORMATION

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.

INITIATIVES AND PROGRESS IN 2022

- The integration of CASLP into the existing UK governance framework has been a focus and is largely complete.
- The division's IFRS 17 project has remained a priority over 2022. The project has progressed well for both the existing CA business as well as integrating CASLP's programme. The division is well placed to apply IFRS 17 which went live on 1 January 2023.

FUTURE PRIORITIES

- Finalise the transition of CASLP to align with the UK division's governance framework.
- Deliver IFRS 17 reporting for the division, which became effective from 1 January 2023.
- Deliver the UK aspect of the group-wide sustainability programme.

KPIs

SOLVENCY RATIO: CA 205%

SOLVENCY RATIO: CASLP 167%

Solvency is strong in both businesses with surplus generated in the year increasing the pre-dividend solvency ratio from 130% to 205% and from 112% to 167% in CA and CASLP respectively.

CA	£m	Solvency Ratio
31 Dec 2021 surplus	30.5	130%
Surplus generation	37.5	
31 Dec 2022 surplus (pre-dividend)	67.9	205%
2022 dividend	(46.0)	
31 Dec 2022 surplus	21.9	134%

CASLP	£m	Solvency Ratio
31 Mar 2022 surplus	4.6	112%
Surplus generation	19.2	
31 Dec 2022 surplus (pre-dividend)	23.8	167%
2022 dividend	(10.0)	
31 Dec 2022 surplus	13.8	139%

BUSINESS REVIEW | SWEDEN

Our Swedish division consists of Movestic, a life and pensions business which is open to new business. It offers personalised unit-linked pension and savings solutions through brokers and is well-rated within the broker community.

Söderberg & Partners have, in their recent annual report, named Movestic as insurance company of the year for unit linked insurance, ahead of competition from 12 other insurance providers in the Swedish market.

MAXIMISE VALUE FROM EXISTING BUSINESS

CAPITAL AND VALUE MANAGEMENT

BACKGROUND INFORMATION

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.

INITIATIVES AND PROGRESS IN 2022

- 2022 has seen uncertainty in the Swedish and global financial markets, resulting in rising Swedish interest rates and inflation and falling equity markets.
- These events were reflected in the lower returns on the policyholders' investment assets as well as Movestic's own investments.
- Movestic's solvency ratio has strengthened over the year and it has an expected year end 2022 dividend of £12.0m.
- The division has continued to strengthen its offering and distribution within its relatively new custodian business.
- Over 2022, incoming volumes have been in line with the prior year despite the financial markets' dampening effect.
- Pension transfers continue to be a feature of the market through new regulations, particularly those introduced in July 2022, along with digitalisation, transparency, lower fees, and new working processes. The net transfer outflow has improved significantly due to the removal of competitors' aggressive pricing activities, coupled with the impact of Movestic's retention initiatives.
- Favourable claims development in the risk insurance segment has also been seen.

FUTURE PRIORITIES

- Continue to build solid and long-term sustainable value creation for customers and owners through a diversified business model with continued profitable growth of volumes and market shares in selected segments.
- Focus on building digital leadership in the industry through the development of digitalised and tailored customer propositions and experience. Movestic will also continue the journey to digital and automated processes to further improve efficiency and control.
- Remain focused on customer loyalty and providing attractive offerings to both retain customers and reach more volumes on the transfer market.
- Provide a predictable and sustainable dividend to Chesnara.

KPIs (all comparatives have been presented using 2022 exchange rates)

Economic Value

£m	2018	2019	2020	2021	2022
Reported value	208.0	247.7	220.0	239.4	199.3
Cumulative dividends		2.7	8.7	14.0	17.0
Total	208.0	250.4	228.7	253.3	216.3

CUSTOMER OUTCOMES

BACKGROUND INFORMATION

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

INITIATIVES AND PROGRESS IN 2022

- A third party survey completed during 2022 demonstrated the importance of occupational pension as the most important benefit when choosing a new employer, hence an important tool for employers to stay attractive.
- A new concept "Movestic Frihet", which includes personal advice on savings and insurance for customers approaching retirement, was launched during the year with positive response from the market.
- A new partnership with Lexly was also entered into, which gives Movestic customers access to online legal advisory services.
- A new concept for onboarding of individuals within the direct market segment was launched during the first half year.
- The processing of policy transfers was further digitalised during the year, both from the perspective of brokers and individual customers.
- Launch of an opportunity for both existing and new individual customers to engage in new savings by subscribing to an endowment policy on the Movestic website.

FUTURE PRIORITIES

- Continued development of new digital self-service solutions and tools to support the brokers' value enhancing customer proposition, and to facilitate smooth administrative processes making Movestic a partner that is easy to do business with.
- Further strengthen the relationship with brokers through increased presence, both physical and digital.
- Seek to capitalise on the new rules that came into effect in July 2022 that enhances our ability to transfer policies onto our platform where it is in the interest of customers to do so.

KPIs (all comparatives have been presented using 2022 exchange rates)

Broker assessment rating (out of 5)

	2018	2019	2020	2021	2022
Rating	3.8	3.5	3.3	3.6	3.8

POLICYHOLDER AVERAGE INVESTMENT RETURN:

-14.6%

The total average fund performance needs to be assessed in light of the reduction in value of wider equity markets, especially the main Swedish OMX index that fell by 25%. Against this backdrop, the performance is seen as a positive outcome. This is supported by the fact Söderberg and Partners, a major Swedish distributor, cited improved fund payout rates as a key factor in selecting Movestic as 'Insurance Company of the Year'.

GOVERNANCE

BACKGROUND INFORMATION

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.

INITIATIVES AND PROGRESS IN 2022

- The IFRS 17 programme has continued during the year and Movestic remains on track with its implementation.
- Sustainability has remained a focus area. Efforts have been made to integrate sustainability risk in various internal processes in order to be compliant with changes in the Solvency II delegated regulation which entered into force in August 2022. Movestic has also been playing a strong role in the group's wider sustainability programme.
- Further implementation on the EU sustainability regulation (the SFDR and the EU Taxonomy) was carried out during the year, including integrating sustainability as a parameter in the advisory process.
- During the year, a new Swedish NED, Marita Odélius Engström, joined the Movestic board and A&RC, with Karin Bergstein, a plc NED, also joining the Movestic board.

FUTURE PRIORITIES

- Deliver the remaining aspects of the division's IFRS 17 programme.
- Continue implementation of sustainability regulations.

KPIs (all comparatives have been presented using 2022 exchange rates)

SOLVENCY RATIO: 162%

Solvency remains strong post a foreseeable dividend of £12m

	£m	Solvency Ratio
31 Dec 2021 surplus	74.1	148%
Surplus generation	4.4	
31 Dec 2022 surplus (pre-dividend)	78.5	173%
2022 dividend	(12.0)	
31 Dec 2022 surplus	66.5	162%

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

BACKGROUND INFORMATION

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 attractive dividend. 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.

INITIATIVES AND PROGRESS IN 2022

- Sales volumes developed positively in 2022 and are 14% above 2021 for the unit-linked segment. The custodian sales volumes were on par with the previous year despite the unfavourable financial market conditions. Sales volumes in early 2023 also appear positive.
- The division delivered new business profit of £3.4m (2021: £4.2m). The prior year included higher pension increments profit, largely due to salary and bonus processes being postponed in 2020 to 2021, which is not the case in 2022.
- Movestic will continue to develop its offering to increase competitiveness and build customer loyalty. A special focus was also put on new volumes that became available on the Swedish transfer market from the second half of 2022.
- The intense competition in the unit-linked market continues, resulting in Movestic’s market share of new business currently being below the long-term target. Movestic saw some positive sales development in the broker channel during the year. In the custodian market, Movestic is well within the target range for custodian market share achieving 9.5% on a rolling 12 month basis.

FUTURE PRIORITIES

- Launch new risk product offerings in the broker channel, including a new technical solution for administration.
- Strengthen distribution capacity within the direct business area, as a complement to the broker channel and partner distributed custodian business.

KPIs (all comparatives have been presented using 2022 exchange rates)

Occupational pension market share %

%	2018	2019	2020	2021	2022
Market share	6.6	7.0	4.7	3.6	4.1

New business profit

£m	2018	2019	2020	2021	2021
New business profit	10.6	6.6	1.5	4.1	3.4

BUSINESS REVIEW | NETHERLANDS

Our Dutch businesses aim to deliver growth and earnings through our closed book business Waard, which seeks to acquire and integrate portfolios and our open book business Scildon, which seeks to write profitable term, investments and savings business.

MAXIMISE VALUE FROM EXISTING BUSINESS

CAPITAL AND VALUE MANAGEMENT

BACKGROUND INFORMATION

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.

INITIATIVES AND PROGRESS IN 2022

- Waard completed the acquisition of Robein Leven in April 2022 with the integration largely complete by the end of the year.
- Waard also entered into an agreement to acquire the insurance portfolio of Conservatrix, a specialist provider of life insurance products in the Netherlands that was declared bankrupt on 8 December 2020. The transaction completed on 1 January 2023 adding 70,000 policies and £0.4bn of assets under management. These acquisitions further strengthen Waard's position as an acquirer of business and portfolios in the Netherlands.
- Despite market pressures during 2022, both businesses continue to have strong solvency positions, inclusive of the use of the volatility adjustment: Scildon at 188% at 31 December 2022; and Waard at 591%.
- Scildon launched an IT system improvement project for individual products that is expected to run until 2024 and generate cost efficiencies.

FUTURE PRIORITIES

- Integrate the Conservatrix business and continue to support Chesnara in identifying and delivering Dutch acquisitions.
- Effective management of the closed book run-off in Waard to enable ongoing divided payments to Chesnara.
- Continue to progress the ongoing IT projects to generate capital efficiencies.

KPIs (all comparatives have been presented using 2022 exchange rates)

Economic Value – The Netherlands

£m	2018	2019	2020	2021	2022
EcV	221.1	229.7	216.0	224.6	223.4
Cumulative dividends		8.3	13.4	13.4	18.7
Total	221.1	237.9	229.4	238.0	242.1

Note: The 2022 closing value includes the additional EcV in Waard relating to the capital injection from Chesnara plc in respect of the Conservatrix acquisition. There is a corresponding value outflows of £21.5m at the parent company.

CUSTOMER OUTCOMES

BACKGROUND INFORMATION

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.

INITIATIVES AND PROGRESS IN 2022

- Scildon's focus has been on providing flexible solutions and offerings to our clients, including sustainable options, and continuing to meet the needs of our customers during the impacts of the war in Ukraine and the cost of living crisis.
- Work has continued on the Scildon pension portal and work also started to improve the existing system that services all other products providing improved functionality for customers.

- Waard has provided certainty to the policyholders and staff of both Robein Leven and Conservatrix through its acquisition activity.

FUTURE PRIORITIES

- Regular engagement with customers to improve service quality and to enhance and develop existing processes, infrastructure and customer experiences.
- Continue to progress the IT development programme in Scildon to enhance functionality for customers.
- Maintain stability to customers of Conservatrix during the integration process.

KPIs (all comparatives have been presented using 2022 exchange rates)

Scildon client satisfaction rating (out of 10)

	2018	2019	2020	2021	2022
Rating	7.6	7.7	7.8	8.1	8.3

(Source MWM² market research agency, Netherlands)

GOVERNANCE

BACKGROUND INFORMATION

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.

INITIATIVES AND PROGRESS IN 2022

- The IFRS 17 and IFRS 9 work has continued to progress, with significant strides being made during the year. Work has continued with our auditors on the technical decisions and the operational processes underpinning the implementation. Both businesses remain on track to deliver IFRS 17 reporting for half year 2023.
- Further implementation on the EU sustainability regulation (the SFDR and the EU Taxonomy) was carried out during the year.
- Waard has implemented a new actuarial tool during the year to strengthen its systems and controls.
- The 2022 results have been audited by the newly appointed local auditor, EY, following a tender process for both Waard and Scildon during 2021.

FUTURE PRIORITIES

- Finalising the preparation for IFRS 17 and IFRS 9 financial reporting, which are live as of 1 January 2023.
- Continue implementation of sustainability regulations.

KPIs (all comparatives have been presented using 2022 exchange rates)

SOLVENCY RATIO: SCILDON 188%; WAARD 591%

Solvency is robust in both businesses, with post-dividend solvency ratios (inclusive of the volatility adjustment) of 188% and 591% for Scildon and Waard respectively. Note, the increase in Waard solvency includes the benefit of the £21.5m capital injection from group in respect of the Conservatrix acquisition, completed 1 January 2023.

Scildon

	£m	Solvency Ratio
31 Dec 2021 surplus	74.0	192%
Surplus generation	(11.9)	
31 Dec 2022 surplus	62.1	188%

Waard

	£m	Solvency Ratio
31 Dec 2021 surplus	35.2	399%
Surplus generation	36.3	
31 Dec 2022 surplus (pre-dividend)	71.5	630%
2022 dividend	(5.3)	
31 Dec 2022 surplus	66.2	591%

ENHANCE VALUE THROUGH PROFITABLE NEW BUSINESS

BACKGROUND INFORMATION

Scildon brings a “New business” dimension to the Dutch division. Scildon sell protection, individual savings and group pensions contracts via a broker-led distribution model. The aim is to deliver meaningful value growth from realistic market share. Having realistic aspirations regarding volumes means we are able to adopt a profitable pricing strategy. New business also helps the business maintain scale and hence contributes to unit cost management.

INITIATIVES AND PROGRESS IN 2022

- Despite significant market turmoil over the course of 2022, Scildon continue to generate commercial new business profits, with £6.1m earned in the year. The overall volume of business increased by c3% versus 2021 against a term market that materially shrank during the year.
- Underpinning this, Scildon APE and policy count continue to increase, now with more than 230,000 policies. The market share for the Scildon term lifestyle product is 18.2% (YTD to December 2022).
- Scildon were awarded a 5 star rating for its lifestyle product by independent trade body, Moneyview.

FUTURE PRIORITIES

- Continue to deliver product innovation and cost management actions.
- Consider alternative routes to market that do not compromise our existing broker relationships, such as further product white labelling.

KPIs (all comparatives have been presented using 2022 exchange rates)

Scildon – term assurance market share %

%	2018	2019	2020	2021	2022
Market share	7.6	11.6	14.2	16.1	18.2

Scildon – new business profit

£m	2018	2019	2020	2021	2022
New business profit	4.6	7.5	8.4	5.2	6.1

BUSINESS REVIEW | ACQUIRE LIFE AND PENSION BUSINESSES

During 2022 we completed the acquisitions of Sanlam Life & Pensions (UK) Limited (now renamed CASLP) and Robein Leven and announced the purchase of the insurance portfolio of Conservatrix. 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 own contacts and advisers and industry associates, utilising both group and divisional management expertise as appropriate.
- We primarily focus on acquisitions in our existing territories, although we will consider other territories should the opportunity arise and this is supportive of our strategic objectives.
- We assess deals by 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 reduced 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 own resources, debt or equity depending on the size and cash flows of each opportunity and commercial considerations.

HOW WE ASSESS DEALS

Cash generation

- Collectively our future acquisitions must be suitably cash generative to continue to support Chesnara delivering attractive dividends.

Value enhancement

- Acquisitions are required to have a positive impact on the Economic Value per share in the medium term 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 AND PROGRESS IN 2022

In July 2022, Chesnara announced the acquisition of the insurance portfolio of Conservatrix, a specialist provider of life insurance products in the Netherlands that was declared bankrupt on 8 December 2020. The transaction completed on 1 January 2023.

The insurance portfolio has increased Waard's number of policies under administration by over 50%, transforming Waard into a second material closed book consolidation business alongside Chesnara's existing UK platform.

This is the seventh transaction undertaken in the Dutch market. Conservatrix's savings, annuity and funeral plan products are well aligned with Chesnara's existing life and pension liability mix in the Netherlands, and adds approximately 70,000 additional policies and £0.4bn of assets to the group.

A capital contribution of £35m was provided by the group (£21.5m from the parent and the remaining £13.5m funded by Waard) to support the solvency position of the Conservatrix business and Conservatrix customers will benefit from becoming part of a well capitalised group, after a significant period of uncertainty.

Future cash generation from the acquisition under steady state conditions is expected to be c£4 million per annum, supporting Chesnara's progressive dividend strategy. Waard will become a material contributor to the group's dividends, with expected total annual cash generation of £8 million.

The Conservatrix transaction is expected to increase the group's EcV by c£21m on a pro forma basis and provides further EcV accretion potential from future real world investment returns and the run-off of the risk margin.

In addition, we also completed two transactions during April 2022 that were originally announced in 2021: Robein Leven in the Netherlands (announced in November 2021) and CASLP in the UK (announced in September 2021). These acquisitions added £21.4m day 1 EcV and are expected to add c£6m of steady state cash generation.

Total group capital deployed in the three acquisitions of CASLP, Robein Leven and Conservatrix totalled over £110m, of which £85m was funded from holding company cash reserves. Including Conservatrix this is expected to add c£42m of EcV to the group and £10m of steady state cash generation.

ACQUISITION OUTLOOK

- We continue to see a healthy flow of acquisition activity across European insurance including UK and the Netherlands.
- We recognise that the consolidation markets in these countries are mature but the key drivers for owners to divest portfolios continue to remain relevant and create a strong pipeline. These include better uses of capital (e.g. return to investors or supporting other business lines), operational challenges (e.g. end of life systems), management distraction, regulatory challenges, business change (e.g. IFRS 17) and wider business and strategic needs.
- Our expectation is that sales of portfolios will continue and our strong expertise and knowledge in the markets, good regulatory relationships and the flexibility of our operating model means that Chesnara is very well placed to manage the additional complexity associated with these portfolio transfers and provide beneficial outcomes for all stakeholders. These transactions may not be suitable for all potential consolidators, in particular those who do not have existing licences in these territories.
- Chesnara will continue its robust acquisition assessment model which takes into account; (a) the strategic fit; (b) the cash generation capability; (c) the medium term impact on EcV per share; and (d) the risks within the target. We will also continue to assess the long-term commercial value of acquisitions as part of our objective to maximise the value from in-force business.

- The £200m Tier 2 subordinated debt issue in February 2022, together with the existing £100m Revolving Credit Facility arrangement (with an additional £50m accordion option), provides funding capability on commercially attractive terms. Whilst we deployed c£85m of capital in support of M&A (£110m including capital from Waard), we continue to have immediately available acquisition firepower of over £100m. We will continue to explore how we can increase our funding capability further, including consideration of partnerships.
- Our strong network of contacts including the corporate finance adviser community, who understand the Chesnara acquisition model, supported by our engagement activity with potential targets, ensures that we are aware of viable opportunities in the UK and Western Europe. With this in mind, we are confident that we are well positioned to continue our 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.

GROUP SOLVENCY SOLVENCY POSITION

£m	31 Dec 2022	31 Dec 2021
Own funds	605	558
SCR	307	367
Surplus	298	191
Solvency ratio %	197%	152%

SOLVENCY SURPLUS

£m	
Group solvency surplus at 31 Dec 2021	190.7
CA	37.4
SLP	(5.1)
Movestic	7.5
Waard	3.6
Scildon	(11.4)
Chesnara / consol adj	(10.6)
Tier 2	153.3
Acquisition	(37.4)
Exchange rates	4.7
Dividends	(34.3)
Group solvency surplus at 31 Dec 2022	298.4

Surplus:

The group has £268m of surplus over and above the group's internal capital management policy requirements, compared to £154m at the end of 2021. The group solvency ratio has increased from 152% to 197%.

Dividend:

The closing solvency position is stated after deducting the £22.8m proposed dividend (31 December 2021: £22.1m) and reflects the payment of an interim dividend of £12.2m.

Own Funds:

Own Funds have risen by £82m (pre-dividends). The most material driver is the introduction of £200m Tier 2 debt of which £153m is recognised as eligible Own Funds. This is offset by a reduction in divisional Own Funds, largely due to the fall in equity markets.

SCR:

The SCR has fallen by £60m, owing mainly to a material falls in equity risk (caused by the fall in equity markets) and in currency risk (following the introduction of the group currency hedge).

What is solvency and capital surplus?

- Solvency surplus is a measure of how much the value of the company (Own Funds) 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 newly adopted Solvency II regime.
- The capital requirement is again 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**

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 Fund valuation is deemed to represent a commercially meaningful figure with the exception of:

- **Contract boundaries:** Solvency II rules do not allow for the recognition of future cash flows on certain policies despite a high probability of receipt.
- **Risk margin:** The Solvency II rules require a "risk margin" liability which is deemed to be above the realistic cost.
- **Restricted with profit surpluses:** Surpluses in the group's with-profit funds are not recognised in Solvency II Own Funds despite their commercial value.

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

Transitional measures, introduced as part of the long-term guarantee package when Solvency II was introduced, are available to temporarily increase Own Funds. Chesnara does not take advantage of such measures, however we do apply the volatility adjustment within our Dutch and UK divisions.

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".

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.

A review of the UK's application of Solvency II is currently underway, led by HM Treasury. In April 2022, the PRA published a statement indicating its agreement with the view that the risk margin and matching adjustment can be reformed so as to reduce overall capital levels for life insurers by around 10% to 15% in current economic conditions. In November 2022, the UK government announced plans to legislate the reforms to Solvency II. We continue to monitor this closely and future financial statements will report on the UK specific application of Solvency II as it diverges from the EU's regime. We see no specific reason to expect the PRA to use their enhanced freedoms take a route that systemically makes it harder to do business in the UK.

We are well capitalised at both a group and subsidiary level. We have applied the volatility adjustment in Scildon, Waard Leven, CA and CASLP, 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.

UK - CA

£m	2022	2021
Own funds (post dividend)	87	131
SCR	65	100
Buffer	13	20
Surplus	9	11
Solvency ratio %	134%	130%

Surplus: £9m above board's capital management policy.

Dividends: Solvency position stated after £46m foreseeable dividend (2021: £28m).

Own Funds: Risen by £2m (pre-dividend) due to an extraction of restricted with-profit capital, reduced expense assumptions, offset by the fall in equity markets.

SCR: Decreased by £35m due to sharp fall in equity risk and moderate fall in spread and expense risks.

UK – CASLP

£m	2022	Mar 2022
Own funds (post dividend)	49	59
SCR	36	43
Buffer	7	9
Surplus	6	7
Solvency ratio %	139%	137%

Surplus: £4m above board's capital management policy.

Dividends: Solvency position stated after £10m foreseeable dividend.

Own Funds: Since acquisition, Own Funds fell by £10m, largely due to an increase in expense assumptions and fall in equity markets.

SCR: Fallen by £7m in the post-acquisition period, due to reductions in equity, spread, counterparty, longevity and lapse risks.

SWEDEN

£m	2022	2021
Own funds (post dividend)	173	229
SCR	107	155
Buffer	21	31
Surplus	45	43

Solvency ratio %

162%

148%

Surplus: £45m above board's capital management policy.

Dividends: Solvency position stated after £12m foreseeable dividend (2021: £3m).

Own Funds: Decreased by £44m (pre-dividend) largely due to fall in equity markets, although slightly offset by the rise in yields.

SCR: Decreased by £48m due to sharp fall in equity risk and moderate falls in currency, lapse and expense risks, due to the market movements.

NETHERLANDS - WAARD

£m	2022	2021
Own funds (post dividend)	80	47
SCR	14	12
Buffer	5	4
Surplus	61	31
Solvency ratio %	591%	399%

Surplus: £61m above board's capital management policy.

Dividends: Solvency position stated after £5m foreseeable dividend (2021: £6m).

Own Funds: Increased by £33m, due to receipt of £22m from Chesnara and £5m from Scildon to support acquisition activity. There is also a gain on revaluation of Robein Leven.

SCR: Risen by £1m, mainly due to acquisition of Robein Leven, which has mostly impacted equity, expense and concentration risk.

NETHERLANDS - SCILDON

£m	2022	2021
Own funds (post dividend)	132	155
SCR	70	81
Buffer	53	61
Surplus	9	13
Solvency ratio %	188%	192%

Surplus: £9m above board's capital management policy.

Dividends: No foreseeable dividend is expected (2021: £5m).

Own Funds: Decreased by £23m due to the rise in interest rates and adverse mortality and lapse experience.

SCR: Decreased by £11m, largely due to falls in equity and lapse risk, due to the fall in equities and rising yields, respectively. Other insurance risks have fallen moderately.

The tables above 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 2021 figures have been restated using 31 December 2022 exchange rates in order to aid comparison at a divisional level.

CAPITAL MANAGEMENT | SENSITIVITIES

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

The table 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.

The Tier 2 debt raise in February 2022 has had a material impact on the reported sensitivities because, as capital requirements move, the amount of the Tier 2 debt able to be recognised in the Own Funds also moves. For example,

where FX movements reduce the SCR, we now also experience a corresponding reduction in base Own Funds and also Own Funds relating to Tier 2 capital. The total surplus is now more exposed to downside risks but, importantly, the Tier 2 itself has created more than sufficient additional headroom to accommodate this. The group also implemented a currency hedge in December 2022 which materially reduces the impact of currency movements on surplus.

Whilst cash generation has not been shown in the table below, the impact of these sensitivities on the group's solvency surplus has a direct read across to the immediate impact on cash generation. For illustrative purposes, several sensitivities are reported solely showing the downside exposure. For all of these, there is a corresponding upside sensitivity.

	Solvency ratio	Solvency surplus	EcV
	Impact %	Impact range £m	Impact range £m
20% sterling appreciation	11.8%	(31.9) to (21.9)	(68.6) to (58.6)
20% sterling depreciation	(7.8)%	35.0 to 45.0	78.6 to 88.6
25% equity fall	0.9%	(56.7) to (26.7)	(81.3) to (61.3)
25% equity rise	(10.2)%	26.6 to 56.6	72.8 to 92.8
10% equity fall	0.4%	(22.9) to (12.9)	(33.6) to (23.6)
10% equity rise	(3.9)%	10.1 to 20.1	25.5 to 35.5
1% interest rate rise	3.2%	(5.8) to 4.2	(15.7) to (5.7)
1% interest rate fall	(4.2)%	(12.7) to 7.3	2.9 to 17.9
50bps credit spread rise	(4.2)%	(20.9) to (10.9)	(20.1) to (15.1)
25bps swap rate fall	(4.7)%	(16.2) to (6.2)	(16.8) to (6.8)
10% mass lapse	(2.0)%	(31.5) to (21.5)	(46.2) to (36.2)
1% inflation	(7.4)%	(26.8) to (16.8)	(26.5) to (16.5)
10% mortality increase	(5.2)%	(20.7) to (15.7)	(21.9) to (16.9)

INSIGHT*

Currency sensitivities: A sterling appreciation reduces the value of surplus in our overseas divisions and any overseas investments in our UK entities, however this is mitigated by the group currency hedge. so the overall impact on solvency surplus is small. The impact of a sterling depreciation is not symmetrical because the currency hedge only removes a limited amount of upside potential.

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. The converse applies to an equity fall sensitivity, although the impacts are not fully symmetrical due to management actions and tax. The Tier 2 debt value also changes materially in these sensitivities. The change in symmetric adjustment can have a significant impact (25% equity fall: -£12m to the SCR, 25% equity rise: +£39m 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 currently has a more adverse effect on group economic value than an interest rate fall. This is a change in exposure following the rise in interest rates over 2022. However, group solvency is still less exposed to rising interest rates as a rise in rates causes capital requirements to fall, increasing solvency.

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: In this sensitivity Own Funds fall as there are fewer policies on the books, thus less potential for future profits. This is largely offset by a fall in SCR, although the amount of eligible Tier 2 capital also falls. The division most affected is Movestic as it has the largest concentration of unit-linked business.

1% inflation rise: This sensitivity measures a permanent increase in inflation in every future year over and above our modelled assumptions. Such a rise in inflation increases the amount of expected future expenses. This is capitalised into the balance sheet and hits the solvency position immediately.

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

*BASIS OF PREPARATION ON REPORTING:

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

FINANCIAL REVIEW

The key performance indicators are a reflection of how the business has performed in delivering its three strategic objectives.

Summary of each KPI:

CASH GENERATION

GROUP CASH GENERATION £82.7M (2021: £20.3M)

DIVISIONAL CASH GENERATION £61.9M (2021: £31.1M)

excluding the day 1 impact of acquisitions

What is it?

Cash generation is calculated as being the movement in Solvency II Own Funds over the internally required capital, excluding the impact of tier 2 debt. 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. 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.

£m	2022
UK	40.8
Sweden	16.1
Netherlands – Waard	8.4
Netherlands – Scildon	(3.4)
Divisional cash generation	61.9
Other group activities	20.8
Group cash generation	82.7

- Strong total cash generation of £82.7m is the combined impact of good divisional performance and a positive contribution at the central plc level.

- The divisional result of £61.9m is dominated by the positive impact of investment market driven reductions in capital requirements including c£28m from the symmetric adjustment. The good surplus emergence at a divisional level has enabled total expected divisional dividends of £74m.
- The central contribution of £20.8m benefits from the impact of a FX currency hedge taken out toward the end of the year which reduced our currency capital requirement (including buffer) by £36m. The balancing central loss of c£15m relates to consolidation adjustments, central develop expenditure and central recurring overheads.

IFRS

PRE-TAX LOSS: £146.9M (2021: £28.8M PROFIT)

TOTAL COMPREHENSIVE LOSS: £91.9M (2021: £3.8M PROFIT)

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 to enhance understanding of financial performance.

Risks

The IFRS profit/(loss) can be affected by a number of our principal risks and uncertainties. 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 can be relatively volatile from interest rate and spread changes, in part, due to the different approach used by the division for valuing assets and liabilities, as permitted under IFRS 4. The dynamics of our IFRS results will change once IFRS 17 comes in force, which will be effective from 1 January 2023

£m	2022
Operating profit	(10.5)
Economic profit	(151.8)
Profit on portfolio acquisition	15.4
Profit before tax	(146.9)
Tax	48.6
Forex impact	5.8
Other	0.7
Total comprehensive income	(91.9)

- The loss in the year is dominated by the Scildon result, which reported a pre-tax loss of £103.7m. This has arisen as a result of an accounting mismatch between assets and liabilities, with yield increases in the year being the key factor causing this.
- The loss on economic activities was £151.8m for the year, with all adversely impacted by factors such as rising yields, coupled with falling equity markets.
- The result includes profit on acquisitions of £15.4m, comprising gains arising on the CASLP and Robein Leven deals in the UK and Netherlands.
- Total comprehensive income includes a positive movement in tax liability (owing to the operating losses) and a small foreign exchange gain on translation of the Dutch and Swedish divisional results.

ECONOMIC VALUE (EcV)

£511.7M (2021: £624.2M)

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 £59m-£69m, based on the composition of the group's EcV at 31 December 2022.

£m	
2021 EcV	624.2
EcV earnings	(106.1)
Forex	6.5
Acquisitions	21.4
Pre-dividend EcV	546.0
Dividends	(34.3)
2022 EcV	511.7

- The 12.5% fall in Economic Value pre-dividend is broadly in line with expectations given the backdrop of widening credit spreads and sharp equity value reductions, particularly in Sweden where the primary OMX index fell by 25%. Equity impacts and spread impacts of c£65m and c£20m respectively account for the vast majority of the fall.
- Despite the overall reduction, new business profits and acquisitions did manage to cover 88% of the total dividend payment. This gives confidence that under more beneficial economic conditions the prospect of post dividend Economic Value growth is a realistic expectation.

ECV EARNINGS

£(106.1)M 2021: £57.8M

What is it?

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

The principal underlying components of the Economic Value result are:

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

Why is it important?

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. 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 business.

£m	2022
Total operating earnings	(26.8)
Economic earnings	(109.1)
Other	29.9
Total EcV earnings	(106.1)

- The majority of the earnings loss is due to economic conditions. Equity market falls have materially impacted unit linked policyholder funds and future fee related positive cashflows are rebased from the closing fund value. There have also been notable losses resulting from credit spreads widening and more modest yield related losses.
- Whilst operating losses are a real source of value deterioration they do include items more positive in nature. For example, overheads and one-off costs associated with the M&A strategy are within this total as are certain non-recurring costs associated with the Tier 2 raise and IFRS 17. The loss includes a much reduced impact from Movestic outward transfers which is a significant positive development with closing transfer levels being back in line with our long term assumption. We have strengthened mortality and expense assumption in Scildon
- The "Other" category includes reduction in risk margin, positive tax impacts and the cost of the Tier 2 coupon payments.

CASH GENERATION

GROUP CASH GENERATION

£82.7M (2021: £20.3M)

DIVISIONAL CASH GENERATION

£61.9M (2021: £31.1M)

With positive contributions in each territory the divisional cash generation exceeds £60m and, looking through the impact of acquisitions, total cash generation for 2022 was £82.7m . 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'.

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.

2022 £m					2021 £m
	Movement in Own Funds	Movement in management's capital requirement	Forex impact	Cash generated / (utilised)	Cash generated / (utilised)
UK	(10.0)	50.8	-	40.8	27.4

Sweden	(40.8)	57.9	(1.0)	16.1	(14.4)
Netherlands – Waard Group	(2.0)	7.6	2.9	8.4	2.9
Netherlands – Scildon	(21.4)	17.4	0.5	(3.4)	15.2
Divisional cash generation / (utilisation)	(74.2)	133.7	2.4	61.9	31.1
Other group activities	(15.0)	33.2	2.6	20.8	(10.8)
Group cash generation / (utilisation)	(89.2)	166.9	5.0	82.7	20.3

GROUP

- Other group activities includes consolidation adjustments as well as central costs and central SCR movements.
- Central costs of approximately £15m include a large proportion of exceptional non-recurring expenditure and Tier 2 interest costs.
- Central SCR movements have minimal real cash flow implications, but they do have meaningful solvency impacts. The movement in the year largely relates to a £36.5m reduction as a result of a currency hedge taken out in the final quarter of 2022.

UK

- The UK again delivered strong cash generation, driven by capital requirement reductions (and symmetric adjustment impact) following a significant decline in equity values and increase in yields, which offset the negative impact of investment conditions on Own Funds. Economic conditions and their associated impact, primarily markets risks, drove the positive movement in capital requirements. Conversely, Own Funds suffered the effect of a corresponding reduction in asset values. Own Funds also include a £7.8m gain as a result of a capital transfer from the with-profit funds.

SWEDEN

- Movestic has reported a solid cash result for 2022, with a substantial reduction in capital requirements offsetting a large fall in the value of Own Funds. The division is particularly sensitive to investment market movements and economic conditions during the period underpin the cash result. Own Funds bear the impact of economic conditions and negative investment returns (particularly equity driven).

NETHERLANDS - WAARD

- Waard delivered improved cash generation, following a reduction in capital requirements that exceeded a fall in Own Funds. Economic losses, largely due to the negative effect of rising interest rates on yields and bond values and mortgage portfolio, were the main component of the value reduction. This also had a positive impact on capital requirements, driving a material decrease in market risks.

NETHERLANDS - SCILDON

- The Scildon result was dominated by economic factors that were key to the decline in both Own Funds and required capital. Rising interest rates, falling bond values and widening spreads had a negative impact on Own Funds, resulting in significant economic losses. Operational losses also contributed to the value reduction. The reduction in SCR was driven by economic factors, particularly market risks, as well as lapse risk with lower exposure to the cost of guarantees. Overall, Scildon posted a loss for 2022.

CASH GENERATION – ENHANCED ANALYSIS

The format of the analysis draws out components of the cash generation results relating to technical complexities, modelling issues or exceptional corporate activity (e.g. acquisitions). The results excluding such items are deemed to better reflect the inherent commercial outcome (commercial cash generation).

COMMERCIAL CASH GENERATION

£46.6M (2021: £53.0M)

	UK	SWEDEN	NETHERLANDS WAARD	NETHERLANDS SCILDON	DIVISIONAL TOTAL	GROUP ADJ	TOTAL
Base cash generation	40.8	16.1	8.4	(3.4)	61.9	20.8	82.7
Symmetric adjustment	(10.9)	(17.2)	-	-	(28.2)	-	(28.2)
WP restriction look through	(7.8)	-	-	-	(7.8)	-	(7.8)

Commercial cash generation	22.0	(1.1)	8.4	(3.4)	25.9	20.8	46.6
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The group's closed book businesses (UK and Waard) continue to be the dominant source of commercial cash generation with a total commercial result of c£30.4m which in itself represents 87% coverage of the full year dividend. The open to new business divisions (Movestic and Scildon) have reported modest commercial cash losses, resulting in a total divisional result of £25.9m. This result has been further enhanced by the implementation of an FX hedge to reduce the group balance sheet exposure to FX movements. This delivered £36.5m of commercial cash which in turn contributes to a total commercial cash generation of £46.6m, representing 133% coverage of the full year dividend. We have consistently reported the existence of potential management actions to enhance cash emergence. We deemed the time was right and the financial case was suitably compelling to implement one of these in the shape of an FX hedge.

UK

The UK result, which includes the post-acquisition results for CASLP, relates to a combination of operating and economic gains. The economic result includes the benefits from the increased yield environment in part offset by losses from equity falls and widening credit spreads.

The commercial cash outcome illustrates that UK remains at the heart of the cash generation model. The acquisition of CASLP will positively contribute to the longevity of this core source of cash.

SWEDEN

The Swedish result, which excludes the large benefits from the symmetric adjustment, is largely a direct consequence of the sharp decline in equity values and a widening of credit spreads during the period, which are partially offset by benefits from yield increases. The underlying operating result is broadly in line with expectation.

WAARD

The Waard commercial cash gain includes both operating and economic profits. The operating gains are largely due to post acquisition synergies from the Robein Leven acquisition which completed in Q2. Economic gains have arisen as a result of FX movements and rising yields.

SCILDON

The Scildon result includes modest benefits from the increasing interest rates during the period. Operating losses, largely due to strengthening operating assumptions, together with new business strains have more than offset any economic profits.

GROUP ADJ

The central group cash generation includes a £36.5m gain from a FX hedge taken out in the year. This is partially offset by central expenses and consolidation adjustments. The central expenses include coupon payments of the Tier 2 debt raised in the year, central overheads and centrally incurred business development investments e.g. M&A activity, IFRS 17, Tier 2 debt raise process.

EcV EARNINGS

£(106.1)M (2021: £57.8M)

The EcV earnings of the group reflect the economic conditions over the course of the year, with negative equity returns, rising interest rates and falling bond values, delivering economic losses across the operating divisions.

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

£m	31 Dec 2022	31 Dec 2021
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Expected movement in period	(1.3)	(1.7)
New business	8.0	2.4
Operating experience variances	(20.7)	(19.2)
Operating assumption changes	(14.5)	(13.9)
Other operating variances	1.7	(26.4)
Total operating earnings	(26.8)	(58.8)
Total economic earnings	(109.1)	109.6
Other non-operating variances	(2.6)	4.5
Risk margin movement	20.4	10.8
Tax	12.0	(8.2)
EcV earnings	(106.1)	57.8

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

£m	31 Dec 2022	31 Dec 2021
UK	(24.6)	28.0
Sweden	(37.1)	26.1
Netherlands	(29.4)	8.3
Group and group adjustments	(15.0)	(4.6)
EcV earnings	(106.1)	57.8

Total economic earnings: The large economic loss of £109.1m dominates the EcV result in the year. The result is in line with our reported sensitivities and is driven by the following market movements:

Reduction in equity indices:

- CPI (UK consumer price index) increased by 5.1% to 10.5% (year ended 31 December 2021: increased by 4.7% to 5.4%);
- FTSE All Share index decreased by 3% (year ended 31 December 2021: increased by 15%);
- Swedish OMX all share index decreased by 25% (year ended 31 December 2021: increased by 35%); and
- The Netherlands AEX all share index decreased by 15% (year ended 31 December 2021: increased by 23%).

Widening credit spreads:

- UK AA corporate bond yields increased to 1.04% (31 December 2021: 0.69%).
- European AA credit spreads increased to 0.29% (31 December 2021: 0.16%).

Increased yields:

- 10-year UK gilt yields have increased from 0.98% to 3.78%.

The following table illustrates the approximate relative impacts of these market factor on the EcV economic loss:

Split of economics	
Equities	67%
Spreads	18%
Yields	5%
Other	10%

The EcV results over the past two years illustrate how sensitive the results are to economic factors. The fact that the loss in 2022 is the same as an equally large gain in 2021 demonstrates that, to an extent, there is a lack of permanence to such market driven value movements. Short term volatility has limited commercial impact on the business and of more importance is the fact that steady state, over the longer term, we expect EcV growth in the form of real world investment returns.

Total operating earnings: Although we report an operating loss, it is encouraging to see the marked reduction compared to 2021. The result includes many different components including items that represent positive investment in the future and items that are non-recurring in nature. The most significant items in 2022 are:

- Recurring central development overheads including those associated with the M&A strategy. Whilst the cost of this development investment is recognised, EcV does not recognise the potential returns we expect from it.
- Non-recurring development expenditure such as IFRS 17.
- Operating losses in Movestic mainly relating to transfers. Over previous years, aggressive pricing from a competitor resulted in a period of high transfer-out losses. The position has stabilised in 2022 and transfer rates have returned to our long terms assumed level by the end of the year. The resultant transfer related operating loss is greatly reduced and not expected to be a feature in 2023 based on current transfer levels.
- We have strengthened mortality and expense assumptions in Scildon. An element of the expense related loss covers process enhancement work for which the expected cost reduction benefits are not yet recognised in the closing valuation.

Risk Margin: the risk margin has reduced as in force books have run off. Increasing interest rates have also been a key driver of risk margin reduction.

Looking at the results by division:

UK: the UK division reported a small operating loss, primarily as a result of some expenses pressure. This was overshadowed by economic factors, with the division reporting a combined economic loss of £28.7m. The widening of bond spreads, alongside equity market falls, resulted in material economic losses being reported, although this was off-set somewhat by the net positive impact of the large yield rises that were witnessed during 2022.

Sweden: Movestic recorded a large loss, with the division being heavily impacted by external economic factors. Investment market conditions, particularly falling equity values (the Swedish OMX decreased 25% in 2022), resulted in negative economic returns (£43.0m). Operating earnings were suppressed by a reduction in fund rebate income and some adverse experience in transfers, although it is pleasing to report that the latter was to a much lesser extent than in the prior year. Modest new business profits (on an EcV basis) of £1.8m were reported (20221: £2.9m), reflecting difficult market conditions and margin pressures, with lower rebate income and equity falls having a negative impact.

Netherlands: The Dutch division has reported a combined loss of £29.4m in 2022, with economic losses of £34.3m dominating the result. In Scildon, economic losses of £29.7m were primarily the consequence of rising interest rates and widening bond spreads adversely impacting bond and property values. As outlined earlier, Scildon also reported an operational loss, which includes the impact of guarantee related costs and higher mortality driven outgoings than anticipated, alongside an element of one-off expense assumption strengthening. Waard has reported an EcV loss of £3.1m, with economic experience being the main component. The impact of rising yields has resulted in falls in the value of our bond and mortgage portfolio, outweighing the positive impact of discounting the division's liabilities at a higher rate.

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 material economic-related items such as financing costs, primarily in relation to the Tier 2 debt interest costs, and negative investment returns.

EcV

£511.7M (2021: £624.2M)

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

Value movement: 1 Jan 2022 to 31 Dec 2022:

£m	
2021 EcV	624.2
EcV earnings	(106.1)
Forex	6.5
Acquisitions	21.4
Pre-dividend EcV	546.0
Dividends	(34.3)
2022 EcV	511.7

EcV earnings: A loss of £106.1m has been reported in 2022. Significant economic losses arising from the adverse economic investment market conditions witnessed in the first half of year, drive the result.

Dividends: Under EcV, dividends are recognised in the period in which they are paid. Dividends of £34.3m were paid during the year, being the final dividend from 2021 and the 2022 interim dividend.

Foreign exchange: The closing EcV of the group reflects a foreign exchange gain in the period, a consequence of the sterling appreciation against Swedish krona being offset by depreciation versus the euro.

EcV by segment at 31 Dec 2022:

£m	
UK	209.3
Sweden	199.3
Netherlands	223.4
Other group activities	(120.3)
2022 EcV	511.7

The above table shows that the EcV of the group is diversified across its different markets.

EcV to Solvency II:

£m	
2022 EcV	511.7
Risk margin	(33.4)
Contract boundaries	(3.8)
Tier 2	200.0
Tier 2 restrictions	(46.7)
Dividends	(22.8)
2022 SII Own Funds	605.1

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 final dividend of £22.8m is recognised for SII regulatory reporting purposes. It is not recognised within EcV until it is actually paid.

Tier 2: The tier 2 debt is treated as "quasi equity" for Solvency II purposes. For EcV, consistent with IFRS, we continue to report this as debt.

IFRS

IFRS PRE-TAX LOSS

£146.9M (2021: £28.8M PROFIT)

IFRS TOTAL COMPREHENSIVE INCOME

£(91.9)M (2021: £3.8M)

The group's IFRS results reflect the differing dynamics of the reserving methods adopted across the group under IFRS 4. We will be applying IFRS 17 for the first time in 2023.

Analysis of IFRS result by segment:

	2022 £m	2021 £m
UK	(11.7)	35.6
Movestic	2.3	12.1
Waard Group	(10.0)	0.1
Scildon	(103.7)	(0.5)
Chesnara	(27.3)	(12.6)
Consolidation adjustments	(11.9)	(5.8)
(Loss)/profit before tax and acquisitions	(162.3)	28.9
Gain/(loss) on acquisitions	15.4	(0.1)
(Loss)/profit before tax	(146.9)	28.8
Tax	48.6	(1.5)
(Loss)/profit after tax	(98.3)	27.3
Foreign exchange	5.8	(23.9)
Other comprehensive income	0.6	0.4
Total comprehensive income	(91.9)	3.8

Analysis of IFRS result between operating and economic factors:

Operating (loss)/profit	(10.5)	40.7
Economic loss	(151.8)	(11.8)
(Loss)/profit before tax and acquisitions	(162.3)	28.9
Post completion gain/(loss) on acquisitions	15.4	(0.1)
(Loss)/profit before tax	(146.9)	28.8
Tax	48.6	(1.5)
(Loss)/profit after tax	(98.3)	27.3
Foreign exchange	5.8	(23.9)
Other comprehensive income	0.6	0.4
Total comprehensive income	(91.9)	3.8

The group has reported a large pre-tax IFRS loss for the year, which is dominated by the result reported by Scildon. Scildon's IFRS results are particularly sensitive to yield changes, which increased significantly over 2022, largely as a result of the accounting mismatch between its insurance contract liabilities and the assets that back them. Scildon's insurance contract liabilities are largely valued using the observed yield curve at the point of sale of the underlying contract. As yields move over time, the liability value does not change, but the fair values of the assets that back the liabilities do. Consequently, with significant rises in yields having been observed over the course of 2022, Scildon has seen large fair value falls in its fixed interest assets, which has not been offset by a decrease in the associated liabilities. This dynamic will be different under IFRS 17, where insurance contract liabilities will be valued more consistently across the group. Whilst other segments of the group also display a level of results exposure to yields, they are not of the same magnitude as for Scildon.

A divisional summary has been provided below, along with drawing out some other key features of the IFRS results.

UK: Reported a loss for the year driven by adverse economic returns; namely falling equity markets, rising interest

rates and the impact of rising inflation, in contrast with the prior year which saw economic profits. A positive operating result was reported in the year, driven by favourable operating assumption change impacts and experience gains. The UK segment result includes the post-acquisition results of CASLP.

Movestic: The division has reported a small IFRS profit, although this is significantly down on the prior year. This is largely driven by economic factors, which has resulted in lower fund rebates arising from lower Funds Under Management and adverse investment returns on shareholder assets.

Waard Group: The division's results reflect the impact of investment market movements in the year, particularly the adverse value impact on bond holdings as a result of interest rate rises in the year. The division's results include the post-acquisition performance of Robein Leven, which was acquired during the year. The division also completed the acquisition of another small policy portfolio in the year.

Scildon: Scildon's result is dominated by the impact of increases in yields over the year. In addition the division has reported some strain arising from higher than expected mortality over the year.

Chesnara: The result largely represents holding company expenses and debt financing costs. The current year loss is higher than last year, largely due to additional interest costs on the new Tier 2 debt which was issued in February 2022. The result also includes some investment losses as a consequence of adverse market movements on directly held investments.

Consolidation adjustments: These relate to items such as the amortisation and impairment of intangible assets. The increase in the year is predominantly due to the extra charge arising from the AVIF asset recognised in relation to the acquisition of CASLP.

Gain / (loss) on acquisition: The group completed the acquisitions of Sanlam Life and Pensions and Robein Leven during the year. Gains of £9.6m and £5.8m respectively were recognised, representing the difference between the purchase consideration and the net assets acquired.

Exchange gains: Movements in sterling against both the euro and Swedish krona in the period created a favourable exchange profit, compared with a large exchange rate loss incurred in the prior year.

Operating profits: The group reported an operating loss in the year. This includes the adverse impact of increased debt financing costs within Chesnara, arising from the Tier 2 debt issuance in the year and reduced operating profits within the UK division, where experience variances and policyholder tax impacts were lower than the prior year. The prior year result included the positive impact of releasing an additional reserve created in 2020 due to the liability adequacy test biting in Scildon, amounting to £10.0m.

Economic losses: This represents the components of the earnings that are directly driven by movements in economic variables. The economic losses reported in the year are dominated by Scildon's results.

FINANCIAL MANAGEMENT

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

Summary:

OBJECTIVES

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

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

HOW WE DELIVER OUR OBJECTIVES

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

1. Monitor and control risk & solvency
2. Longer-term projections
3. Responsible investment management
4. Management actions

OUTCOMES

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

1. **SOLVENCY:**
Group Solvency Ratio: 197%
(2021: 152%)
2. **SHAREHOLDER RETURNS**
2020-2022 TSR 9.6%
(2019-2021 TSR (0.08)%)

2022 dividend yield 8.1%
(2021: 8.1%)
Based on average 2022 share price and full year 2022 dividend of 23.28p
3. **CAPITAL STRUCTURE**
Gearing ratio of 37.6%
(2021: 6.4%)

This does not include the financial reinsurance within the Swedish business.
4. **LIQUIDITY AND POLICYHOLDER RETURNS**
Policyholders' reasonable expectations maintained.
Asset liability matching framework operated effectively in the year.
Sufficient liquidity in the Chesnara holding company.
5. **MAINTAIN THE GROUP AS A GOING CONCERN**
Group remains a going concern

Further detail on capital structure

The group is funded by a combination of share capital, retained earnings and debt finance. The debt gearing (excluding financial reinsurance in Sweden) was 37.6% at 31 December 2022 (6.4% at 31 December 2021). The level of debt that the board is prepared to take on is driven by the group's "Debt and leverage policy" which incorporates the board's risk appetite in this area. Over time, the level of gearing within the group will change, and is a function of the funding requirements for future acquisitions and the repayment of existing debt. During the year, the company announced the successful pricing of its inaugural debt capital markets issuance of £200m Tier 2 Subordinated Notes.

The net proceeds of the notes has been partially used for corporate purposes, including the funding of the CASLP acquisition in the year. The balance is held as investments.

Acquisitions are funded through a combination of debt, equity and internal cash resources. The ratios of these three funding methods vary on a deal-by-deal basis and are driven by a number of factors including, but not limited to the size of the acquisition; current cash resources of the group; the current gearing ratio and the board's risk tolerance limits for additional debt; the expected cash generation profile and funding requirements of the existing subsidiaries and potential acquisition; future financial commitments; and regulatory rules. In addition to the above, in the past Movestic used a financial reinsurance arrangement to fund its new business operation.

OUTCOMES FROM IMPLEMENTING OUR FINANCIAL MANAGEMENT OBJECTIVES

Maintain the group as a going concern

After making appropriate enquiries, including consideration of the prevailing high-inflation environment and the ongoing potential impacts of the war in Ukraine on the group's operations, 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 up into the Chesnara parent company balance sheet, with these cash

flows being used to fund debt repayments, shareholder dividends and the head office function of the parent company. Further insight into the immediate and longer-term impact of certain scenarios, covering solvency, cash generation and Economic Value, can be found under the section headed 'Capital Management Sensitivities'. The directors believe these scenarios will encompass any potential future impact of the prevailing high inflation environment and the war in Ukraine on the group, as Chesnara's most material ongoing exposure to both potential threats are 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.

The group's strong capital position and business model, provides a degree of comfort that although the ongoing war in Ukraine and the prevailing high inflation environment both have the potential to cause further significant global economic disruption, the group and the company remain well capitalised and has sufficient liquidity. 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 in the Capital Management section indicates a strong Solvency II position as at 31 December 2022 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. This position was further enhanced in early 2022, when the company announced the successful pricing of its inaugural debt capital markets issuance of £200m Tier 2 Subordinated Notes, the net proceeds of which have been used for corporate purposes, including investments and acquisitions. 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 and subsequent changes to working practices in light of COVID-19, our experience has shown that both our internal functions and those operated by our key outsourcers and suppliers have adapted well and do not cause any issues as to our going concern.

Assessment of viability

The board assesses that being financially viable includes continuing to pay an attractive and sustainable level of dividends to investors and meeting all other financial obligations, including debt repayments over the three-year business planning time horizon. The board's assessment of the viability of the group is performed in conjunction with its going concern assessment and considers both the time horizons required for going concern, and the slightly longer term timelines for assessing viability. The assessment for viability also considers the same key financial metrics as for assessing going concern, being solvency, cash, EcV and IFRS, both on base case and stressed scenarios.

Viability statement

Based on the results of the analysis above, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of their assessment. Although we produce business plans and other financial projections over longer time horizons, the selection of three-year viability assessment recognises that the level of operating, regulatory and market certainty reduces towards the later years of the projection time frames. The three-year period also aligns with executive director LTIP performance time frames.

Assessment of prospects

Our longer-term prospects are primarily considered through the conclusions drawn from our annual business planning process, updated for key events that may occur in-between business plans.

The business plans include underlying operational deliverables, an assessment of the business model and the financial consequences of following those plans. As part of this process we also consider the principal risks and uncertainties that the group faces and how these might affect our prospects.

An assessment of our prospects has been shown below, updated for our consideration of the impact of the War in Ukraine crisis and the prevailing high inflation environment. This has been structured around our three strategic objectives:

Value from in-force book: The group has c933k policies in force at 31 December 2022 (over 1 million on a pro forma basis including Conservatrix). These are generally long-term policies, and the associated cash flows can, at an overall portfolio level, be reasonably well predicted on base case and stressed scenarios. The group is well capitalised at both a group and divisional level and we have high quality assets backing our insurance liabilities. Just as equity markets had recovered from the impact of COVID-19, the worsening situation in the Ukraine caused equity prices to fall. Whilst this may turn out to be a temporary situation, sustained depressed market values do adversely impact fee income streams and therefore if markets fall further then profitability prospects reduce. Similarly, adverse movements in yields would adversely impact our prospects. Temporary market volatility is however a natural feature of investment markets and our financial model is well positioned to withstand difficult conditions without creating any permanent harm to the longer-term profitability prospects.

Acquisition Strategy: The outlook and prospects of continuing to deliver against this strategic objective is covered earlier in the business review section. We see no reason to expect that the war in Ukraine or the high inflation environment will have a long term impact on the availability of acquisition opportunities. Indeed, during the year we completed two acquisitions in the year, one in the UK and one in the Netherlands. We also completed another Dutch acquisition on 1 January 2023. Waard continues to build a useful market position as a company who are able and willing to acquire books that are sub-scale for the vendors business model. Whilst we maintain our ambition to complete larger deals, the prospects from a steady flow of well-priced smaller acquisitions should not be underestimated. The financial position of the group continues to support financing deals through the use of our own resources or by raising debt; however, in the short-term equity funding would likely be less attractive.

Value from new business: Chesnara is in a fortunate position in that its prospects do not fundamentally rely on the ability to sustain new business volumes. New business levels have contributed a small amount of extra value during the year despite the ongoing challenges as a result of the war in Ukraine and the subsequent cost of living crisis and we believe there remains realistic upside potential as we move into 2023.

Our business fundamentals such as assets under management, policy volumes, new business market shares and expenses have all proven resilient to the impact of the war in Ukraine and cost of living crisis. This, together with the positive assessment of our core strategic objectives and a line of sight to positive management actions over the planning period, leaves us well positioned to deliver ongoing positive outcomes for all stakeholders.

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 to monitor and control the probability and/or impact of adverse outcomes within the board's risk appetite or to maximise realisation of opportunities.

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

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

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

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

Chesnara adopts the “three lines of defence” model 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'. 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.

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.

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 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.

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 2022, the risks from the global pandemic have materially reduced, with nearly all restrictions being lifted globally, however there remains a risk of further outbreaks/variants. The Chesnara group has continued to remain operationally and financially stable throughout the COVID-19 pandemic, providing a high level of assurance regarding operational resilience processes and the suitability of the approach taken. COVID-19 is not documented here as a principal risk in its own right, as the impacts are already covered by other principal risks, for example, market risks morality risk and other risks associated with operational failure and business continuity.

CLIMATE CHANGE RISK WITHIN CHESNARA'S RISK FRAMEWORK

Climate change is not considered as a standalone principal risk. Instead, the risks arising from climate change are integrated through existing considerations and events within the framework. The information in the following pages has been updated to reflect Chesnara's latest views on the potential implications of climate change risk and wider developments and activity in relation to Environmental, Social and Governance (ESG).

Chesnara has embedded climate change risk within the group's risk framework and included a detailed assessment alongside the group's ORSA, concluding that the group is not materially exposed to climate change risk.

UKRAINE CONFLICT

The ongoing invasion of Ukraine by Russia is considered to be an emerging risk for Chesnara Group in the sense that it is an evolving situation and has potential implications for Chesnara's Principal risks. The risk information on the following pages includes specific commentary where appropriate.

MACROECONOMIC VOLATILITY

Significant economic volatility globally and particularly in the UK is being driven by supply chain pressures and soaring energy prices. The UK narrowly staved off a recession at the end of 2022, though it is still possible that the UK will enter recession in 2023 albeit the BoE expects any recession to be shorter and less severe than previously thought. The information in the following pages has been updated to reflect Chesnara's latest views on the potential implications.

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.

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	<p>Market risk results from fluctuations in asset values, foreign exchange rates and interest rates and has the potential to affect the group's ability to fund its commitments to customers and other creditors, as well as pay a return to shareholders.</p> <p>Chesnara and each of its subsidiaries have obligations to make future payments, which are not always known with certainty in terms of timing or amounts, prior to the payment date. This includes primarily the payment of policyholder claims, reinsurance premiums, debt repayments and dividends. The uncertainty of timing and amounts to be paid gives rise to potential liquidity risk, should the funds not be available to make payment.</p> <p>Other liquidity issues could arise from counterparty failures/credit defaults, a large spike in the level of claims or other significant unexpected expenses.</p> <p>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.</p>
KEY CONTROLS	RECENT CHANGE / OUTLOOK
<ul style="list-style-type: none">Regular monitoring of exposures and performance;Asset liability matching;Maintaining a well-diversified asset portfolio;Holding a significant amount of surplus in highly liquid "Tier 1" assets such as cash and gilts;Utilising a range of investment funds and managers to avoid significant concentrations of risk;	<p>With greater global emphasis being placed on environmental and social factors when selecting investment strategies, the group has an emerging exposure to "transition risk" arising from changing preference and influence of, in particular, institutional investors. This has the potential to result in adverse investment returns on any assets that perform poorly as a result of "ESG transition". Chesnara has established a Sustainability Programme to embed Chesnara's Sustainability strategy.</p> <p>The conflict in Ukraine / Russia brings additional economic uncertainty and volatility to financial markets, including the potential for higher inflationary pressures in the short term. The group has no direct exposure in terms of investments in</p>

<ul style="list-style-type: none"> - Having an established investment governance framework to provide review and oversight of external fund managers; - Regular liquidity forecasts; - Considering the cost/benefit of hedging when appropriate; - Actively optimising the risk / return trade-off between yield on fixed interest assets compared with the associated balance sheet volatility and potential for defaults or downgrades; and - Giving due regular consideration (and discussing appropriate strategies with fund managers) to longer term global changes that may affect investment markets, such as climate changes. 	<p>Russian funds or companies via customer unit linked funds, and we are working with customers that are exposed to help them.</p> <p>The cost of living and energy crisis is driving significant economic volatility globally and particularly in the UK and there is a risk of poor mid-term performance on shareholder and policyholder assets.</p> <p>An interim risk report was produced in October 2022 for the Audit & Risk Committee summarising some of the emerging risks from the current geo-political and domestic volatility, documenting known risks and mitigants providing assurance that the risks are being adequately managed.</p>
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PR2 - REGULATORY CHANGE RISK	
DESCRIPTION	The risk of adverse changes in industry practice/regulation, or inconsistent application of regulation across territories.
RISK APPETITE	The group aims to minimise any exposure to this risk, to the extent possible, but acknowledges that it may need to accept some risk as a result of carrying out business.
POTENTIAL IMPACT	<p>Chesnara currently operates in three main 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 are the constraining of efficient and fluid use of capital within the group or creating a non-level playing field with respect to future new business/acquisitions.</p> <p>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:</p> <ul style="list-style-type: none"> - 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.
KEY CONTROLS	RECENT CHANGE / OUTLOOK

<p>Chesnara seeks to limit any potential impacts of regulatory change on the business by:</p> <ul style="list-style-type: none"> - Having processes in place for monitoring changes, to enable timely actions to be taken, as appropriate; - Maintaining strong open relationships with all regulators, and proactively discussing their initiatives to encourage a proportional approach; - Being a member of the ABI and equivalent overseas organisations and utilising other means of joint industry representation; - Performing internal reviews of compliance with regulations; and - Utilising external specialist advice and assurance, when appropriate. <p>Regulatory risk is monitored and scenario tests are performed to understand the potential impacts of adverse political, regulatory or legal changes, along with consideration of actions that may be taken to minimise the impact, should they arise.</p>	<p>The jurisdictions which Chesnara operates in are currently subject to significant change arising from political, regulatory and legal change. These may either be localised or may apply more widely, following from EU-based regulation and law, or the potential unwinding of this following the UK's departure from the EU.</p> <p>The UK Treasury and EIOPA are both undertaking a review of SII rules implementation. There is potential for divergence of regulatory approaches amongst European regulators with potential implications for Chesnara's capital, regulatory supervision and structure.</p> <p>The group has considered any restructuring which could be required to align to changes in the requirements of cross border regulatory supervision. In extremis, Chesnara could consider the re-domiciling of subsidiaries or legal restructure of the business, should this result in a more commercially acceptable business model in a changed operating environment. In addition, there are a number of potential secondary impacts such as economic implications, and the effect of any regulatory divergence as the PRA progresses SII-equivalent regulation for the UK businesses. Chesnara will monitor the consultation and discussions arising under EIOPA's Solvency II Review, and in the context of Brexit and the UK's ultimate position regarding SII equivalence.</p> <p>The group is subject to evolving regimes governing the recovery, resolution or restructuring of insurance companies. As part of the global regulatory response to the risk that systemically important financial institutions could fail, banks, and more recently insurance companies, have been the focus of new recovery and resolution planning requirements developed by regulators and policy makers nationally and internationally. It remains unclear to what extent any future recovery and resolution regime could apply to the group in the future and, consequently, what the implications of such a development would be for the group and its creditors.</p> <p>In July 2022, the FCA published final rules for a new Consumer Duty and response to feedback to CP21/36 - A New Consumer Duty. The Consumer Duty, with an implementation date of 31 July 2023, will set higher and clearer standards of consumer protection across financial services and require firms to act to deliver good outcomes for customers. Operations in the UK are reviewing existing product governance frameworks in relation to delivering the new Consumer Duty requirements.</p>
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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.	
POTENTIAL IMPACT	<p>The acquisition element of Chesnara's growth strategy is dependent on the availability of attractive future acquisition opportunities. Hence, the business is exposed to the risk of a reduction in the availability of suitable acquisition opportunities within Chesnara's current target markets, for example arising as a result of a change in competition in the consolidation market or from regulatory change influencing the extent of life company strategic restructuring.</p> <p>Through the execution of acquisitions, Chesnara is also exposed to the risk of erosion of value or financial losses arising from risks inherent within businesses or funds acquired which are not adequately priced for or mitigated as part of the transaction.</p>	
KEY CONTROLS	RECENT CHANGE / OUTLOOK	
Chesnara's financial strength, strong relationships and reputation as a "safe hands acquirer" via regular contact with regulators, banks and target companies enables the company to adopt a	Chesnara completed acquisitions in the Netherlands and the UK during 2022 and has recently completed a further	

<p>patient and risk-based approach to assessing acquisition opportunities. Operating in multi-territories provides some diversification against the risk of changing market circumstances in one of the territories. Consideration of additional territories within Western-Europe remains on the agenda, if the circumstances of entry meet Chesnara's stated criteria.</p> <p>Chesnara seeks to limit any potential unexpected adverse impacts of acquisitions by:</p> <ul style="list-style-type: none"> - Applying a structured board approved risk-based Acquisition Policy including CRO involvement in the due diligence process and deal refinement processes; - Having a management team with significant and proven experience in mergers and acquisitions; and - Adopting a cautious risk appetite and pricing approach. 	<p>acquisition in the Netherlands in early 2023, whilst maintaining the established disciplines within the Acquisition Policy.</p> <p>The successful Tier 2 debt raise, in addition to diversifying the group's capital structure, has provided additional flexibility in terms of funding Chesnara's future growth strategy.</p>
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PR4 - DEMOGRAPHIC EXPERIENCE RISK	
DESCRIPTION	Risk of adverse demographic experience compared with assumptions (such as rates of mortality, morbidity, persistency etc.)
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	<p>In the event that demographic experience (rates of mortality, morbidity, persistency etc.) varies from the assumptions underlying product pricing and subsequent reserving, more or less profit will accrue to the group.</p> <p>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.</p> <p>If mortality or morbidity experience is higher than that assumed in pricing contracts (i.e. more death and sickness claims are made than expected), this will typically result in less profit accruing to the group.</p> <p>If persistency is significantly lower than that assumed in product pricing and subsequent reserving, this will typically lead to reduced group profitability in the medium to long-term, as a result of a reduction in future income arising from charges on those products. The effects of this could be more severe in the case of a one-off event resulting in multiple withdrawals over a short period of time (a "mass lapse" event).</p>
KEY CONTROLS	RECENT CHANGE / OUTLOOK
<p>Chesnara performs close monitoring of persistency levels across all groups of business to support best estimate assumptions and identify trends. There is also partial risk diversification in that the group has a portfolio of annuity contracts where the benefits cease on death.</p> <p>Chesnara seeks to limit the impacts of adverse demographic experience by:</p> <ul style="list-style-type: none"> - Aiming to deliver good customer service and fair customer outcomes; - Having effective underwriting techniques and reinsurance programmes, including the application of "Mass Lapse reinsurance", where appropriate; - Carrying out regular investigations, and industry analysis, to support best estimate assumptions and identify trends; - Active investment management to ensure competitive policyholder investment funds; and - Maintaining good relationships with brokers, which is independently measured via yearly external 	<p>Legislation introduced at the start of 2020, and enhanced at the start of 2021, made it easier for customers to transfer insurance policies in Sweden. Even before the legislation passed, this resulted in higher transfer activity in the market, particularly driven by brokers. Following higher rates of transfers through 2021, transfers have trended downwards during 2022. However the market remains sensitive to any changes and so this risk continues to be actively monitored.</p> <p>COVID-19 increased the number of deaths arising in 2020, 2021 and to a lesser extent in 2022. 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.</p> <p>Cost of living pressures could give rise to higher surrenders and lapses should customers face personal finance pressures and not be able to afford premiums or need to access savings. Any downturn in the property market could reduce protection business sales</p>

surveys that considers brokers attitude towards different insurers.	particularly in the Netherlands. Currently there has been no evidence of changes in behaviours. Chesnara continues to monitor closely and respond appropriately.
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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	<p>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.</p> <p>A key underlying source of potential increases in regular expense is the additional regulatory expectations on the sector.</p> <p>For the closed funds, the group is exposed to the impact on profitability of fixed and semi-fixed expenses, in conjunction with a diminishing policy base.</p> <p>For the companies open to new businesses, the group is exposed to the impact of expense levels varying adversely from those assumed in product pricing. Similar, for acquisitions, there is a risk that the assumed costs of running the acquired business allowed for in pricing are not achieved in practice, or any assumed cost synergies with existing businesses are not achieved.</p>
KEY CONTROLS	RECENT CHANGE / OUTLOOK
<p>For all subsidiaries, the group maintains a regime of budgetary control.</p> <ul style="list-style-type: none"> – Movestic and Scildon assume growth through new business such that the general unit cost trend is positive; – The Waard Group pursues a low cost-base strategy using a designated service company. The cost base is supported by service income from third party customers; – Countrywide Assured pursues a strategy of outsourcing functions with charging structures such that the policy administration cost is more aligned to the book's run off profile; and – With an increased current level of operational and strategic change within the business, a policy of strict Project Budget Accounting discipline is being upheld by the group for all material projects. 	<p>Chesnara has an ongoing expense management programme and various strategic projects aimed at controlling expenses. Acquisitions also present opportunities for expense systems and unit cost reduction.</p> <p>Through its exposures to investments in real asset classes, both direct and indirect, Chesnara has an indirect hedge against the effects of inflation and will consider more direct inflation hedging options should circumstances determine that to be appropriate.</p> <p>The cost of living and energy crisis is driving increases in supplier costs, particularly in the UK with its outsourcing model. Wage inflation is generally lower than headline inflation but is currently much higher than the long term valuation assumptions, with consideration needed regarding the balancing of employee remuneration versus turnover /retention / motivation risks / tight labour markets.</p>

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	<p>The group and its subsidiaries are exposed to operational risks which arise through daily activities and running of the business. Operational risks may, for example, arise due to technical or human errors, failed internal processes, insufficient personnel resources or fraud caused by internal or external persons. As a result, the group may suffer financial losses, poor customer outcomes, reputational damage, regulatory intervention or business plan failure.</p> <p>Part of the group's operating model is to outsource support activities to specialist service providers. Consequently, a significant element of the operational risk arises within its outsourced providers.</p>
KEY CONTROLS	RECENT CHANGE / OUTLOOK
<p>The group perceives operational risk as an inherent part of the day-to-day running of the business and understands that it can't be completely eliminated. However, the Company's objective is to always control or mitigate operational risks, and to minimise the exposure when it's possible to do so in a convenient and cost-effective way.</p> <p>Chesnara seeks to reduce the impact and likelihood of operational risk by:</p> <ul style="list-style-type: none"> – Monitoring of key performance indicators and comprehensive management information flows; – Effective governance of outsourced service providers including a regular financial assessment. Under the terms of the contractual arrangements the group may impose penalties and/or exercise step-in rights in the event of specified adverse circumstances; – Regular testing of business continuity plans; – Regular staff training and development; – Employee performance management frameworks; – Promoting the sharing of knowledge and expertise; and – Complementing internal expertise with established relationships with external specialist partners. 	<p>Operational resilience remains a key focus for the business and high on the regulatory agenda following the regulatory changes published by the BoE, PRA and FCA. Chesnara continues to progress activity under the UK operational resilience project. In line with the regulatory deadlines, the first self-assessment was presented to the A&RC/Board in March 2022. The next key regulatory deadline is 31 March 2025; the deadline by which all firms should have sound, effective, and comprehensive strategies, processes, and systems that enable them to address risks to their ability to remain within their impact tolerance for each important business service (IBS) in the event of a severe but plausible disruption. To support this the project is currently in the process of running a schedule of real life severe but plausible scenario testing. Each Business Unit continues to carry out assurance activities through local business continuity programmes to ensure robust plans are in place to limit business disruption in a range of severe but plausible events.</p> <p>In response to the ongoing energy crisis analysis has been carried out on operational continuity with the threat of planned blackouts. Based on the expected nature and/or probability of the risk crystallising there were no material concerns arising.</p>

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	<p>Cyber risk is a growing risk affecting all companies, particularly those who are custodians of customer data. The most pertinent risk exposure relates to information security (i.e. protecting business sensitive and personal data) and can arise from failure of internal processes and standards, but increasingly companies are becoming exposed to potential malicious cyber-attacks, organisation specific malware designed to exploit vulnerabilities, phishing and ransomware attacks etc. The extent of Chesnara's exposure to such threats also includes third party service providers.</p> <p>The potential impact of this risk includes financial losses, inability to perform critical functions, disruption to policyholder services, loss of sensitive data and corresponding reputational damage or fines.</p>

KEY CONTROLS	RECENT CHANGE / OUTLOOK
<p>Chesnara seeks to limit the exposure and potential impacts from IT/data security failures or cyber-crime by:</p> <ul style="list-style-type: none"> Embedding the Information Security Policy in all key operations and development processes; Seeking ongoing specialist external advice, modifications to IT infrastructure and updates as appropriate; Delivering regular staff training and attestation to the information security policy; Regular employee phishing tests and awareness sessions; Ensuring the board encompasses directors with information technology and security knowledge; Conducting penetration and vulnerability testing, including third party service providers; Executive committee and board level responsibility for the risk, included dedicated IT security committees with executive membership; Having established Chesnara and supplier business continuity plans which are regularly monitored and tested; Ensuring Chesnara's outsourced IT service provider maintains relevant information security standard accreditation (ISO27001); and Monitoring network and system security including firewall protection, antivirus and software updates. <p>In addition, a designated Steering Group provides oversight of the IT estate and Information Security environment including:</p> <ul style="list-style-type: none"> Changes and developments to the IT estate; Performance and security monitoring; Oversight of Information Security incident management; Information Security awareness and training; Development of Business Continuity plans and testing; and Overseeing compliance with the Information Security Policy. 	<p>Chesnara continues to invest in the incremental strengthening of its cyber risk resilience and response options.</p> <p>No reports of material data breaches.</p> <p>The ongoing invasion of Ukraine by Russia heightens the risk of cyber crime campaigns originating from Russia, with some suppliers reporting an increase in information security threats which some are saying is state sponsored. Although Chesnara is not considered to be a direct target of any such campaigns, all business units have confirmed that they have increased monitoring and detection/ protection controls in relation to the increased threat.</p> <p>During 2022 the group has continued to test and seek assurance of the resilience to cyber risks, this has included:</p> <ul style="list-style-type: none"> - End-to-end simulated cyber attack; - Regular phishing campaigns; - Board training and awareness; - Group wide cyber risk reviews; and - Ongoing penetration testing and vulnerability management <p>Chesnara is also implementing a new group-wide cyber response framework which includes updated group policy regarding ransomware.</p>

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.	
KEY CONTROLS	RECENT CHANGE / OUTLOOK	
<p>Chesnara seeks to limit any potential unexpected adverse impacts of acquisitions by:</p> <ul style="list-style-type: none"> Monitoring quarterly new business profit performance; Investing in brand and marketing; Maintaining good relationships with brokers; Offering attractive products that suit customer needs; Monitoring market position and competitor pricing, adjusting as appropriate; Maintaining appropriate customer service levels and experience; and Monitoring market and pricing movements. 	<p>The Swedish transfer market remains active following regulatory changes over the past two years. Further regulatory changes affecting transfers are expected in April 2023 that could also impact transfer experience.</p> <p>As a result of recent changes in competitor offerings, making them less attractive, 'transfers out' have begun to trend back down towards more normal levels.</p>	

PR9 – REPUTATIONAL RISK	
DESCRIPTION	Poor or inconsistent reputation with customers, regulators, investors, staff or other key stakeholders/counterparties.
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	<p>The group is exposed to the risk that litigation, employee misconduct, operational failures, the outcome of regulatory investigations, press speculation and negative publicity, disclosure of confidential client information (including the loss or theft of customer data), IT failures or disruption, cyber security breaches and/or inadequate services, amongst others, whether true or not, could impact its brand or reputation. The group's brand and reputation could also be affected if products or services recommended by it (or any of its intermediaries) do not perform as expected (whether or not the expectations are realistic) or in line with the customers' expectations for the product range.</p> <p>Any damage to the group's brand or reputation could cause existing customers or partners to withdraw their business from the group, and potential customers or partners to elect not to do business with the group and could make it more difficult for the group to attract and retain qualified employees.</p>
KEY CONTROLS	RECENT CHANGE / OUTLOOK
<p>Chesnara seeks to limit any potential reputational damage by:</p> <ul style="list-style-type: none"> – Regulatory publication reviews and analysis – Timely response to regulatory requests – Open and honest communications – HR policies and procedures – Fit & Proper procedures – Operational and IT Data Security Frameworks – Product governance and remediation frameworks – Appropriate due diligence and oversight of outsourcers and third parties 	<p>Given the global focus on climate change as well as the significant momentum in the finance industry, the group is exposed to strategic and reputational risks arising from its action or inaction in response to climate change as well the regulatory and reputational risks arising from its public disclosures on the matter. Chesnara supports the UN Sustainable Development Goals (SDGs), including Climate Action. We have set our long term net zero targets and during 2023, we will produce our transition plan and the all-important shorter term 2025 and 2030 targets.</p> <p>In relation to the Ukraine / Russia conflict, no material exposure has been identified in terms of the group's key counterparty connections. There are limited indirect connections through third parties who have a presence in Russia and Chesnara has confirmed that there are no obvious links with Russia through its shareholders or stockbrokers.</p>

DIRECTORS' RESPONSIBILITIES STATEMENT

With regards to this preliminary announcement, the Directors confirm to the best of their knowledge that:

- The financial statements have been prepared in accordance with United Kingdom adopted international accounting standards and give a true and fair view of the assets, liabilities, financial position and profit for the Company and the undertakings included in the consolidation as a whole;
- Pursuant to Disclosure and Transparency Rules Chapter 4, the Chairman's Statement and Management Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties faced by the business.

On behalf of the Board

Luke Savage
Chairman

Steve Murray
Chief Executive Officer

29 March 2023

29 March 2023

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHESNARA PLC ON THE PRELIMINARY ANNOUNCEMENT OF CHESNARA PLC

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHESNARA PLC ON THE PRELIMINARY ANNOUNCEMENT OF CHESNARA PLC

As the independent auditor of Chesnara plc we are required by UK Listing Rule LR 9.7A.1(2)R to agree to the publication of Chesnara plc's preliminary announcement statement of annual results for the period ended 31 December 2022.

The preliminary statement of annual results for the period ended 31 December 2022 includes disclosures required by the Listing Rules and any additional content such as highlights, Chairman's Statement, component business review, a consolidated statement of comprehensive income, consolidated balance sheet and consolidated statement of cash flows. We are not required to agree to the publication of presentation to analysts.

The directors of Chesnara plc are responsible for the preparation, presentation and publication of the preliminary statement of annual results in accordance with the UK Listing Rules.

We are responsible for agreeing to the publication of the preliminary statement of annual results, having regard to the Financial Reporting Council's Bulletin "The Auditor's Association with Preliminary Announcements made in accordance with UK Listing Rules".

Status of our audit of the financial statements

Our audit of the annual financial statements of Chesnara plc is complete and we signed our auditor's report on 29 March 2023. Our auditor's report is not modified and contains no emphasis of matter paragraph.

Our audit report on the full financial statements sets out the following key audit matters which had the greatest effect on our overall audit strategy; the allocation of resources in our audit; and directing the efforts of the engagement team, together with how our audit responded to those key audit matters and the key observations arising from our work:

Valuation of the CASLP AVIF intangible asset

Key audit matter description

On 28 April 2022, Chesnara plc completed the acquisitions of Sanlam Life & Pensions UK Limited (subsequently renamed "CASLP Limited"). The acquisition has resulted in the recognition of an AVIF intangible asset amounting to £59.6m, which represents the present value of the future post-tax cash flows expected to arise from policies that were in force at the point of acquisition. The asset has been valued using a discounted cash flow model that projects the future surpluses that are expected to arise from the business.

We have identified a new key audit matter relating to the discount rate used by management to discount the future cash flows underpinning the fair value of the CASLP AVIF intangible at acquisition date. Due to the highly judgemental nature of this balance, we identified manipulation of this assessment as an area of potential fraud. The accounting policy adopted by the group is documented within note 2(n) to the financial statements, with details of the balance sheet movement in note 20 therewith.

How the scope of our audit responded to the key audit matter	<p>In respect of the CASLP AVIF:</p> <ul style="list-style-type: none"> • we gained an understanding of the relevant controls in place over the accuracy and completeness of key assumptions; • with involvement of valuation specialists, we constructed a range of independent discount rates based on alternative industry data in order to challenge the discount rate applied by management; • with the involvement of actuarial specialist, we assessed the reasonableness of management's cash flow assumptions and amortisation rate used in deriving the AVIF balance; • we have assessed the disclosure of the AVIF recognised at acquisition within note 20 to the financial statements.
Key observations	Based on the audit procedures performed, we consider the discount rate used in the AVIF recognised at the date of acquisition to be appropriate.

Valuation of Scildon insurance liabilities

Key audit matter description	<p>Scildon measures the majority of its insurance contract liabilities using historical market rates of interest along with a number of other parameters and assumptions. At 31 December 2022, the Scildon insurance liabilities represented £1.7bn (2021: £1.9bn) of the group total of £3.8bn (2021: £3.8bn).</p> <p>IFRS 4 Insurance Contracts requires an insurer, at the end of each reporting period, to assess whether its recognised insurance contract liabilities are adequate, using current estimates of future cash flows (the "Liability adequacy test", or "LAT"). Given Scildon's accounting policy makes use of historical market interest rates, there is a heightened risk that its reserves under IFRS 4 are not adequate. We therefore consider the initial parameter setting process and LAT as key audit matters, specifically in relation to the mortality, lapse and expense assumptions which feed into the test, given that the insurance liabilities are most sensitive to these factors.</p> <p>We have also deemed there to be a risk of fraud, due to the inherent risk of management overriding internal controls around the setting of the parameters used to calculate the reserves at inception.</p> <p>The accounting policy adopted by the group is documented within note 2(g) in the financial statements. The assumptions and the sensitivity of Scildon insurance contract liabilities to such assumptions are set out in note 30 of the financial statements. Actuarial assumptions, specifically the liability adequacy test, are referred to within the Audit and Risk Committee report on page 120 of the annual report.</p>
How the scope of our audit responded to the key audit matter	<p>In respect of the Scildon insurance contract liabilities, we performed the following procedures:</p> <ul style="list-style-type: none"> • gained an understanding of the relevant controls around the setting of the assumptions feeding into the LAT; • with the involvement of actuarial specialists, challenged the mortality, lapse and expense assumptions which feed into the test, by evaluating experience, supporting documents and calculations; • assessed the results of the experience investigations carried out by management to determine whether they provide support for the assumptions; • performed analytics on policy cash flows, and carried out further investigation on outliers and movements compared to the prior period; and • for a sample of policies, recalculated the reserve at a policy level, using an independent replication model, and compared the results to those produced by management.
Key observations	Based on the procedures performed, we concluded that the initial parameter setting process and the LAT performed by management were reasonable, supporting the valuation of Scildon's insurance contract liabilities.

Valuation of Movestic Deferred Acquisition Costs intangible asset

Key audit matter description	<p>Acquisition costs relating to investment contracts comprise of directly attributable incremental acquisition costs, which vary with, and are related to, securing new business. Acquisition costs are recognised as a deferred acquisition cost asset to the extent that they represent the contractual right to future benefits from the provision of investment management service. The asset is amortised over the expected term of the contract, as the fees relating to the provision of the services are recognised.</p> <p>There are a number of key judgement areas within this balance, both in terms of the amortisation period selected for the DAC and also in management's assessment of the</p>
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asset for impairment. The impairment assessment is most sensitive to mortality, transfer, surrender, and expense assumptions.

As at year end 2022, the DAC balance held on the group balance sheet totalled £62.8m (2021: £63.3m), of which £51.9m (2021: £53.6m) related to the Movestic component. Due to the significance of the balance and the uncertainty brought about by macroeconomic factors and regulatory changes in the Swedish market, we identified a key audit matter related to the valuation of the Movestic DAC.

We have also deemed there to be a risk of fraud, due to the inherent risk of management overriding internal controls around the assumptions used in the impairment assessment and determination of the amortisation period applied.

The accounting policy adopted by the group is set out in note 2(h) to the financial statements, with details of the balance sheet movement in note 19 therewith.

How the scope of our audit responded to the key audit matter

In respect of the Movestic DAC we:

- gained an understanding of the relevant controls in place around the setting of the amortisation profile, and the impairment test;
- assessed the rationale for the expense ledger balances capitalised, and performed tests of detail in respect of valuation which involved agreeing acquisition costs back to contracts;
- created an expectation of the DAC balance using the amounts capitalised through the period, offset with the amortisation charge. We have also performed investigation into any differences;
- with the involvement of actuarial specialists, challenged the amortisation profile adopted by management, by constructing a range of independent amortisation profiles based on alternative data; and
- with the involvement of internal actuarial specialists, challenged the reasonableness of management's assumptions within the impairment test by evaluating experience, supporting documents and calculations.

Key observations

Based on the procedures performed, we consider the DAC valuation to be reasonable.

Valuation of Chesnara plc's investment in CA plc

Key audit matter description

Chesnara plc, the group's parent entity, holds a total investment of £414.1m (2021: £354.7m) on the company balance sheet relating to its investment in group subsidiaries, of which £142.9m (2021: £167.9m) related to the UK entity, CA plc. The balance is held at cost less impairment.

In line with IAS 36 'Impairment of Assets', management are required to carry out an impairment assessment if there is indication of impairment loss at the balance sheet date. Through the assessment management challenge whether the investment in CA plc is carried at more or less than the recoverable amount, which is the higher of fair value less costs of disposal and value in use, and therefore whether an impairment is required. Management have historically deemed economic value ("EcV") to be an appropriate proxy for the IAS 36 "value in use" within their impairment assessment. Management's definition of EcV has been set out on page 245 of the annual report.

In recent periods, the CA plc EcV has been on a downwards trend due to the entity being closed to new business, poor investment returns, and increasing pressures from macroeconomic factors. The impairment assessment performed by management at the balance sheet date highlighted £25.0m (2021: £14m of headroom) of impairment over the carrying value of the investment. We therefore identified a key audit matter relating to the valuation of Chesnara plc's investment in CA plc.

Due to the potential for management to introduce inappropriate bias to judgements made in the impairment assessment, we have determined that there was a risk of misstatement due to fraud.

The accounting policy relating to the valuation of Chesnara plc's investment in CA plc has been presented in note 2 (gg) of the financial statements, with details of the balance and movement in note 18 therewith. The investment in CA plc is also referred to in the Audit and Risk Committee report on page 119 of the annual report.

How the scope of our audit responded to the key audit matter	<p>In respect of the investment in CA plc:</p> <ul style="list-style-type: none"> • we gained an understanding of the relevant controls in place around the impairment assessment and EcV valuation; • we evaluated management's methodology and the appropriateness of using EcV as a proxy for the "value in use" with reference to the requirements of IAS 36; • we challenged management's assessment by performing benchmarking against other recent industry transactions to gain corroborative and contradictory evidence; and • with the support of our actuarial specialists, we have tested the adjustments made to the IFRS balance sheet to arrive at EcV.
Key observations	Based on the procedures performed, we consider the carrying value of Chesnara plc's investment in CA plc on the company balance sheet to be appropriate.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we did not provide a separate opinion on these matters.

Procedures performed to agree to the preliminary announcement of annual results

In order to agree to the publication of the preliminary announcement of annual results of Chesnara plc we carried out the following procedures:

- (a) checked that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited or draft financial statements and reflect the presentation to be adopted in the audited financial statements;
- (b) considered whether the information (including the management commentary) is consistent with other expected contents of the annual report;
- (c) considered whether the financial information in the preliminary announcement is misstated;
- (d) considered whether the preliminary announcement includes a statement by directors as required by section 435 of CA 2006 and whether the preliminary announcement includes the minimum information required by UKLA Listing Rule 9.7A.1;
- (e) where the preliminary announcement includes alternative performance measures ("APMs"), considered whether appropriate prominence is given to statutory financial information and whether:
 - the use, relevance and reliability of APMs has been explained;
 - the APMs used have been clearly defined, and have been given meaningful labels reflecting their content and basis of calculation;
 - the APMs have been reconciled to the most directly reconcilable line item, subtotal or total presented in the financial statements of the corresponding period; and
 - comparatives have been included, and where the basis of calculation has changed over time this is explained.
- (f) read the management commentary, any other narrative disclosures and any final interim period figures and considered whether they are fair, balanced and understandable.

Use of our report

Our liability for this report, and for our full audit report on the financial statements is to the company's members as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for our audit report or this report, or for the opinions we have formed.

Matthew Perkins (Senior statutory auditor)
 For and on behalf of Deloitte LLP
 Statutory Auditor
 Birmingham, United Kingdom
 29 March 2023

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	2022 £000	2021 £000
Insurance premium revenue	317,457	312,046
Insurance premium ceded to reinsurers	(44,821)	(115,881)
Net insurance premium revenue	272,636	196,165
Fee and commission income	93,380	89,975
Net investment return	(1,487,013)	1,172,988
Other operating income	48,371	46,568
Total revenue net of investment return	(1,072,626)	1,505,696
Insurance contract claims and benefits incurred		
Claims and benefits paid to insurance contract holders	(458,530)	(506,490)
Net decrease/(increase) in insurance contract provisions	510,572	(23,577)
Reinsurers' share of claims and benefits	18,101	60,168
Net insurance contract claims and benefits	70,143	(469,899)
Change in investment contract liabilities	1,003,957	(902,579)
Reinsurers' share of investment contract liabilities	(2,653)	4,110
Net change in investment contract liabilities	1,001,304	(898,469)
Fees, commission and other acquisition costs	(43,432)	(24,023)
Administrative expenses	(85,097)	(67,925)
Other operating expenses		
Charge for amortisation of acquired value of in-force business	(13,259)	(8,184)
Charge for amortisation of acquired value of customer relationships	(45)	(55)
Other	(8,700)	(5,964)
Total expenses net of change in insurance contract provisions and investment contract liabilities	920,914	(1,474,519)
Total (expenses)/income less expenses	(151,712)	31,177
Post completion gain/(loss) on acquisition	15,361	(93)
Financing costs	(10,549)	(2,272)
(Loss)/profit before income taxes	(146,900)	28,812
Income tax credit/(expense)	48,567	(1,518)
(Loss)/profit for the year	(98,333)	27,294
Items that may be reclassified subsequently to profit and loss:		
Foreign exchange translation differences arising on the revaluation of foreign operations	5,785	(23,879)
Revaluation of land and buildings	674	369
Other comprehensive income/(expenses) for the year, net of tax	6,459	(23,510)
Total (expenses)/comprehensive income for the year	(91,874)	3,784
Basic earnings per share (based on (loss)/earnings for the year)	(65.45)p	18.18p
Diluted earnings per share (based on (loss)/earnings for the year)	(64.67)p	18.00p

In accordance with the exemption allowed by section 408 of the Companies Act 2006, the Company has not presented its own income statement or statement of other comprehensive income. The Company reported a loss of £16.4m (2021: profit £29.0m) during the year. The retained profit for the financial year reported in the financial statements of the Company was £175.2m (2021: £225.0m).

CONSOLIDATED BALANCE SHEET

31 December	2022 £000	2021 £000
Assets		
Intangible assets		
Deferred acquisition costs	62,805	63,327
Acquired value of in-force business	96,922	49,629
Acquired value of customer relationships	268	320

Software assets	9,300	8,885
Property and equipment	7,894	7,830
Investment properties	94,481	1,071
Reinsurers' share of insurance contract provisions	196,315	247,750
Amounts deposited with reinsurers	32,803	38,295
Financial assets		
Equity securities at fair value through income	79,233	6,352
		6,858,05
Holdings in collective investment schemes at fair value through income	8,157,208	4
Debt securities at fair value through income	932,711	978,199
Policyholders' funds held by the group	1,130,476	990,700
Financial assets held at amortised cost	305,228	293,811
Derivative financial instruments	141	264
Total financial assets	10,604,997	9,127,380
Insurance and other receivables	36,672	35,613
Prepayments	15,630	13,245
Reinsurers' share of accrued policyholder claims	14,125	16,340
Income taxes	5,846	7,233
Cash and cash equivalents	175,294	70,087
Total assets	11,353,352	9,687,005
Liabilities		
Insurance contract provisions	3,611,261	3,818,412
Other provisions	7,953	992
Financial liabilities		
Investment contracts at fair value through income	5,804,869	4,120,572
Liabilities relating to policyholders' funds held by the group	1,130,476	990,700
Lease contract liabilities	1,233	2,019
Borrowings	211,976	47,185
Derivative financial instruments	3,850	–
Total financial liabilities	7,152,404	5,160,476
Deferred tax liabilities	8,095	15,699
Reinsurance payables	48,821	70,414
Payables related to direct insurance and investment contracts	149,723	129,262
Deferred income	2,383	2,809
Income taxes	4,426	6,527
Other payables	35,150	23,991
Bank overdrafts	19	256
Total liabilities	11,020,235	9,228,838
Net assets	333,117	458,167
Shareholders' equity		
Share capital	7,502	7,496
Merger reserve	36,272	36,272
Share premium	142,332	142,085
Other reserves	13,721	7,262
Retained earnings	133,290	265,052
Total shareholders' equity	333,117	458,167

Approved by the board of directors and authorised for issue on 29 March 2023 and signed on its behalf by:

Luke Savage Steve Murray
Chairman Chief Executive Officer
Company Number: 04947166

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	2022 £000	2021 £000
Profit for the year	(98,333)	27,294
Adjustments for:		
Depreciation of property and equipment	732	749
Amortisation of deferred acquisition costs	13,571	13,370

Impairment of acquired value of in-force business	–	–
Amortisation of acquired value of in-force business	13,259	8,184
Amortisation of acquired value of customer relationships	45	55
Amortisation of software assets	1,785	1,382
Depreciation on right of use assets	659	739
Interest on lease liabilities	28	95
Share based payment	867	593
Tax paid	(32,268)	1,518
Interest receivable	(9,530)	(2,269)
Dividends receivable	(1,519)	(614)
Interest expense	10,521	2,177
Fair value gains on financial assets	1,219,377	(990,914)
Profit arising on acquisition	(15,361)	–
Increase in intangible assets related to insurance and investment contracts	(13,704)	(8,938)
Interest received	9,626	2,493
Dividends received	1,458	1,930
Changes in operating assets and liabilities:		
Increase in financial assets	(31,148)	(187,975)
Decrease/(increase) in reinsurers' share of insurance contract provisions	54,013	(37,747)
Decrease in amounts deposited with reinsurers	5,492	5,858
Decrease in insurance and other receivables	11,690	5,980
Increase in prepayments	(2,149)	(873)
(Decrease)/increase in insurance contract provisions	(422,279)	15,534
(Decrease)/increase in investment contract liabilities	(755,826)	1,098,809
(Decrease)/increase in provisions	(2,827)	445
(Decrease)/increase in reinsurance payables	(21,564)	67,766
Increase in payables related to direct insurance and investment contracts	17,141	35,701
Decrease in other payables	(12,755)	(24,950)
Net cash (utilised by)/generated from operations	(58,999)	36,392
Income tax paid	(12,121)	(9,796)
Net cash (utilised by)/generated from operating activities	(71,120)	26,596
Cash flows from investing activities		
Development of software	(2,400)	–
Acquisition of subsidiary, net of cash acquired	55,557	–
Purchases of property and equipment	(1,106)	(3,636)
Net cash generated from/(utilised by) investing activities	52,051	(3,636)
Cash flows from financing activities		
Net proceeds from the issue of share capital	253	–
Net proceeds of Tier 2 debt raise	196,542	–
Proceeds from borrowings	2,013	–
Repayments of borrowings	(37,135)	(16,102)
Repayment of lease liabilities	(342)	(598)
Dividends paid	(34,296)	(33,276)
Interest paid	(5,801)	(2,271)
Net cash generated from/(utilised by) financing activities	121,234	(52,247)
Net decrease in net cash and cash equivalents	102,165	(29,287)
Net cash and cash equivalents at beginning of year	69,831	103,706
Effect of exchange rate changes on net cash and cash equivalents	3,279	(4,588)
Net cash and cash equivalents at end of the year	175,275	69,831

Note: Net cash and cash equivalents includes overdrafts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2022	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2022	7,496	142,085	36,272	7,262	265,052	458,167
Profit for the year	–	–	–	–	(98,333)	(98,333)
Dividends paid	–	–	–	–	(34,296)	(34,296)
Foreign exchange translation differences	–	–	–	5,785	–	5,785
Revaluation of land and buildings	–	–	–	674	–	674
Issue of share capital	6	–	–	–	–	6
Issue of share premium	–	247	–	–	–	247
Share based payment	–	–	–	–	867	867
Equity shareholders' funds at 31 December 2022	7,502	142,332	36,272	13,721	133,290	333,117

Year ended 31 December 2021	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2021 (as previously stated)	43,768	142,085	–	30,772	270,442	487,067
Transfer to merger reserve	(36,272)	–	36,272	–	–	–
Equity shareholders' funds at 1 January 2021 (restated)	7,496	142,085	36,272	30,772	270,442	487,067
Profit for the year	–	–	–	–	27,294	27,294
Dividends paid	–	–	–	–	(33,277)	(33,277)
Foreign exchange translation differences	–	–	–	(23,879)	–	(23,879)
Revaluation of land and buildings	–	–	–	369	–	369
Share based payment	–	–	–	–	593	593
Equity shareholders' funds at 31 December 2021	7,496	142,085	36,272	7,262	265,052	458,167

NOTES TO THE CONSOLIDATED IFRS FINANCIAL STATEMENTS

1. Basis of presentation

The preliminary announcement is based on the group's financial statements for the year ended 31 December 2022, which are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

2. Significant accounting policies

The accounting policies applied by the group in determining the IFRS basis results in this report are the same as those previously applied in the group's consolidated financial statements.

3. 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 31 December 2022 comprise:

UK: 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 (CA) 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. This also includes the acquisition of Sanlam Life and Pensions (UK) Limited (SLP) on 28 April 2022, subsequently the legal name changed to CASLP. CA & CASLP are 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'.

Movestic: This segment comprises the group's Swedish life and pensions business, Movestic Livförsäkring AB ('Movestic') and its subsidiary company Movestic Kapitalförvaltning AB (investment fund management company)

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 closed Dutch life and general insurance business, which was acquired on 19 May 2015 and comprised the three insurance companies Waard Leven N.V., Hollands Welvaren Leven N.V. and Waard Schade N.V., and a servicing company, Waard Verzekering. During 2017, the book of policies held within Hollands Welvaren Leven N.V. was successfully integrated into Waard Leven and consequently Hollands Welvaren Leven N.V. was deregistered on 19 December 2018. 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. On 1 October 2019, the Waard Group acquired a small portfolio of policies from Monuta insurance, which consists of term and savings policies. On 21 November 2019, the Waard Group completed a deal to acquire a portfolio of term life insurance policies and saving mortgages insurance policies. The completion took place on the 31 August 2020, at which stage Waard Group obtained control. On 31 December 2020, Waard entered into an agreement to acquire a portfolio of term life insurance policies, Unit Linked policies and funeral insurance policies from Dutch insurance provider Brand New Day Levensverzekeringen N.V. (BND). The portfolio was successfully migrated on 10 April 2021. On 25 November 2021, Waard entered into an agreement with Monument Re Group to acquire Robein Leven, a specialist provider of traditional and linked savings products, mortgages and annuities in the Netherlands. The acquisition was successfully completed on 28 April 2022, thereby extending the existing group. 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 open 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 parent company, Chesnara plc, are defined under the operating segment analysis as Other group activities. Also included therein are consolidation and elimination adjustments.

The accounting policies of the segments are the same as those for the group as a whole. Any transactions between the business segments are on normal commercial terms in normal market conditions. The group evaluates performance of operating segments on the basis of the profit before tax attributable to shareholders of the reporting segments and the group as a whole. There were no changes to the measurement basis for segment profit during the year ended 31 December 2022.

(i) Segmental income statement for the year ended 31 December 2022

	UK	Movestic (Sweden)	Waard Group (Netherlands)	Scildon (Netherlands)	Other Group activities (UK)	Total
	£000	£000	£000	£000	£000	£000
Insurance premium revenue	33,065	12,120	32,128	240,144	–	317,457
Insurance premium ceded to reinsurers	(14,170)	(4,651)	(3,776)	(22,224)	–	(44,821)
Net insurance premium revenue	18,895	7,469	28,352	217,920	–	272,636
Fee and commission income	27,928	15,927	133	49,392	–	93,380
Net investment return	(297,659)	(876,844)	(6,599)	(302,326)	(3,585)	(1,487,013)
Other operating income	17,704	30,667	–	–	–	48,371
Segmental revenue, net of investment return	(233,132)	(822,781)	21,886	(35,014)	(3,585)	(1,072,626)
Net insurance contract claims and benefits incurred	137,517	(937)	(23,640)	(42,797)	–	70,143
Net change in investment contract liabilities	130,099	871,205	–	–	–	1,001,304
Fees, commission and other acquisition costs	(20,827)	(22,348)	(1,303)	(390)	–	(44,868)
Administrative expenses:						
Depreciation charge on property and equipment	(36)	–	–	–	–	(36)
Other	(25,081)	(13,287)	(6,939)	(25,523)	(14,231)	(85,061)
Operating expenses	(2)	(8,698)	–	–	–	(8,700)
Financing costs	(228)	(823)	(1)	–	(9,497)	(10,549)
(Loss)/profit before tax and consolidation adjustments	(11,690)	2,331	(9,997)	(103,724)	(27,313)	(150,393)
Other operating expenses:						

Charge for amortisation of acquired value of in-force business	(7,075)	(2,171)	(830)	(3,183)	–	(13,259)
Charge for amortisation of acquired value of customer relationships	–	(45)	–	–	–	(45)
Fees, commission and other acquisition costs	–	1,312	–	124	–	1,436
Segmental income less expenses	(18,765)	1,427	(10,827)	(106,783)	(27,313)	(162,261)
Post completion gain on portfolio acquisition	9,565	–	5,796	–	–	15,361
(Loss)/profit before tax	(9,200)	1,427	(5,031)	(106,783)	(27,313)	(146,900)
Income tax credit	14,177	14	1,307	27,686	5,383	48,567
(Loss)/profit after tax	4,977	1,441	(3,724)	(79,097)	(21,930)	(98,333)

(ii) Segmental balance sheet as at 31 December 2022

	UK £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other Group Activities (UK) £000	Total £000
Total assets	4,772,475	3,952,482	587,787	1,927,937	112,671	11,353,352
Total liabilities	(4,601,373)	(3,850,513)	(519,950)	(1,846,714)	(201,685)	(11,020,235)
Net assets	171,102	101,969	67,837	81,223	(89,014)	333,117
Investment in associates	–	–	–	–	–	–
Additions to non-current assets	–	10,548	254	769	–	11,571

(iii) Segmental income statement for the year ended 31 December 2021

	UK £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other Group Activities (UK) £000	Total £000
Insurance premium revenue	36,004	13,796	32,546	229,700	–	312,046
Insurance premium ceded to reinsurers	(87,353)	(5,374)	(3,406)	(19,748)	–	(115,881)
Net insurance premium revenue	(51,349)	8,422	29,140	209,952	–	196,165
Fee and commission income	22,140	18,029	76	49,730	–	89,975
Net investment return	179,662	821,381	11,928	160,006	11	1,172,988
Other operating income	13,681	32,887	–	–	–	46,568
Segmental revenue, net of investment return	164,134	880,719	41,144	419,688	11	1,505,696
Net insurance contract claims and benefits incurred	(34,545)	(2,787)	(35,849)	(396,718)	–	(469,899)
Net change in investment contract liabilities	(77,568)	(820,901)	–	–	–	(898,469)
Fees, commission and other acquisition costs	(316)	(23,598)	(713)	(1,816)	–	(26,443)
Administrative expenses:						
Amortisation charge on software assets	–	(1,306)	–	(36)	–	(1,342)
Depreciation charge on property and equipment	–	(115)	(54)	(577)	–	(746)
Other	(16,090)	(12,794)	(4,407)	(20,992)	(11,554)	(65,837)
Operating expenses	5	(5,972)	–	–	3	(5,964)
Financing costs	–	(1,179)	(1)	–	(1,092)	(2,272)
Profit/(loss) before tax and consolidation adjustments	35,620	12,067	120	(451)	(12,632)	34,724
Other operating expenses:						
Charge for amortisation of acquired value of in-force business	(1,443)	(2,467)	(838)	(3,436)	–	(8,184)
Charge for amortisation of acquired value of customer relationships	–	(55)	–	–	–	(55)
Fees, commission and other acquisition costs	–	1,878	–	542	–	2,420
Segmental income less expenses	34,177	11,423	(718)	(3,345)	(12,632)	28,905
Post completion gain on portfolio acquisition	–	–	(93)	–	–	(93)
Profit/(loss) before tax	34,177	11,423	(811)	(3,345)	(12,632)	28,812

Income tax (expense)/credit	(4,979)	(1)	188	444	2,830	(1,518)
Profit/(loss) after tax	29,198	11,422	(623)	(2,901)	(9,802)	27,294

(iv) Segmental balance sheet as at 31 December 2021

	UK £000	Movestic (Sweden) £000	Waard Group (Netherlands) £000	Scildon (Netherlands) £000	Other Group Activities (UK) £000	Total £000
Total assets	2,551,611	4,568,400	389,846	2,122,474	54,674	9,687,005
Total liabilities	(2,420,861)	(4,462,163)	(347,961)	(1,963,052)	(34,801)	(9,228,838)
Net assets	130,750	106,237	41,885	159,422	19,873	458,167
Investment in associates	–	–	–	–	–	–
Additions to non-current assets	–	11,590	197	4,483	–	16,270

4. Borrowings

**Group
31 December**

	2022 £000	2021 £000
Bank loan	–	31,273
Tier 2 Debt	200,356	–
Amount due in relation to financial reinsurance	9,607	15,912
Amount due in relation to financial reinsurance	2,013	–
Total	211,976	47,185
Current	204,327	36,907
Non-current	7,649	10,278
Total	211,976	47,185

**Company
31 December**

	2022 £000	2021 £000
Bank loan	–	31,273
Tier 2 Debt	200,356	–
Total	200,356	31,273
Current	200,356	31,273
Non-current	–	–
Total	200,356	31,273

In 2022, the bank loan was fully repaid and replaced by Tier 2 Subordinated Notes Debt. The fair value of amounts due in relation to Tier 2 debt at 31 December 2022 was £148.0m (31 December 2021: £nil).

The bank loan as at 31 December 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. During the year, the London Inter-Bank Offer Rate changed to Sterling Overnight Index Average (SONIA) as a reference point. The proceeds of this loan facility were utilised, together with existing Group cash, to repay in full, the pre-existing loan facilities totalling £52.8m.
- On 3 April 2017 tranche two of the new loan facility was drawn down, amounting to €71.0m. As with tranche one, this facility is unsecured and is repayable in ten six-monthly instalments on the anniversary of the draw down date. The outstanding principal on the loan bears interest at a rate of 2.00 percentage points above the European Inter-Bank Offer Rate and is repayable over a period which varies between one and six months at the option of the borrower.
- In April 2018 we converted our existing debt arrangement with RBS into a syndicated facility. This will provide access to higher levels of debt financing from a wider panel of lenders, which in turn will enable us to fulfil our appetite of financing future deals up to the maximum levels of gearing set out in our debt and leverage policy, without being

restricted by the lending capacity of one individual institution. This facility enables Chesnara to access an increased level of funds efficiently, which in turn supports our acquisition strategy.

The fair value of the sterling denominated bank loan at 31 December 2022 was £nil (31 December 2021: £12.0m).

The fair value of the euro denominated bank loan at 31 December 2022 was £nil (31 December 2021: £18.5m).

The fair value of amounts due in relation to financial reinsurance at 31 December 2022 was £9.0m (31 December 2021: £16.4m).

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

5. Earnings per share

Earnings per share are based on the following:

Year ended 31 December	2022	2021
Profit for the year attributable to shareholders (£000)	(98,333)	27,294
Weighted average number of ordinary shares	150,239,599	150,118,548
Basic earnings per share	(65,45)p	18.18p
Diluted earnings per share	(64,67)p	18.00p

The weighted average number of ordinary shares in respect of the year ended 31 December 2022 is based upon 150,369,603 shares. No shares were held in treasury.

There were 1,815,601 share options outstanding at 31 December 2022 (2021: 1,501,566). Accordingly, there is dilution of the average number of ordinary shares in issue in respect of 2021 and 2022.

6. Retained earnings

Group Year ended 31 December	2022 £000	2021 £000
Retained earnings attributable to equity holders of the parent company comprise:		
Balance at 1 January	265,052	270,442
Profit for the year	(98,333)	27,294
Share based payment	867	593
Dividends		
Final approved and paid for 2020	–	(21,446)
Interim approved and paid for 2021	–	(11,831)
Final approved and paid for 2021	(22,101)	–
Interim approved and paid for 2022	(12,195)	–
Balance at 31 December	133,290	265,052

The interim dividend in respect of 2021, approved and paid in 2021 was paid at the rate of 7.88p per share. The final dividend in respect of 2021, approved and paid in 2022, was paid at the rate of 14.72p per share so that the total dividend paid to the equity shareholders of the parent company in respect of the year ended 31 December 2021 was made at the rate of 22.60p per share.

The interim dividend in respect of 2022, approved and paid in 2022, was paid at the rate of 8.12p per share to equity shareholders of the parent company registered at the close of business on 21 October 2022, the dividend record date.

A final dividend of 15.16p per share in respect of the year ended 31 December 2022 payable on 26 May 2023 to equity shareholders of the parent company registered at the close of business on 6 April 2023, the dividend record date, was approved by the directors after the balance sheet date. The resulting total final dividend of £22.8m has not been provided for in this preliminary announcement and there are no income tax consequences.

The following summarises dividends per share in respect of the year ended 31 December 2021 and 31 December 2022:

Year ended 31 December

	2022 P	2021 P
Interim - approved and paid	8.12	7.88
Final - proposed/paid	15.16	14.72
Total	23.28	22.60

7. Related parties

(a) Identity of related parties

The shares of the company were widely held and no single shareholder exercised significant influence or control over the company.

The company has related party relationships with:

- (i) key management personnel who comprise the directors (including non-executive directors) of the company;
- (ii) its subsidiary companies;
- (iii) other companies over which the directors have significant influence; and
- (iv) transactions with persons related to key management personnel.

(b) Related party transactions

(i) Transactions with key management personnel.

Key management personnel comprise of the directors of the company. This is on the basis that the group's governance map requires all strategically significant decisions to be approved by the group board. As such, they have the authority and responsibility for planning, directing and controlling the activities of the group. Key management compensation is as follows:

	2022 £000	2021 £000
Short-term employee benefits	1,204	2,342
Post-employment benefits	65	85
Share-based payments	869	593
Total	2,138	3,020

The share-based payments charge comprises £0.3m (2021: £0.2m) of Short-term Incentive Scheme (STI), and £0.2m (2021: £0.2m) related to Long-term Incentive Scheme (LTI), which is determined in accordance with IFRS 2 'Share based Payment'.

In addition to their salaries the company also provides non-cash benefits to directors and contributes to a post-employment defined contribution pension plan on their behalf, or where regulatory contribution limits are reached, pay an equivalent amount as an addition to base salary.

The following amounts were payable to directors in respect of bonuses and incentives:

	2022 £000	2021 £000
Annual bonus scheme (included in the short-term employee benefits above)	546	934

The amounts payable under the annual bonus scheme were payable within one year.

(ii) Transactions with subsidiaries

The company undertakes centralised administration functions, the costs of which it charges back to its operating subsidiaries. The following amounts which effectively comprised a recovery of expenses at no mark up were credited to the Statement of Comprehensive Income of the company for the respective periods:

Year ended 31 December

	2022 £000	2021 £000
Recovery of expenses	4,762	4,771

(iii) Transactions with persons related to key management personnel

During the year, there were no transactions with persons related to key management personnel (31 December 2021: £nil).

8. Business combination & portfolio acquisition

On 13 September 2021, Chesnara has entered into an agreement with Sanlam UK Limited to acquire Sanlam Life & Pensions UK Limited (now CASLP), a specialist provider of insurance and long-term savings products in the UK. The acquisition was completed on 28 April 2022. CASLP is a specialist provider of insurance and long-term savings products in the UK, with approximately £2.9 billion of assets under administration and 80,000 policies. The acquisition of CASLP was initially announced in September 2021.

The acquisition has given rise to an immediate profit of £9.6m, calculated as follows:

	Book value	Fair value adjustments	Fair value
	£000	£000	£000
Assets			
Intangible assets			
Acquired value of in-force business	–	59,579	59,579
Property and equipment	46	–	46
Investment properties	102,974	–	102,974
Reinsurers' share of insurance contract provisions	1,014	–	1,014
Financial assets	2,612,574	–	2,612,574
Other assets and receivables	15,084	–	15,084
Cash and cash equivalents	93,407	–	93,407
Total assets	2,825,099	59,579	2,884,678
Liabilities			
Insurance contract provisions	209,640	–	209,640
Other provisions	9,809	–	9,809
Investment contracts at fair value through profit and loss	2,547,789	–	2,547,789
Deferred tax liabilities	9,787	40,548	50,335
Other payables	19,690	–	19,690
Total liabilities	2,796,715	40,548	2,837,263
Net assets	28,384	19,031	47,415
Net assets acquired			47,415
Total consideration, paid in cash			(37,850)
Profit arising on business combination			9,565

There has been a change in the valuation of the profit arising on business combination from what was reported in the group's Half Year Report for the 6 months ended 30 June 2022. Under IFRS 3 Business Combination, it allows a period of 12 months from the acquisition date to refresh our estimates. In our half year 2022 reporting, our valuation was based on 31 March 2022. This was refined post half year and at the year-end the valuation was based on the actual acquisition date, 28 April 2022.

The Acquired Value of In-force business (AVIF) has materially changed since the half year reporting. This was due to the change in discount rate used in the calculation of the AVIF business to take into account the weighted average cost of capital in Chesnara plc. The discount rate used was 5.75% at the half-year, and 8.0% in the final AVIF calculation. The run-off profile for the AVIF is over a 30 year period.

The other material changes were related to the financial assets and cash and cash equivalents, which takes into account an additional month of transactions and market fluctuations.

The assets and liabilities at the acquisition date have been amended compared with what was reported in the group's Half Year Report for the 6 months ended 30 June 2022. This is because the information disclosed at that point in time included some provisional numbers. These have now been finalised following a review that was completed during the second half of 2022.

Acquired value of in-force business: The acquisition has resulted in the recognition of net of a tax intangible asset amounting to £19.0m, which represents the present value of the future post-tax cash flows expected to arise from

policies that were in force at the point of acquisition. The asset has been valued using a discounted cash flow model that projects the future surpluses that are expected to arise from the business. The model factors in a number of variables, of which the most influential are; the policyholders' ages, mortality rates, expected policy lapses, expenses that are expected to be incurred to manage the policies and future investment growth, as well as the discount rate that has been applied. This asset will be amortised over its expected useful life.

Gain on acquisition: As shown above, a gain of £9.6m has been recognised on acquisition. Under IFRS 3, a gain on acquisition is defined as being a "bargain purchase". A day one gain has arisen on business combination, as by applying the pricing model that we generally adopt, we offered a purchase price which was at a discount to our own assessment of the value of the net assets to be acquired.

Acquisition-related costs: Chesnara concluded the deal and obtained control of CASLP as of 28 April 2022. The consideration transferred by Chesnara for the acquisition of CASLP consisted of cash totalling £37.9m. There was also a capital contribution made by Chesnara to CASLP amounting to £25m immediately following completion. The costs in respect of the transaction amounted to £1.7m which have been included within the "Administrative Expenses" on the Consolidated Statement of Comprehensive Income.

Results of CASLP: The results of CASLP have been included in the consolidated financial statements of the Group with effect from 28 April 2022. Net insurance premium revenue for the period was £1.2m, with contribution to overall consolidated loss before tax of £11.2m, before the amortisation of the AVIF and deferred acquisition cost intangible assets. Had CASLP been consolidated from 1 January 2022, the Consolidated Statement of Comprehensive Income would have included net insurance premium revenue of £1.9m and would have contributed £25.7m to the overall consolidated loss before tax.

On 25 November 2021, the Waard Group, has agreed to acquire 100% of the shares of Robein Leven N.V. and its subsidiary, a specialist provider of traditional and linked savings products, mortgages and annuities in the Netherlands, from Monument Re Group. The completion took place on 28 April 2022. The consideration transferred by Waard Leven for the acquisition of Robein consisted of cash amounting to £14.1m.

The transaction has given rise to a post completion profit on acquisition of £5.8m calculated as follows:

	Fair value
	£'000
Assets	
Financial assets	202,908
Investment in subsidiaries ¹	1,461
Other assets and receivables	4,784
Cash and cash equivalents	7,301
Total assets	216,454
Liabilities	
Insurance contract provisions	188,279
Value of business acquired	1,645
Investment contracts at fair value through income	6,245
Total liabilities	196,168
Net assets	20,286
Net assets acquired	20,286
Total consideration, paid in cash	(14,490)
Post completion profit on portfolio acquisition	5,796

The investment in subsidiaries relates to Robein Effecten Dienstverlening, which is subsidiary of Robein Leven.

There has been a change in the valuation of the profit arising on business combination from the reported half year position. Under, IFRS 3 Business Combination, it allows a period of 12 months from the acquisition date to refresh our estimates. There was a material increase in financial assets reported at half year compared to year-end.

The insurance portfolio and the related assets from are transferred from Robein into Waard Leven on 27 December 2022. At the date of transfer, Robein will remain a separate legal entity within the group structure of Waard. The insurance license held by Robein will be forfeited. In the course of financial year 2023 most of the owns funds will be paid out as a dividend to Waard Leven.

Profit on acquisition: A profit of £5.8m has been recognised on acquisition. This profit on acquisition has been recorded as a “post completion gains on portfolio acquisition” on the face of the statement of comprehensive income. A day one gain has arisen on business combination, as by applying the pricing model that we generally adopt, we offered a purchase price which was at a discount to our own assessment of the value of the net assets to be acquired.

Acquisition-related costs: Waard Leven incurred costs of around £0.2m in relation to the acquisition.

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.

Results of Robein Leven: The results of Robein Leven have been included in the consolidated financial statements of the Group with effect from 28 April 2022, within Waard Group. Had Robein Leven been consolidated from 1 January 2022, the Consolidated Statement of Comprehensive Income would have contributed £0.2m to the overall consolidated profit before tax.

During the year, Waard also acquired 3,000 policies in August 2022 from SRLEV N.V. in the Netherlands. As Waard was already administering these policies as Proxy Agent on behalf of the vendor, the integration of the policies was completed in a short time frame.

FINANCIAL CALENDAR

30 March 2023

Results for the year ended 31 December 2022 announced

06 April 2023

Ex-dividend date

11 April 2023

Dividend record date

27 April 2023

Last date for dividend reinvestment plan elections

16 May 2023

Annual General Meeting

26 May 2023

Dividend payment date

21 September 2023

Half year results for the 6 months ending
30 June 2023 announced

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ALTERNATIVE PERFORMANCE MEASURES

Throughout this 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.

APM	What is it?	Why do we use it?
Group cash generation	<p>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.</p> <p>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.</p>	<p>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'.</p>
Divisional cash generation	<p>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.</p> <p>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.</p>	<p>It is an important indicator of the underlying operating performance of the business before the impact of group level operations and consolidation adjustments.</p>
Commercial cash generation	<p>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.</p> <p>Commercial cash generation excludes the impact of technical adjustments, modelling changes and corporate acquisition activity; representing the underlying commercial cash generated by the business.</p>	<p>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, showing the key drivers within that.</p>
Economic Value (EcV)	<p>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.</p> <p>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.</p>	<p>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.</p>
Economic Value (EcV) earnings	<p>The principal underlying components of the Economic Value earnings are:</p> <ul style="list-style-type: none"> – The expected return from existing business (being the effect of the unwind of the rates used to discount the value in-force); 	<p>By recognising the market-related value of in-force business (in-force value), a different perspective is provided in the performance of the</p>

	<ul style="list-style-type: none"> – 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. 	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.
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.
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.
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.
Funds under management (FuM)	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.
Operating profit, excluding AVIF impairment	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.
Economic profit, excluding AVIF impairment	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.
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.
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 debt divided by 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.

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.
LACDT	Loss Absorbing Capacity of Deferred Tax
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, defined as debt divided by debt plus equity, as measured under IFRS
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.
Transfer ratio	The proportion of new policies transferred into the business in relation to those transferred out.
TCF	Treating Customers Fairly – a central PRA principle that aims to ensure an efficient and effective market and thereby help policyholders achieve fair outcomes.
Tier 2	Term debt capital (Tier 2 Subordinated Notes) issued in February 2022 with a 10.5 year maturity and 4.75% coupon rate.
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.
UNSDG	United Nations Sustainable Development Group
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 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;
CASLP – 'SLP'	Sanlam Life & Pensions (UK) Limited which was acquired 28 April 2022 and includes subsidiaries CASFS Limited and CASLPTS Limited;

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 Robein Leven NV acquired on 28 April 2022;
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.