

# HALF YEAR 2022 FINANCIAL HIGHLIGHTS

DIVISIONAL CASH GENERATION1

**GROUP SOLVENCY** 

£60.1M

195%

SIX MONTHS ENDED 30 JUN 2021: £11.5M

31 DEC 2021: 152%

FUNDS UNDER MANAGEMENT<sup>1</sup>

**DIVIDEND GROWTH** 

£11.2BN

3%

31 DEC 2021: £9.1BN

INCREASE IN INTERIM DIVIDEND FOR  $18^{\mathrm{TH}}$  CONSECUTIVE YEAR

# **COMPANY HISTORY**



# SYMBOL GUIDE

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



**IFRS** 



Cash generation



Economic Value



Economic Value earnings



Solvency



Commercial new business



Acquisitions



Dividend / Total Shareholder Return



Customers



Operational performance



Compliance



Risk appetite

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

# WELCOME TO THE CHESNARA HALF YEAR REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2022

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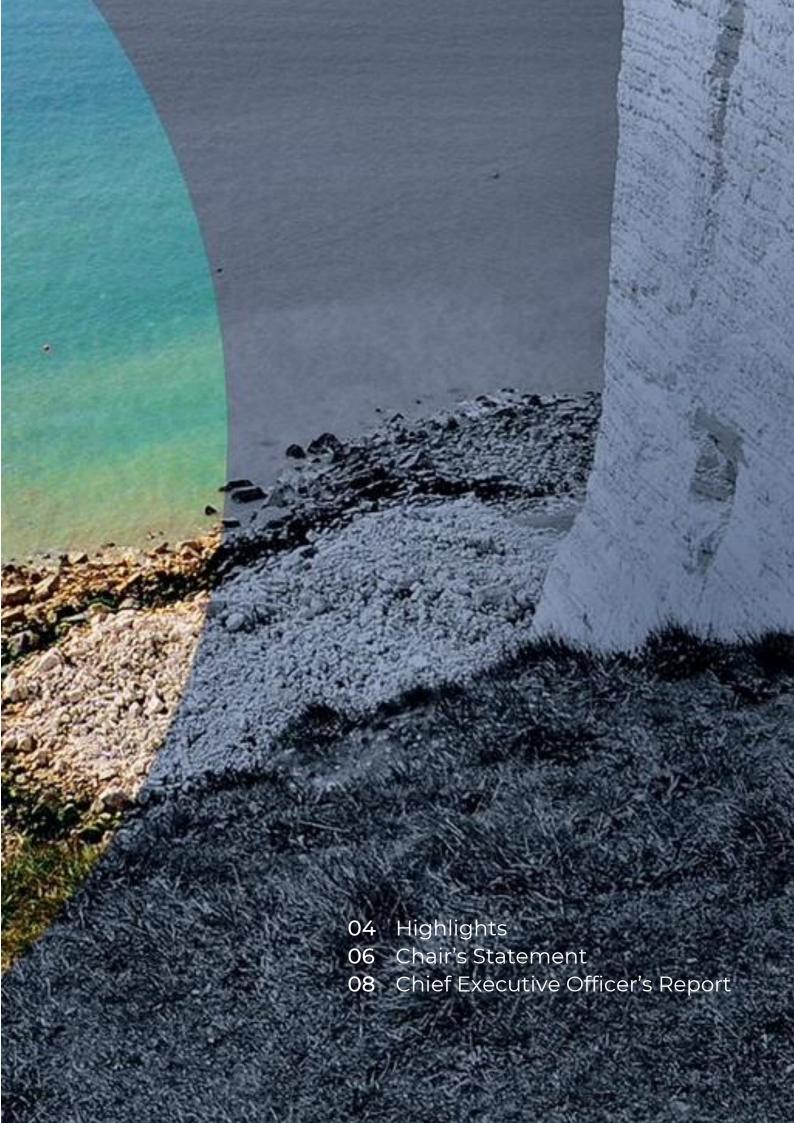
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## **HIGHLIGHTS**



# **CASH GENERATION**

£21.9<sub>M</sub>

GROUP CASH GENERATION7

excluding the impact of acquisitions

£60.1<sub>M</sub>

**DIVISIONAL CASH GENERATION8** 

SIX MONTHS ENDED 30 JUNE 2021 £5.4M

SIX MONTHS ENDED 30 JUNE 2021 £11.5M

Positive cash generation continued in the first half of 2022 with group cash generation of £21.9m (excluding the day 1 impact of the two acquisitions completed in the period), which includes £60.1m cash generation from our divisions. These results have benefitted from the positive impact of the symmetric adjustment (which has been beneficial as a result of falling equity prices during the period). Commercial cash generation, which adjusts for items such as the symmetric adjustment is analysed in more detail on page 29.

Financial review p28



**SOLVENCY** 



FuM

195%

**GROUP SOLVENCY** 

GROOF SOLVENCT

31 DECEMBER 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%.

£11.2BN FUNDS UNDER MANAGEMENT<sup>3</sup>

31 DECEMBER 2021: £9.1BN

Financial statements p45

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.

Capital management p23



**FCONOMIC VALUE** 



£526.7<sub>M</sub>

FCONOMIC VAI UF<sup>4</sup>

31 DECEMBER 2021 £624.2M

The reduction in EcV is largely driven by material falls in equity markets. Other factors include the impact of dividend distributions (£22.1m) and acquisitions (EcV gains of £13.9m).

Financial review p31

£(89.6)M ECONOMIC VALUE EARNINGS<sup>5</sup>

SIX MONTHS ENDED 30 JUNE 2021 £38.5M

The year-on-year swing is predominantly due to changing economic conditions.

Financial review p30

£4.6<sub>M</sub>

COMMERCIAL NEW BUSINESS PROFIT<sup>6</sup>

SIX MONTHS ENDED 30 JUNE 2021 £6.6M

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

Business review pages 18 to 21



IFDS

# £(104.6)M IFRS PRE-TAX LOSS

SIX MONTHS ENDED 30 JUNE 2021 £20.8M

The result contains losses arising from economic conditions of £105.1m (six months ended 30 June 2021: £7.4m). Our reserving approach 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.

£(66.5)M TOTAL COMPREHENSIVE INCOME

SIX MONTHS ENDED 30 JUNE 2021 £1.9M

There is minimal foreign exchange impact in the period compared to the six months ended 30 June 2021: loss of £23.9m. Total comprehensive income benefits from £36.4m of tax adjustments (6 months ended 30 June 2021: £3.0m loss). Financial review p32



# DIVIDEND

#### INTERIM DIVIDEND INCREASED FOR THE 18TH CONSECUTIVE YEAR

Increase in interim dividend of 3% to 8.12p per share (2021: 7.88p interim and 14.72p final) supported by strong underlying commercial cash generation from our business units. The two completed acquisitions and one recently announced acquisitions are expected to positively support future cash generation.



# **ECONOMIC BACKDROP**

## 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 the first half of 2022. Conflict in Ukraine and uncertainty in financial markets has been reflected in falling equity values and rising interest rates which, coupled with the impact of inflationary pressures, has led to negative investment returns and economic losses across the operating divisions. The impact of these economic factors has been reflected, to varying degrees, across all of our financial metrics.



# **GROWTH AND ACQUISITIONS**

#### THE GROUP CONTINUES TO EXPAND THROUGH M&A

During the first half of 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 (SLP) and Robein Leven in the Netherlands, both completed successfully during the second quarter, delivering a combined c9% uplift in policies within the group portfolio. Work is due to commence on delivering the transfer of the respective businesses into the principal operating companies of the UK (CA plc) and Waard Group (Waard Leven).

Expansion in the Netherlands continues within the Waard Group, following the announcement of the acquisition of the insurance portfolio of Conservatrix NV, expected to complete later in 2022 subject to regulatory approvals. It is anticipated this will deliver a material increase in Waard's policies under administration (c70%). We remain optimistic about the outlook for future deals.

# **NOTES**

Items 1 to 9 below are Alternative Performance Measures (APMs) used by the group to supplement the required statutory disclosures under IFRS and Solvency II, providing additional information to enhance the understanding of financial performance. Further information on these APMs can be found throughout the Financial Review and in the APM appendix on pages 65 to 66 and on pages 63 to 64.

- 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
- 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.

# **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 period. This has supported an increase in our interim 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<sup>1</sup> across a variety of market conditions. The first half of 2022 has been no different, with total divisional cash generation leaving us well positioned to further extend our 18 years of continued dividend growth for our shareholders (shareholders will receive 8.12p 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 195%, significantly above our target operating range, even after the payment of consideration for our recent acquisitions. Our solvency position remains underpinned by a welldiversified 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 was also a material contributor to our improved solvency ratio.

#### PEOPLE AND DELIVERY

Following the initial impact from the pandemic, operating conditions have stabilised somewhat and across the group we have settled into effective and flexible hybrid working conditions. However, as operating conditions 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 a one-off payment broadly in line with the estimated increase in average household expenditure witnessed to date.

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 on the early stages of integrating those new businesses into the group. Furthermore, in July we announced the acquisition of the insurance portfolio of Conservatrix in the Netherlands. This transaction will transform our Dutch closed life business, Waard, increasing its policies under administration by over 70% 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 where there has been 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 imminent regulatory changes in Sweden.

We delivered a successful Tier 2 debt raise in February which leaves us well placed to fund acquisition activity. Staff have also been working hard to ensure we can meet the requirements of IFRS 17 for which the effective date is now less than six months away. Our programme is progressing well as we move through our schedule of dry runs and we are working with Deloitte to finalise the technical and operational implementation.

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 interim dividend to 8.12 pence per

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 first half of 2022. 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 and Jane Dale being assigned to oversee the programme, which will look to transform Chesnara into a more sustainable business. The scale of the task for us and the rest of the industry is huge and a priority for the programme during the remainder of 2022 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 formal net zero targets and an actionbased transition plan to demonstrate how we will deliver the associated real world change. We will report targets and action plans for decarbonisation, as well as key activities for the wider sustainability strategy, in our 2022 Annual Report and Accounts.

#### OUTLOOK

Sources of future growth remain strong. The reduction in Economic Value<sup>1</sup> during the period has been driven largely by the impact 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.

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. In addition, the recent appointment of Amanda Wright as Group General Counsel and Company Secretary, with Al Lonie moving to a Chief of Staff role, has further strengthened the group's capability and capacity to undertake further M&A in future.

Luke Savage, Chair

30 August 2022

## CHIEF EXECUTIVE OFFICER'S REPORT



The acquisition of the Conservatrix insurance portfolio was the third transaction Chesnara has announced over the past year and shows the growth potential of the group

STEVE MURRAY, CEO

#### **INTRODUCTION & RESULTS**

The extreme and volatile economic and geopolitical back-drop over the first half of 2022 has yet again left many of us using the word 'unprecedented'. As part of my annual 2021 report I commented on Chesnara's track record of delivering through a very wide range of market conditions over its history. I am pleased to report that this has continued during the first six months of 2022 where we have had a busy and successful start to the year. Our divisions have generated approximately £18.6m of Commercial cash1, representing 153% coverage of the 2022 interim dividend and clearly demonstrating the resilience of our business model. Our solvency position remains robust and well above our target operating range of 140%-160%.

We have re-energised our strategy whilst remaining focussed on doing three thinas:

- Running in-force insurance and pensions books efficiently and effectively.
- We now look after c941,000 policyholders and customers who have c£11.2bn of their assets with us post the completion of the acquisitions of Sanlam Life & Pensions (UK) Limited (SLP) and Robein Leven. The acquisition of Conservatrix's insurance portfolio is expected to add a further c70,000 policyholders to the group, meaning we will have over 1m policyholders under our care for the first time in our history.
- 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.
- 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 the first half of 2022 we completed the acquisitions of SLP and Robein Leven and the integration of these businesses within the group is well underway.
- In July, we announced the acquisition of the insurance portfolio of Conservatrix in the Netherlands. A capital contribution of £35m will be 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. We expect the transaction will add c£18m to Economic Value<sup>1</sup> and deliver steady state cash generation of c£4m each year, supporting our dividend strategy. As a reminder, SLP and Robein Leven combined added £13.9m in EcV and should deliver additional steady state cash generation of £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 £100m. And it provides financial flexibility to support further acquisitions where we continue to have material resources of over £100m.
- 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 which has resulted in 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.

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 £104.6m and £89.6m 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<sup>1</sup> (excluding the impact of acquisitions) during the six months to 30 June 2022 was £21.9m (six months to 30 June 2021; £5.4m). 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 are therefore, we believe, a better reflection of the dividend potential than the consolidated group figures.

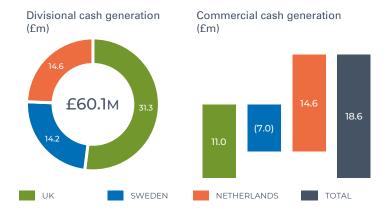
The total divisional cash generation<sup>1</sup> for the six months to 30 June 2022 was £60.1m (six months to 30 June 2021: £11.5m) creates significant dividend paying capacity. The headline divisional cash generation was positively impacted by £41.5m by technical factors such as the symmetric adjustment<sup>†</sup>. 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 better 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 on page 28 for more detailed cash generation analysis).

At a total divisional level, we have generated £18.6m of Commercial cash which more than covers the interim shareholder dividend. In addition to the underlying cash expectations Countrywide Assured has benefited from expense synergies resulting from the acquisition of SLP. Countrywide Assured and Scildon have also benefitted from the general increase in long term yields over the period.

 $<sup>^\</sup>dagger$ 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: 6 months to 30 June 2022



# **DIVISIONAL COMMERCIAL CASH GENERATION REPRESENTS 153% COVERAGE OF THE 2022 INTERIM** SHAREHOLDER DIVIDEND

The Chesnara parent company cash<sup>1</sup> and instant access liquidity fund balance at 30 June 2022 has increased to £155.4m (31 December 2021; £46.1m), which provides future acquisition funding capacity and further supports the sustainability of the funding of the group dividend. Cash reserves have increased largely as a result of the post year end Tier 2 debt raise offset by partial utilisation to repay existing RCF balances of £31.3m and £62.9m funding for the Sanlam Life & Pensions (UK) Limited (SLP) acquisition. Excluding these big ticket movements the underlying balance has remained largely constant as divisional dividend receipts have broadly matched the shareholder dividend payment and other working capital outflows. (Note 1: Includes a small element of cash held at Chesnara Holdings BV level).

Looking forward, we continue to have a strong line of sight to future cash generation over the 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.

#### STABLE AND ROBUST SOLVENCY

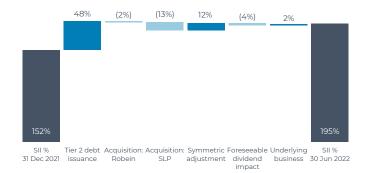
During the 6 months to 30 June 2022 we have seen a sharp increase in the group solvency ratio to 195%. The waterfall chart below illustrates that this increase is largely due to the Tier 2 debt issuance, partly offset by the capital resources (mainly the payment of consideration) required to complete the SLP and Robein Leven acquisitions, togther with the impact of a swing in the scale and direction of the symmetric adjustment. As a reminder, the symmetric adjustment is an inbuilt 'shock absorber' that dampens the impact of equity market rises and falls requiring us to hold capital when markets rise significantly with this capital then being released if markets fall or stabilise. Excluding these individually material movements the ratio has continued to remain stable with an underlying modest increase of 2%

#### Solvency ratio



The closing headline solvency ratio of 195% is significantly above our target 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<sup>†</sup>; 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 supressing impact was likely to reverse out over time. This is indeed exactly what we have observed during the first half of 2022 when equity markets have fallen, with the symmetric adjustment shifting to a position where it is now enhancing the headline ratio by 12%.

#### Solvency ratio movement



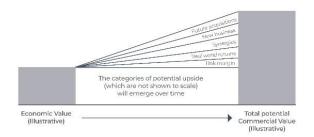
The closing solvency ratio of 195% will not be the new long-term position as we expect to utilise this additional capital surplus as we undertake acquisitions, which should result in the ratio reverting back within the robust and stable 140% to 160% historical range. For example, the recently announced Conservatrix acquisition is expected to reduce the solvency ratio by approximately 14% on a pro forma basis as at 30 June 2022. Strategically, its our intention to deploy further capital in support of value enhancing acquisitions in the future.

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

# CHIEF EXECUTIVE OFFICER'S REPORT (CONTINUED)

#### THE LONG TERM OUTLOOK FOR GROWTH REMAINS POSITIVE. PARTCULARLY 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.



In the 2021 full year accounts we stated "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 the time period is short it is worth looking at how the results for the 6 months to 30 June 2022 fare 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 equity market performance this source of value is the most volatile of the growth sources. In 2021 real world returns represented growth of c£110m however, a large proportion of this has reversed with a corresponding loss in the first half of 2022 of c£91.1m. 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. Whilst also a short period we have seen positive momentum across most global equity indices in July and early August. 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 SLP acquisition. Over recent years, including 2021, we have suffered some operational losses particularly relating to investments made in IT systems (especially 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. 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 £14.6m directly as a result of risk margin reductions. Acquisitions completed in the period have also added £13.9m of EcV on a marginal costing basis.

#### 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 the 6 months to 30 June 2022 we have seen Commercial new business<sup>1</sup> profits of c£4.6m.

#### **EQUITY MARKET PERFORMANCE HAS DRIVEN A MARKED** REDUCTION IN EcV

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 £89.6m in the period. Since the end of the half year period, equity market recovery suggests a proportion of the reported economic loss will have reversed. The overall movement in the group's EcV over the period includes a £13.9m positive impact of the two acquisitions that we completed in the year.

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

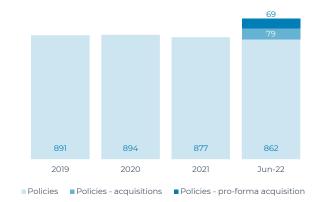
#### Growth in FuM<sup>1</sup>

Funds Under Management (£bn)



## Growth in policies in force

Policies '000



#### 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 and will remain so in the future. During 2022, we completed two acquisitions, Robein Leven in the Netherlands and SLP in the UK. Robein Leven added further scale to Waard, the group's Dutch closed book operations, and SLP increased the UK Funds Under Management by £2.9bn. Together they added £13.9m 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. We expect this deal to deliver an immediate increase of £18m 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 will require us to deploy over £100m of capital resources primarily from the £200m inaugural Tier 2 debt raise we executed in February.

# CONFIDENCE IN OUR ABILITY TO EXECUTE M&A IN THE FUTURE

We remain optimistic about the prospect of future acquisitions and believe that we can deliver further value accretive deals in future. 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 (particularly through private equity firms) 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 £500m valuation deal 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 and funding the SLP deal, we hold cash balances of £155.4m at a group level (of which c£100m is readily available for deployment post the impact of the Conservatrix insurance portfolio deal). 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.

We announced that Sam Perowne was joining our executive team early this year who has extensive M&A experience along with two new Independent NED appointments in February, Karin Bergstein and Carol Hagh, who also have M&A experience. In August, we announced two further changes to our senior leadership team with Al Lonie currently our Company Secretary moving to become my Chief of Staff and Amanda Wright joining from abrdn to become General Counsel and Company Secretary. These changes will further enhance the capacity, capability and experience we have available to pursue further strategic opportunities.

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 means we are confident that acquisitions will continue to contribute to Chesnara's success in the future.

#### A SUSTAINABLE CHESNARA

Core to our beliefs of transitioning to a sustainable Chesnara is that we need to consider the impact of our operations and investments on our business but also, and arguably more importantly, consider the impact of our operations and investments on all of our stakeholders.

Positive outcomes for any particular stakeholder at the cost of inappropriate outcomes for other stakeholders is not acceptable. We want Chesnara to make a positive contribution to people, the planet, and the natural world and our group-wide sustainability programme will build on the work done by the divisions and their individual strengths to deliver this. We really are stronger together.

We are taking a number of positive actions across the group with each one making a difference. We do however recognise that we are only at the start of this journey and there remains a huge amount to do for us, the industry, and the wider world. As a steward and a safe harbour for our almost 1 million policyholders and over £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. We will take responsibility for the things that we can influence and the actions we can take.

My team and I are passionate about transforming the group into a sustainable business but we recognise that we cannot do this alone and so will need to work with other parties in the industry and beyond to initiate and deliver the change needed. Thus far, we have not sufficiently detailed what we do and why we do it and so my team is working on developing and detailing our strategy. As I said at year end, more formality is required around some of our processes and disclosures to make sure we inform and educate our stakeholders about what we are doing well. And I am determined that not only will we talk about the good things we are doing but also the things that we need to improve on or the things we are finding difficult. It is only by talking about the whole range of activities that we are doing and being open and honest about the difficulties we face and the progress we are making that we can tackle the challenge. An honest narrative will be key to us making the required changes.

Our current focus is on determining our scope 3 financed emissions so we can conclude on a credible transition plan to net zero in line with the Paris Agreement, including those all-important short and medium term targets for a just transition. We will provide details of these plans in our 2022 full year report and accounts.

#### 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. The first half of 2022 has seen us continue this impressive record of cash generation in difficult markets.

The war in Ukraine has played a large role in the volatile start to the year we have seen 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 compromises the medium to longer term outlook.

We have ambitious plans to grow the business and the achievements during the first half of 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 what has been another busy period. When I joined Chesnara just over one year ago I strongly believed the group had some great opportunities in front of it. A year on with the continued drive and determination of our people, I have every confidence that the future remains bright for Chesnara.

Steve Murray, Chief Executive Officer 30 August 2022

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# INTRODUCTION

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

# **OUR STRATEGY**

#### STRATEGIC OBJECTIVES



# MAXIMISE THE VALUE FROM **EXISTING BUSINESS**

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

#### **KPIs**

Cash generation **EcV** earnings **Customer outcomes** 



# **ACQUIRE LIFE AND PENSIONS BUSINESSES**

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

#### **KPIs**

**Cash generation EcV** growth Customer outcomes Risk appetite



# **ENHANCE VALUE THROUGH** PROFITABLE NEW BUSINESS

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

#### **KPIs**

**EcV** growth **Customer outcomes** 

#### HOW WE ORGANISE OURSELVES

DIVISION	UK	NETHERLANDS		SWEDEN		
OPERATING COMPANY	COUNTRYWIDE ASSURED SANLAM LIFE & PENSIONS	WAARD GROUP	SCILDON	MOVESTIC		
STRATEGIC OBJECTIVES	01 02	01 02	01 03	01 03		
	Read more on p36	Read more	on <b>p40</b>	Read more on p38		
KEY PRODUCTS	Underwriting linked pension business; life insurance, covering both index-linked and unit linked; endowments; whole of life; annuities and some with profit business.	Underwriting mainly term life policies, with some unit linked and non-life policies.	Underwriting of protection, individual savings and group pensions contracts.	Predominantly the underwriting of unit-linked pensions and savings. Also provides some life and health product offerings.		
No. POLICIES	c279,000	c121,000	c226,000	c315,000		
DISTRIBUTION METHOD	N/A	N/A	Sold through a broker network.	Largely through a network of brokers and third party relationships, although some is sold directly to customers.		

CHESNARA CULTURE AND VALUES - RESPONSIBLE RISK BASED MANAGEMENT

Our strategy is delivered through a proven business model underpinned by a robust risk management and governance framework and our established culture & values.

# **OUR BUSINESS MODEL**

**STAKEHOLDERS** 

	SHAREHOLDERS	CUSTOMERS	REGULATORS	PEOPLE	SUPPLIERS AND PARTNERS	NATURAL ENVIRONMENT		
OBJECTIVES	Competitive returns through attractive dividends and share price growth	Fair outcomes	Financial stability and regulatory compliance	Attract, promote and retain quality staff Job satisfaction and motivation	Long-term reliable relationships	Minimise our impact on the environment		
KPIs	Cash generation <sup>1</sup> EcV <sup>1</sup> growth Solvency	Fair outcomes Investment return	Fair outcomes Solvency	Staff survey results Staff retention rates	Quality of service Level of overruns Openness of relationship	C0 <sup>2</sup> emissions Energy usage Investment exposures		
	Chesnara							

#### OUR CUI TURF AND VALUES

	OUR CULTURE AND VALUES							
RESPONSIBLE RISK BASED MANAGEMENT FOR THE BENEFIT OF ALL OUR STAKEHOLDERS	FAIR TREATMENT OF CUSTOMERS	MAINTAIN ADEQUATE FINANCIAL RESOURCES	PROVIDE A COMPETITIVE RETURN TO OUR SHAREHOLDERS	ROBUST REGULATORY COMPLIANCE				
		STAKEHOLDERS						
<ul> <li>Shareholders</li> <li>Staff</li> <li>Suppliers and partners</li> <li>Natural environment</li> <li>Customers</li> </ul>	- Customers	<ul><li>Customers</li><li>Regulator</li><li>Staff</li></ul>	- Shareholders	<ul><li>Shareholders</li><li>Customers</li><li>Regulator</li><li>Natural environment</li></ul>				

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

# BUSINESS REVIEW UK



The UK division is made up of Countrywide Assured plc and Sanlam Life & Pensions (UK) Limited (SLP). SLP was acquired by Chesnara on 28 April 2022 following the announcement to purchase the company in September 2021. The combined businesses manage c279,000 policies covering linked pension business, life insurance, endowments, annuities and some with profit business. Countrywide Assured follows an outsourcer-based operating model, whereas SLP's is largely delivered through internal resources.

#### BACKGROUND INFORMATION

#### **INITIATIVES & PROGRESS IN 2022**

#### **CAPITAL & VALUE MANAGEMENT**

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

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

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

- The acquisition of Sanlam Life & Pensions (UK) Limited (SLP) was successfully completed on 28 April 2022. This increased the number of policies by over 68,000 and added EcV1 of £52.8m to the division.
- Combined UK division cash generation<sup>1</sup> of £31.3m in the period.
- 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 has started on delivering the planned target operating model for SLP.
- CA completed a transfer of £13.4m of capital out of its with-profit funds. This increased solvency surplus by £9.9m
- Investment markets have influenced the results of the division over the period. Falls in equity prices and rises in yields have generally been positive to our solvency position, 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 symmetric adjustment.

#### **CUSTOMER OUTCOMES**

Treating customers fairly is one of our primary responsibilities. We seek to do this by having effective customer service operations together with competitive fund performance whilst giving full regard to all regulatory matters. This supports our aim to ensure policyholders receive good returns, appropriate communication, and service in line with customer expectations.

- Following the acquisition of SLP, the customer-facing website was developed and we have ensured customers continue to receive the same high quality standard of service. The division is in the process of aligning, where appropriate, SLP's and CA's customer governance framework.
- Our operational resilience programme has remained a key focus. Work is in progress on the next phase of the work, which includes identifying and remediating any weaknesses.
- We have continued with our activity of seeking to stay in contact with customers and to reunite customers with unclaimed assets. This will remain a priority throughout 2022.
- The activity on product reviews has continued in line with our prioritisation schedule and 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 is being undertaken for the division, with no major concerns identified to date.

#### **GOVERNANCE**

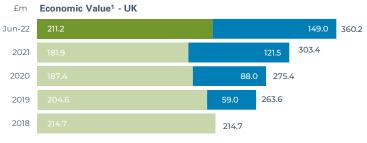
Maintaining effective governance and a constructive relationship with regulators underpins the delivery of the division's strategic plans.

Having robust governance processes provides management with a platform to deliver the other aspects of the business strategy. As a result, a significant proportion of management's time and attention continues to be focused on ensuring that both the existing governance processes, coupled with future developments, are delivered.

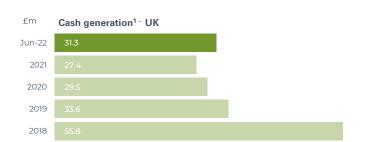
- With the acquisition of SLP during the period a key focus has been on integrating the business into the existing governance framework.
- The division's IFRS 17 project has remained a key focus over the period. Good progress has been made, both on the existing CA project as well as integrating SLP's existing programme into the wider group programme.

#### **KPIs**

## **FUTURE PRIORITIES**



■ Reported Value ■ Cumulative Dividends



From June 2022, the figure includes SLP.

- Continue to progress our plans to integrate SLP into the division, with a focus on delivering our longer-term target operating model.
- Commence that work that is required to deliver the planned transfer of the insurance business of SLP into the UK's principal operating company, Countrywide Assured plc.
- Continue to focus on maintaining an efficient and cost-effective operating model.
- Support Chesnara in identifying and delivering UK acquisitions.



The division's main managed funds outperformed benchmark for the 12 months to 30 June 2022.

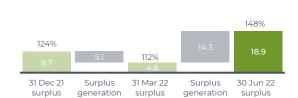
- The operational resilience programme will remain a priority, with plans in place to ensure we achieve the regulatory deadline of March 2025.
- Progress any actions needed to meet the requirements of the Consumer Duty for CA and SLP.

#### SOLVENCY RATIO CA: 192%

#### **SOLVENCY RATIO SLP: 148%**

Solvency is strong in both businesses with surplus generated in the year to date increasing the solvency ratio from 130% to 192% and 148% in CA and SLP respectively.





- Continue the transition of SLP to align with the UK division's governance framework.
- Continue to deliver against our IFRS 17 plans in preparation for the standard becoming effective from 1 January 2023.
- Support the group-wide ESG programme.

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

# BUSINESS REVIEW SWEDEN



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

#### BACKGROUND INFORMATION

#### **INITIATIVES & PROGRESS IN 2022**

#### **CAPITAL & VALUE MANAGEMENT**

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

- The first 6 months of 2022 have seen uncertainty in financial markets, resulting in rising interest rates and inflation and falling equity markets, driven by a number of international factors such as Russia's invasion of Ukraine and China's zero tolerance towards COVID-19.
- These events were reflected in the returns on the policyholders' investment assets as well as Movestic's own investments.
- We have strengthened our offering and distribution within our custodian business, whereby we provide a life and pensions wrapper to third party managed customers. The effect on incoming volumes is positive compared to both previous year and expectations.
- Pension transfers continue to be a feature of the market through new regulations, along with digitalisation, transparency, lower fees, and new working processes. However, the negative development due to competitors' aggressive activities, coupled with retention initiatives, seems to have slowed down and the net transfer outflow has improved compared to the same period previous year.
- Favourable claims development within the risk insurance segment.

#### **CUSTOMER OUTCOMES**

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

- A new concept "Movestic Frihet", which includes personal advice on savings and insurance for customers approaching retirement, was launched during the period with positive response from the market.
- A new partnership with Lexly, who delivers online legal advisory services, provides Movestic customers with access to legal advice.
- A new concept for onboarding of individuals within the direct market segment was launched during the first half year.
- Increased demands for digital processes and availability have also led to increased efforts to create services, such as customised advice, for both
- A new survey demonstrates the importance of occupational pension as the most important benefit when choosing a new employer, hence an important tool for employers to stay attractive.

#### **GOVERNANCE**

Movestic operates to exacting regulatory standards and adopts a robust approach to risk management.

Maintaining strong governance is a critical platform to delivering the various value-enhancing initiatives planned by the division.

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

- The IFRS17 programme has continued during the period in preparation for the standard becoming effective from 1 January 2023.
- Sustainability has remained a focus area and Movestic has hired a Sustainability manager to support our activities. 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 enter into force in August 2022.
- Sales volumes have developed positively, and are well above the same period last year. There has been positive sales development in the core broker distributed occupational pension, and from the newer custodian business through the partnership with Carnegie.
- Commercial new business profit of £1.5m (30 June 2021: £2.7m). The prior period 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 will also be put on new volumes that will be available on the Swedish transfer market from the second half-year.
- The intense competition in the advised occupational pension market continues, resulting in Movestic's market share of new business currently being below the long-term target. That said Movestic saw some positive sales development in the broker channel.

#### KPIS (ALL COMPARATIVES HAVE BEEN RESTATED USING 2022 EXCHANGE RATES)

## **FUTURE PRIORITIES**



- Continue to build a solid and long-term sustainable value creation for customers and owners through a diversified business model with continued growth of volumes and market shares in selected segments.
- Continue to build the 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.
- Focus on customer loyalty and attractive offerings to both retain customers and reach more volumes on the transfer market.
- Provide a predictable and sustainable dividend to Chesnara.

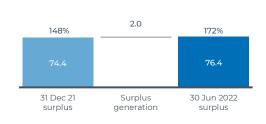


**POLICYHOLDER AVERAGE INVESTMENT RETURN:** 

-16.5%

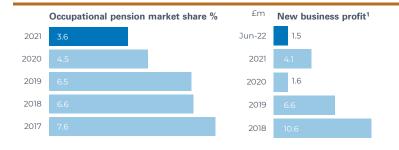
- Continued development of new digital self-service solutions and tools to support the brokers' value enhancing customer proposition, and to facilitate smooth administrative processes making Movestic a partner that is easy to do business with.
- Further strengthen the relationship with brokers through increased presence, both physical and digital.
- Seek to capitalise on the new rules that came into effect in July 2022 that mean transferring pensions between providers will be easier for customers in future.

#### **SOLVENCY RATIO: 172%**



Solvency remains strong despite adverse equity markets in the first half of the year

Deliver the remaining aspects of the division's IFRS 17 programme.

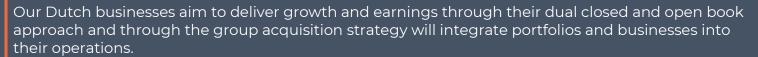


- Launch new risk product offerings in the broker channel, including a new technical solution for administration.
- Strengthen distribution capacity within the direct business area, as a complement to the broker channel and partner distributed custodian business.

\*New business figures from 2018 onwards represent commercial new business, as detailed on p66. Values prior to this are retained as they were previously reported.

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

# BUSINESS REVIEW NETHERLANDS



#### **BACKGROUND INFORMATION**

#### **INITIATIVES & PROGRESS IN 2022**

#### **CAPITAL & VALUE MANAGEMENT**

Both Waard and Scildon have a common aim to make capital available to the Chesnara group to fund further acquisitions or to contribute to the dividend funding. Whilst their aims are common, the dynamics by which the businesses add value differ:

- Waard is in run-off and has the benefit that the capital requirements reduce in-line with the attrition of the book.
- As an "open business", Scildon's capital position does not benefit from book run-off. It therefore adds value and creates surplus capital through writing new business and by efficient operational management and capital optimisation.
- Waard completed the acquisition of Robein Leven on 28 April and integration is underway, which is expected to conclude before the end of 2022.
- In July 2022, we announced the acquisition of the insurance portfolio of Conservatrix, our 7th acquisition in the Netherlands, also under the Waard Group, which is expected to complete during the second half of 2022. This acquisition will add 70,000 policies and £0.5bn of assets under management.
- Scildon launched an IT system improvement project for individual products that is expected to run until 2024 and generate cost efficiencies.
- Implementation for Waard of an actuarial tool for the majority of
- Both businesses report strong solvency of 213% (Scildon) and 364% (Waard), despite adverse market movements seen during the first half of 2022.

#### **CUSTOMER OUTCOMES**

Great importance is placed on providing customers with high quality service and positive outcomes.

Whilst the ultimate priority is the end customer, in Scildon we also see the brokers who distribute our products as being customers and hence developing processes to best support their needs is a key focus.

- Scildon's focus has been providing flexible solutions and offerings to our clients 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 group pension portal making improvements and efficiencies. Scildon has commenced work to improve the existing system that services all other products providing improved functionality for customers.

#### **GOVERNANCE**

Waard and Scildon operate in a regulated environment and comply with rules and regulations both from a prudential and from a financial conduct point of view.

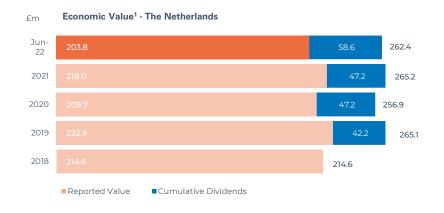
The IFRS 17 work has continued to progress, with significant strides being made during the first half of 2022. We have continued to work with our auditors on the technical decisions and the operational processes underpinning the implementation.

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. New business also helps the business maintain scale and hence contributes to unit cost management.

- Despite a tough and uncertain market, we continued to generate commercial new business profits with £3.1m earned during H1
- Average term market share over the first half year of 19%.
- We continue to grow our portfolio through a white labelling relationship with our distribution partner, Dazure demonstrating a positive additional route to market to enable us to service more policyholders. This relationship has continued to grow during H1

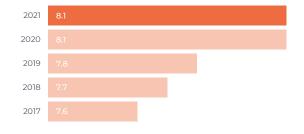
## KPIS (ALL COMPARATIVES HAVE BEEN RESTATED USING 2022 EXCHANGE RATES)

# **FUTURE PRIORITIES**



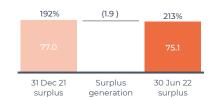
- Continue to integrate Robein Leven
- Complete the acquisition of the Conservatrix portfolio and start the integration process
- Effective management of the closed book run off in Waard.
- Continue to progress the ongoing IT projects to generate capital efficiencies.

#### Client satisfaction rating

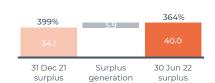


- Regular engagement with customers to improve service quality and to enhance and develop existing processes, infrastructure and customer experiences in Scildon.
- Continue to progress the IT development programme in Scildon to enhance functionality for customers.

#### SOLVENCY RATIO: SCILDON 213%



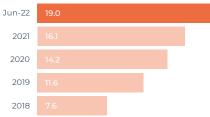
#### **WAARD 364%**



The remaining time to live reporting for IFRS 17 will be spent performing further dry runs and working with Deloitte to complete their audit work. We will also integrate new acquisitions into the programme.

Solvency is robust in both businesses with solvency ratios of 213% and 364% for Scildon and Waard respectively. The Waard Group solvency reported above includes that of its immediate holding company. The reported year-end dividend was paid from Waard Leven (£6.0m) and Scildon (£5.0m) to its immediate holding company during the first half of the year, but was not remitted up to Chesnara plc as it is being retained to support future corporate activity.

# Term assurance market share %



# Scildon new business profit



- 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.

\*New business figures from 2018 onwards represent commercial new business, as detailed on p66. Values prior to this are retained as they were previously reported.

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

# BUSINESS REVIEW · ACQUIRE LIFE & PENSIONS BUSINESSES

During the period we completed the acquisitions of Sanlam Life & Pensions (UK) Limited (SLP) and Robein Leven and announced the purchase 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 advisers and industry associates, utilising both group and divisional management expertise as appropriate.
- We primarily focus on acquisitions in our existing territories, although 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<sup>1</sup> 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<sup>1</sup> 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 & 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 insurance portfolio will increase 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 third acquisition announced by Chesnara over the past year and 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 will add approximately 70,000 additional policies and £0.5 billion of assets to the group.

A capital contribution of £35 million will be provided by the group 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 following completion of the acquisition.

The Conservatrix transaction is expected to increase the group's EcV by £18 million 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 SLP in the UK (announced in September 2021).

#### **ACQUISITION OUTLOOK**

- We have continued to see a healthy flow of acquisition activity in the year across European insurance including UK and the Netherlands. Sources of capital particularly from private equity have remained high.
- 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
- Our expectation is that sales of portfolios will continue; with a number of transactions already announced during 2022. 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. We will continue to explore how we can increase our funding capability further, including consideration of partnerships.
- Our good network of contacts in the 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.

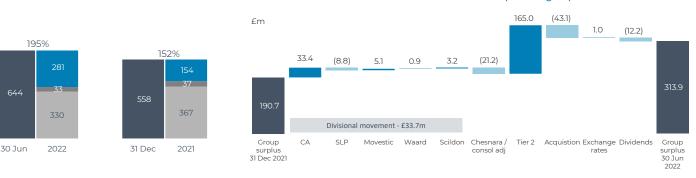
## CAPITAL MANAGEMENT · SOLVENCY II

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**

#### SOLVENCY SURPLUS MOVEMENT\* \*pre intragroup dividends



Surplus

The group has £280.9m of surplus over and above the group's internal capital management policy requirements, compared to £154.0m at the end of 2021. The group solvency ratio has increased from 152% to 195%.

Dividend

Buffer

The closing solvency position is stated after deducting the £12.2m proposed interim dividend (31 December 2021: £22.1m).

**Own Funds** 

Own Funds have risen by £98.6m (pre-dividends). The most material driver is the introduction of £200m Tier 2 debt of which £165.0m is recognised as eligible Own Funds. This is offset by a reduction in divisional Own Funds, largely due to the fall in equity markets.

The SCR has fallen by £36.8m, owing mainly to a material fall in equity risk (due to the fall in equity markets), currency risk (following the fall in Own Funds of overseas divisions) and the positive benefits of rising interest rates.

#### Solvency II background

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

#### WHAT ARE OWN FUNDS?

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

The Own Funds valuation, before considering the benefit of tier 2 capital, is deemed to represent a commercially meaningful figure with the exception of:

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

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

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

We define Economic Value (EcV)¹ as being the Own Funds adjusted for the items above. As such our Own Funds and EcV have many common characteristics and tend to be impacted by the same factors.

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

1 Alternative Performance Measure (APM) used to enhance understanding of financial performance. Furthe

#### 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.

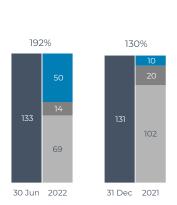
A review of the UK's application of Solvency II is currently underway, led by HM Treasury. In 2021 the PRA oversaw a Quantitative Impact Study (QIS) to inform a potential "comprehensive package of reforms". In April 2022 the PRA published a statement indicating its agreement with the view that the risk 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. We are monitoring 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.

## CAPITAL MANAGEMENT · SOLVENCY II

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



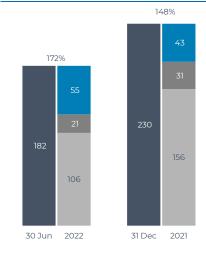
Surplus: £50.0m above board's capital management policy.

Dividends: Dividend of £27.5m was paid to Chesnara in Q2 2022.

Own Funds: Increased by £2.2m due to an extraction of restricted with-profit capital, reduced expense assumptions, offset by the fall in equity markets.

SCR: Decreased by £31.2m due to sharp fall in equity risk and moderate fall in currency, spread and insurance risks.

#### SWEDEN £m



Surplus: £55.2m above board's capital management policy.

Dividends: Dividend of £3.1m was paid to Chesnara in Q2 2022

Own Funds: Decreased by £47.8m largely due to fall in equity markets, although slightly offset by the rise in vields.

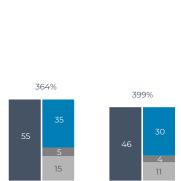
**SCR**: Decreased by £49.9m due to sharp fall in equity risk and moderate falls in spread, currency and lapse risks, due to the market movements.



#### NETHERLANDS - WAARD GROUP £m



#### **NETHERLANDS - SCILDON £m**



Surplus: £34.7m above board's capital management policy.

Dividends: No foreseeable dividend is proposed.

Own Funds: Increased by £9.6m. The main driver is the receipt of £5.2m dividend from Scildon to support acquisition activity in Waard Group. There is also a small gain on acquisition of Robein Leven.

SCR: Risen by £3.7m, mainly due to acquisition of Robein Leven, which has mostly impacted equity, expense and concentration risk.



Surplus: £25.2m above board's capital management

policy.

Dividends: Dividend of £5.2m was paid in Q2 2022.

Own Funds: Decreased by £8.6m due to the rise in interest rates and adverse mortality and lapse experience. This is partly offset by a variance on spreads, as the volatility adjustment increased more than the spread on bonds held.

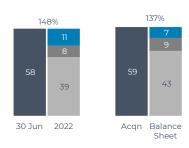
SCR: Decreased by £11.8m, largely due to falls in equity and lapse risk, due to the fall in equities and rising vields. respectively.



30 Jun

#### UK - SLP fm

31 Dec



Surplus: £11.1m above board's capital management policy.

Dividends: No foreseeable dividend is proposed.

Own Funds: In Q2, post-acquisition, Own Funds fell by £1.2m, largely due to economic conditions with equity market decline, widening spreads and falling asset values.

SCR: Fallen by £4m in the post-acquisition period, mainly due to reductions in equity and lapse risks.

KEY Own Funds (post div) SCR Buffer Surplus

The graphs on this page present the divisional view of the solvency position which may differ to the position of the individual insurance company(ies) within the consolidated numbers. Note that year end 2021 figures have been restated using 30 June 2022 exchange rates in order to aid comparison at a divisional level

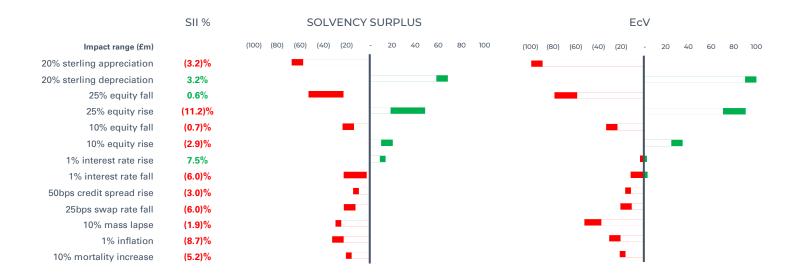
## CAPITAL MANAGEMENT · SENSITIVITIES

The group's solvency position can be affected by a number of factors over time. As a consequence, the group's EcV<sup>1</sup>, and cash generation<sup>1</sup>, both of which are derived from the group's solvency calculations, are also sensitive to these factors.

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

The Tier 2 debt raise 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, creating a new moving part. 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.

Whilst cash generation has not been shown in the diagrams below, the impact of these sensitivities on the group's solvency surplus has a direct read across to the immediate impact on cash generation. Each individual bar in the diagram illustrates the estimated impact range (£m) of the respective sensitivities and whether that impact is positive (green) or negative (red).



#### **INSIGHT\***

20% sterling appreciation: A material sterling appreciation reduces the value of surplus in our overseas divisions and any overseas investments in our UK entities, hence has an immediate impact on group solvency surplus and EcV. There is also a large fall in the amount of Tier 2 capital that can be recognised, due to the reduced size of the balance sheet.

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: -£9m to the SCR, 25% equity rise: +£37m to SCR). The EcV impacts are more intuitive as they are more directly linked to Own Funds impact. CA and Movestic contribute the most due to their large amounts of unit-linked business, much of which is invested in equities.

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

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

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

10% mass lapse: 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: A rise in inflation increases the amount of expected future expenses. This is capitalised into the balance sheet, thus 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.

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

#### FINANCIAL REVIEW

The key performance indicators are a reflection of how the business has performed in delivering its three strategic objectives. These two pages provide a "snapshot" of our key financial measures and some insight into what is driving the results for the first half of 2022. Further analysis can be found on pages 28 to 32.



# GROUP CASH GENERATION1 £21.9M excluding the impact of acquisitions

# DIVISIONAL CASH GENERATION £60.1M

#### What is it?

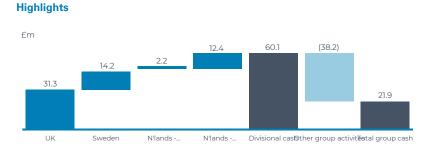
Cash generation is calculated as being the movement in Solvency II Own Funds over the internally required capital, excluding the impact of tier 2 debt. The internally required capital is determined with reference to the group's capital management policies, which have Solvency II rules at their heart. 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.

The ability of the underlying regulated subsidiaries within the group to generate cash is affected by a number of our principal risks and uncertainties as set out on pages 35 to 38. 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.

30 JUNE 2021: £11.5м



#### Divisional cash generation

- The operating businesses have delivered a strong divisional cash result for the period, exceeding prior year performance.
- As expected, the UK result was the largest component with cash generation of £31.3m, but material contributions were supplied from all operating divisions.
- In each division the value of Own Funds was adversely impacted by investment market conditions, particularly rising interest rates and falling asset values, culminating in economic losses. Conversely, these economic factors also had a beneficial effect for each business, with favourable movements in market risks and symmetric adjustment driving reductions in SCR.

#### Group cash generation

Total group cash generation contains acquisition activity, being the Own Funds impact of the capital outlay and incremental capital requirements. Other group activities is largely consolidation adjustments and the dynamic of buffer movements in calculating the group SCR, central costs, including Tier 2 related costs and some non-recurring SCR items.

# IFRS PRE-TAX PROFIT £(104.6)M

30 JUNE 2021: PRE-TAX PROFIT £20.8M

#### What is it?

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

#### Why is it important?

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

The IFRS profit/(loss) can be affected by a number of our principal risks and uncertainties as set out on pages 35 to 38. 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.

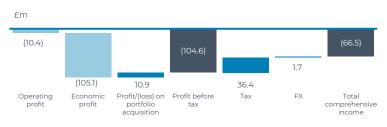
# TOTAL COMPREHENSIVE INCOME £(66.5)M

30 JUNE 2021: £1.9м

Further detail on p32

Further detail on p28

#### **Highlights**



- Pre-tax losses were reported in each territory with economic conditions underpinning the results.
- The loss on economic activities was in excess of £105m for the period, with the divisions all suffering the impact various economic factors such as rising interest rate and reductions in bond values, coupled with falling equity markets and negative investment returns.
- The result also includes profit on acquisitions of £10.9m, comprising gains arising on the SLP 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)<sup>1</sup> £526.7M

31 DECEMBER 2021: £624.2M Further detail on p31

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.

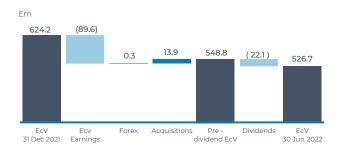
#### Why is it important?

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.

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 £89m-£99m, based on the composition of the group's EcV at 30 June 2022.

#### **Highlights**



- Prior to any dividend payment impact Economic Value fell by 12% since the start of the year. The reported position does not include the positive impact of the Tier 2 debt capital.
- The closing position reflects an earnings loss of £89.6m, driven by adverse investment market conditions, with some operating losses including group level expense strain.
- The change in EcV during the period includes the impact of the payment of the final 2021 dividend and the benefit of the SLP and Robein Leven acquisitions.
- A marginal forex gain arose on translation of the Dutch and Swedish divisional results, representing Swedish krona depreciation and euro appreciation against sterling, largely mitigating one another.



# EcV EARNINGS £(89.6)M

30 JUNE 2021: £38.5M Further detail on p30

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

#### The principal underlying components of the Economic Value earnings are:

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

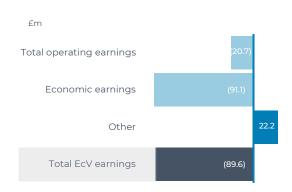
#### Why is it important?

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

#### Risks

The EcV earnings of the group can be affected by a number of factors, including those highlighted within our principal risks and uncertainties and sensitivities analysis as set out on pages 35 to 38. In addition to the factors that affect the IFRS pre-tax profit and cash generation of the group, the EcV earnings can be more sensitive to other factors such as the expense base and persistency assumptions. This is primarily due to the fact that assumption changes in EcV affect our long-term view of the future cash flows arising from our books of business.

#### Highlights



- An EcV loss of £89.6m was reported in the opening six months of the year.
- The total operating earnings<sup>1</sup> loss contains group level expense strain, including finance costs relating to debt servicing and also non-maintenance expenditure. In Movestic, a deterioration in fund rebate income also contributes and while transfer activity has reduced, levels were still above short-term expectations.
- Other operating components are, predominantly, favourable movements in risk margin and tax.
- Economic conditions during the period, with the adverse impact of rising interest rates, falling bond values and negative equity market returns, resulted in substantial economic losses of £91.9m (30 Jun 2021: gain of £73.0m).

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

## FINANCIAL REVIEW · CASH GENERATION

A strong divisional cash result exceeding £60m was supported by contributions from each territory, while the group result includes the impact of acquisitions completed in the period. Cash is generated from increases in the group's solvency surplus, which is represented by the excess of own funds held over management's internal capital needs. These are based on regulatory capital requirements, with the inclusion of additional 'management buffers'.



# GROUP CASH GENERATION £21.9M

DIVISIONAL CASH GENERATION £60.1M

excluding the impact of acquisitions

30 JUNE 2021: £5.4м

30 JUNE 2021: £11.5M

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 (excluding the impact of tier 2 capital) 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.
- At a group level the result includes complex consolidation adjustments relating to buffers, which can compromise how well the figure truly reflects performance.

Jun 2022 £m	Movement in Own Funds	Movement in management's capital requirement	Forex impact	Cash generated / (utilised)	Jun 2021 £m  Cash generated / (utilised)
UK	(8.7)	40.0	-	31.3	12.2
Sweden	(44.8)	59.8	(0.8)	14.2	(23.6)
Netherlands – Waard Group	(1.7)	3.5	0.4	2.2	3.7
Netherlands – Scildon	(8.4)	20.2	0.6	12.4	19.1
Divisional cash generation / (utilisation)	(63.6)	123.5	0.2	60.1	11.5
Other group activities	(7.0)	(32.2)	1.0	(38.2)	(6.1)
Group cash generation / (utilisation)	(70.6)	91.3	1.2	21.9	5.4

#### **GROUP**

- The group activities cash includes consolidation adjustments to remove capital buffer movements, as well as direct movements in central costs and SCR.
- The buffer adjustment is a volatile and relatively arbitrary technical item and is hence removed from the Commercial cash results.
- Central costs of approximately £13m include a large proportion of exceptional non-recurring expenditure, such as Tier 2 associated costs.
- Central SCR movements have minimal real cash flow implications, being a more solvency dynamic. The central SCR movement in the period includes c£6m of non-recurring items.



- Another strong period of cash generation has been delivered by the division, albeit largely due to the symmetric adjustment creating capital requirement reductions following a significant decline in equity values, which offset the adverse impact of investment conditions on Own Funds.
- Economic conditions and their associated impact, primarily falling equity and interest rate risk, drive the positive movement in capital requirements. Conversely, Own Funds suffered the effect of a corresponding reduction in asset values.
- Own Funds include a £13.4m capital transfer from the with-profit funds, although £5.5m of surplus has built up in this fund in the period which is not recognised in the result.



#### **SWEDEN**

- Movestic has reported a solid cash result for the period, with a substantial reduction in capital requirements overshadowing a sizeable decrease in Own
- The division is particularly sensitive to investment market movements and economic condition during the period underpin the cash result. Own Funds bear the impact of economic conditions and negative investment returns (particularly equity driven). This loss in value was offset by a larger decrease in market-risk related capital requirements, including the impact of the symmetric adjustment.



#### NETHERLANDS - WAARD

- Waard again delivered a period of stable cash generation in line with expectations, following a reduction in capital requirements that exceeded a fall in Own Funds.
- Economic losses due to the negative effect of rising interest rates on bond values and mortgage portfolio, was the main component of the value reduction. This also had a positive impact on capital requirements, aiding a material decrease in equity risk and symmetric adjustment in the period.



#### **NETHERLANDS – SCILDON**

- Scildon posted healthy cash generation for the first half of 2022, a result dominated by economic factors which drive reduction in both Own Funds and required capital.
- Rising interest rates with falling bond and equity values had a negative impact on Own Funds, with the division suffering economic losses of £22.0m. However, these factors also supported a larger in reduction in SCR, particularly market risks and fall in the symmetric adjustment, as well as lapse risk with lower exposure to the cost of guarantees.

# FINANCIAL REVIEW · 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).



divisional commercial cash generation £18.6M

commercial cash generation £(3.0)M

	UK	SWEDEN	NETHERLANDS WAARD	NETHERLANDS SCILDON	DIVISIONAL TOTAL	GROUP ADJ	TOTAL
Base cash generation	31.3	14.2	2.2	12.4	60.1	(38.2)	21.9
Symmetric adjustment	(12.4)	(21.2)	-	-	(33.6)	2.8	(30.8)
WP restriction look through	(7.9)	-	-	-	(7.9)	-	(7.9)
Group buffer difference	-	-	-	-	-	13.8	13.8
Commercial cash generation	11.0	(7.0)	2.2	12.4	18.6	(21.6)	(3.0)

The total commercial divisional result is impacted by several different external economic factors. The net effect of these is that about half of the total profit of £18.6m is directly due to economic conditions. The residual gain from operating items is broadly in line with expectations. The negative group adjustment contains several material non-recurring items including c£7m of project costs covering IFRS 17, Tier 2 and other acquisition costs. The central loss also includes over £5m of one-off SCR increases.

#### UK

In the main, the UK result relates to expected steady-state operating surplus emergence, largely due to book run-off. The result has also benefited from modest economic gains of c£3m, which is slightly lower than the steady-state average expectation.

The commercial cash outcome illustrates that UK remains at the heart of the cash generation model. The acquisition of SLP 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. A modest underlying operating result is broadly in line with expectation, in light of the natural level of new business strain of an open business.

#### WAARD

The Waard Commercial cash gain is mainly due to synergies arising on the acquisition completed in the period.

#### SCILDON

Scildon has benefited from the increasing interest rates during the period, with the vast majority of their Commercial cash generation being directly due to how yields have reduced capital requirements. A modest underlying operating gain is broadly in line with expectations.

## FINANCIAL REVIEW · EcV EARNINGS

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



# EcV EARNINGS £(89.6)M

30 JUNE 2021: £38.5M

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

£m	30 Jun 2022	30 Jun 2021	31 Dec 2021
Expected movement in period	(0.8)	(0.8)	(1.7)
New business	3.6	4.0	2.4
Operating experience variances	(23.4)	(7.8)	(19.2)
Operating assumption changes	(1.0)	(4.6)	(13.9)
Other operating variances	0.9	(23.2)	(26.4)
Total operating earnings <sup>1</sup>	(20.7)	(32.4)	(58.8)
Economic experience variances	(221.7)	45.6	79.5
Economic assumption changes	130.6	27.3	30.1
Total economic earnings <sup>1</sup>	(91.1)	73.0	109.6
Other non-operating variances	0.8	0.8	4.5
Risk margin movement	14.6	5.1	10.8
Tax	6.8	(8.0)	(8.2)
EcV earnings	(89.6)	38.5	57.8

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

£m	30 Jun 2022	30 Jun 2021	31 Dec 2021
UK	(20.8)	13.7	28.0
Sweden	(46.8)	14.0	26.1
Netherlands	(15.0)	11.8	8.3
Group and group adjustments	(7.0)	(1.0)	(4.6)
EcV earnings	(89.6)	38.5	57.8

**Total economic earnings:** The EcV result is sensitive to investment market conditions, reflecting significant economic losses in the period. The result includes the adverse impact of movements in interest rates and spreads, alongside falling equity markets. Key movements in investment market conditions during the year that have contributed to the economic loss are:

- CPI (consumer price index) increased by 4.0% to 9.4% (30 June 2021: 2.5%)
- FTSE All Share index decreased by 6.3% (6 months to 30 June 2021: increased by 9.3%);
- Swedish OMX All Share index decreased by 29.2% (6 months to 30 June 2021: increased by 19.3%);
- The Netherlands AEX All Share index decreased by 18.8% (6 months to 30 June 2021: increased by 15.0%); and
- 10-year UK gilt yields have increased by 133bp from 0.98% to 2.31% during the period.

Total operating earnings: Operational profits in CA and Waard were offset by central group expenses, including non-recurring and finance investment cost, as well as a small operating loss in Movestic. The profit in Waard was delivered largely from favourable mortality experience and resultant changes in assumptions, while growth in CA was the result of synergies arising from the SLP acquisition (and a reduction in future expenses). Group level expenses includes finance costs relating to Tier 2 debt arrangement and interest fees (£7.3m), as well as non-maintenance related activity (corporate activity and major projects). The loss in Movestic includes the effect of a general deterioration in fund rebate income in 2022, while Scildon was adversely impacted by higher mortality payments and guarantees within certain policies.

**UK**: Operating earnings in CA were overshadowed by economic factors with the UK division reporting a combined loss of £20.8m, as both CA and SLP were impacted by economic conditions in the period. As indicated above, operational profits were driven by positive movements in expense assumptions, coupled with mortality assumption and risk margin releases. Rising interest rates and decreasing bond values, alongside equity market falls, resulted in material economic losses that underpin the divisional result. SLP posted an operational loss though this was largely due to a one-off strengthening of expense assumptions as part of the post-acquisition process.

**Sweden:** Movestic recorded a significant loss, with the division heavily impacted by economic factors. Investment market conditions, particularly rising interest rates and falling equity values, resulted in negative economic returns (£48.4m). Operational activities were hampered by a reduction in fund rebate income and continued adverse experience in transfers (although to a much lesser extent than the prior year). Modest new business profits of £0.7m were reported (30 June 2021: £1.8m), reflecting difficult market conditions and margin pressures in the first half, due to sharp equity falls.

**Netherlands:** The Dutch businesses posted a combined loss of £15.0m for the opening half of 2022, as both divisions suffered economic losses that underpin the result. In Scildon, economic experience was £(100.2)m with rising interest rates adversely impacting bond values. This was partly offset by the reduction in liabilities corresponding to changes in assumptions (£78.2m). As indicated earlier, Scildon has reported a small operating loss, which includes the impact of guarantee related costs and higher mortality driven outgoings than anticipated.

Waard, despite the operating gains mentioned above, has reported an EcV loss of £1.7m, with economic experience being the main component. The impact of rising interest rates on yields and falling bond values outweighing subsequent changes to economic assumptions and profit from operating activities.

**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 servicing fees.

# FINANCIAL REVIEW · EcV

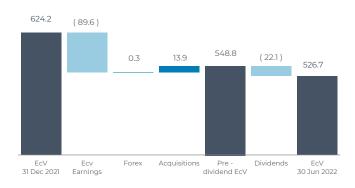
The Economic Value of Chesnara represents the present value of future profits of the existing insurance business, plus the adjusted net asset value of the non-insurance business within the group. EcV is an important reference point by which to assess Chesnara's intrinsic value.



# ECONOMIC VALUE (EcV) £526.7M

31 DECEMBER 2020: £624.2M

#### Value movement: 1 Jan 2022 to 30 Jun 2022 £m

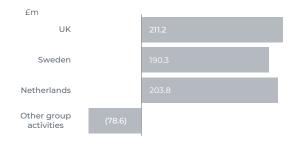


EcV earnings: A loss of £89.6m has been reported for the opening half of 2022. Significant economic losses arising from the adverse economic investment market conditions witnessed during the period, drive the result. Further detail can be found on page 30.

Dividends: Under EcV, dividends are recognised in the period in which they are paid. Dividends of £22.1m were paid during the first half of the year, being the final dividend from 2021.

Foreign exchange: The closing EcV of the group reflects a marginal 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 30 Jun 2022 £m



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

#### EcV to Solvency II £m



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

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

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

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

**Dividends:** The proposed interim dividend of £12.2m 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 is debt.

# FINANCIAL REVIEW · IFRS

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



# IFRS PRE-TAX LOSS £(104.6)M

# TOTAL COMPREHENSIVE INCOME £(66.5)M

30 JUNE 2021: PRE-PROFIT £20.8M

30 JUNE 2021: £1.9M

#### **Executive summary**

Stable core: At the heart of surplus, and hence cash generation, are the core UK (excluding the S&P book) and Waard Group segments. The requirements of these books are to provide a predictable and stable platform for the financial model and dividend strategy. As closed books, the key is to sustain this income source as effectively as possible. During the year, two new acquisitions were added to this stable core; Sanlam Life and Pensions (UK) Limited (SLP) and Robein Leven.

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

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

#### IFRS results

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

	Una	udited	Year	
	6 mont	hs ended	Ended	
	30 Jun 22	30 Jun 21	31 Dec 21	
	£m	£m	£m	Note
UK	(16.2)	15.0	35.6	1
Movestic	(1.5)	6.7	12.1	2
Waard Group	(6.4)	1.3	0.1	3
Scildon	(76.0)	6.0	(0.5)	4
Chesnara	(12.7)	(5.1)	(12.6)	5
Consolidation adjustments	(2.7)	(2.9)	(5.8)	6
(Loss)/profit before tax and acquisitions	(115.5)	20.9	28.9	
Post completion gain/(loss) on acquisition of subsidiary/portfolio	10.9	(0.1)	(0.1)	11
(Loss)/profit before tax	(104.6)	20.8	28.8	
Tax	36.4	(3.0)	(1.5)	7
(Loss)/profit after tax	(68.2)	17.8	27.3	
Foreign exchange	1.7	(15.9)	(23.9)	8
Other comprehensive income	-	-	0.4	
Total comprehensive income	(66.5)	1.9	3.8	

		ıdited 1s ended	Year Ended	
	30 Jun 22 £m	30 Jun 21 £m	31 Dec 21 £m	Note
Operating (loss)/profit	(10.4)	28.3	40.7	9
Economic (loss)/profit	(105.1)	(7.4)	(11.8)	10
(Loss)/profit before tax and acquisitions	(115.5)	20.9	28.9	
Post completion gain/(loss) on acquisition of subsidiary/portfolio	10.9	(0.1)	(0.1)	11
(Loss)/profit before tax	(104.6)	20.8	28.8	
Tax	36.4	(3.0)	(1.5)	
(Loss)/profit after tax	(68.2)	17.8	27.3	
Foreign exchange	1.7	(15.9)	(23.9)	8
Other comprehensive income	-	-	0.4	
Total comprehensive income	(66.5)	1.9	3.8	

All divisions have recorded IFRS losses in the first half of 2022. predominantly as a result of the adverse economic conditions prevailing in the period, which have been underpinned by inflationary pressures and the Ukraine conflict.



Note 1: The UK results include the post-acquisition result of SLP. Both CA and SLP have reported IFRS losses, underpinned by investment market related losses, offset by modest operating profits in the period.

Note 2: The Movestic result also reflects adverse investment returns due to adverse inflation and interest rate movements, partially offset by a favourable operational result in relation to claims development and reduced operational expenses.

Note 3: The Waard Group result reflects economic losses arising from rising yields in the period. Whilst rising yields are generally good for the business, under IFRS 4 reserving methods in the Netherlands, liabilities do not generally reduce in a rising yield environment, but the associated backing assets tend to fall. Additionally, the division also incurred some adverse lapse experience on its mortgage related business. The results also include the post-acquisition results of its newly acquired Robein Leven subsidiary which completed in the period.

Note 4: The Scildon result has been severely impacted by the impact of adverse spread movements and interest rate increases in the period. This has been partially offset from operational gains made from positive mortality and lapse experience.

Note 5: The Chesnara result largely represents holding company expenses. The current year loss is higher than last year due to Tier 2 arrangement and debt servicing costs of £7.3m in the period.

Note 6: Consolidation adjustments relate to items such as the amortisation and impairment of intangible assets.

Note 7: The large tax credit in the period is reflective of the large pre-tax losses that have been recorded in the first half of the year.

Note 8: Sterling movements against both the euro and Swedish krona in the period, created a modest exchange gain at the end of the half-year.

Note 9: The current year operating profit, has seen a decline across all divisions, in what has been a difficult trading period for the group.

Note 10: Economic profit, represents the components of the earnings that are directly driven by movements in economic variables. These are markedly worse than the prior year comparative, which reflected a less unstable year for global investment markets.

Note 11: This includes the acquisition gains arising on the SLP and Robein Leven deals in the UK and Netherlands, of £10.9m.

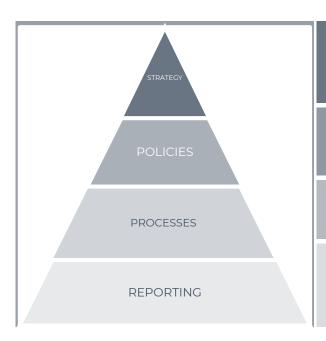
#### **RISK MANAGEMENT**

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.



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

The risk management policies implement the risk management strategy and provide a set of principles (and mandated activities) for control mechanisms

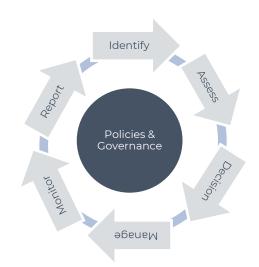
The risk management processes ensure that risks are identified, measured/assessed, monitored and reported to support decision making.

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

Chesnara adopts the "three lines of defence" model 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 the material risks faced by the group, which are regularly reviewed by the divisional and group Audit & Risk Committees. Our risk assessment processes have regard to the significance of risks, the likelihood of their occurrence and take account of the controls in place to manage them. The processes are designed to manage the risk profile within the board's approved risk appetite.

Group and divisional risk management processes are enhanced by stress and scenario testing, which evaluates the impact on the group of certain adverse events occurring separately or in combination. The results, conclusions and any recommended actions are included within divisional and group ORSA Reports to the relevant boards. There is a strong correlation between these adverse events and the risks identified in 'Principal risks and uncertainties' (pages 35 to 38). The outcome of this stress testing provides context against which the group can assess whether any changes to its risk appetite or to its management processes are required.



## RISK MANAGEMENT · ROLE OF THE BOARD

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

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

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

#### Strategy and Risk Appetite

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

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

#### **Risk Identification**

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

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

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

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

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

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

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

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

#### COVID-19

Although COVID-19 has been a material event, and continues to have economic as well as demographic impacts, restrictions are now substantially lifted. It is not documented here as a principal risk in its own right, as the impacts from COVID-19 are already covered by other principal risks, for example, market risks, mortality risk and other risks associated with operational failure and business continuity. 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.

#### 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 during the past few years and includes a detailed assessment as part of the group's regular ORSA exercise, to date concluding that the group is not materially exposed to climate change risk.

#### GEOPOLITICAL UNREST

With the continued Russian attack of Ukraine and more recently the threat of a Chinese invasion of Taiwan, this is considered as an emerging risk for Chesnara group in the sense they are rapidly evolving situations and has potential implications for Chesnara's Principal risks. The risk information on the following pages includes specific commentary where appropriate.

# RISK MANAGEMENT – PRINCIPAL RISKS AND UNCERTAINTIES

The following tables outline the principal risks and uncertainties of the group. It has been drawn together following regular assessment, performed by the Audit & Risk Committee, of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity. The impacts are not quantified in the tables. However, by virtue of the risks being defined as principal, the impacts are potentially significant. Those risks with potential for a material financial impact are covered within the sensitivities on page 25.

## PR1

### INVESTMENT AND LIQUIDITY RISK

### **DESCRIPTION**

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

## **RISK APPETITE**

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

# **POTENTIAL IMPACT**

Market risk results from fluctuations in asset values, foreign exchange rates and interest rates and has the potential to affect the group's ability to fund its commitments to customers and other creditors, as well as pay a return to shareholders.

# COVID-19

Chesnara continues to monitor this closely given the heightened level of uncertainty and volatility but remains within risk appetite in terms of its exposures.

# **CLIMATE CHANGE RISK**

Chesnara's risk analysis of transition risk demonstrates that this is well within its risk appetite and within its standard economic sensitivities.

# **UKRAINE** CONFLICT

The group has limited exposure in terms of investments in Russian funds or companies via customer unit linked funds, and we are working with customers that are exposed to help them.

# PR2

# REGULATORY CHANGE RISK (INCLUDING BREXIT)

## **DESCRIPTION**

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

## **RISK APPETITE**

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

# POTENTIAL **IMPACT**

Chesnara currently operates in three regulatory domains and is therefore exposed to potential for inconsistent application of regulatory standards across divisions, such as the imposition of higher capital buffers over and above regulatory minimum requirements. Potential consequences of this risk for Chesnara 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.

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

- incurring one-off costs of addressing regulatory change as well as any permanent increases in the cost base in order to meet enhanced standards;
- erosion in value arising from pressure or enforcement to reduce future policy charges;
- erosion in value arising from pressure or enforcement to financially compensate for past practice; and
- regulatory fines or censure in the event that it is considered to have breached standards or fails to deliver changes to the required regulatory standards on a timely basis.

### 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**

The acquisition element of Chesnara's growth strategy is dependent on the availability of attractive future acquisition opportunities. Hence, the business is exposed to the risk of a reduction in the availability of suitable acquisition opportunities within Chesnara's current target markets, for example arising as a result of a change in competition in the consolidation market or from regulatory change influencing the extent of life company strategic restructuring.

Through the execution of acquisitions, Chesnara is also exposed to the risk of erosion of value or financial losses arising from risks inherent within businesses or funds acquired which are not adequately priced for or mitigated as part of the transaction.

# RISK MANAGEMENT - PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

# 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**

In the event that demographic experience (rates of mortality, morbidity, persistency etc.) varies from the assumptions underlying product pricing and subsequent reserving, more or less profit will accrue to the group.

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

If mortality or morbidity experience is higher than that assumed in pricing contracts (i.e. more death and sickness claims are made than expected), this will typically result in less profit accruing to the group.

If persistency is significantly lower than that assumed in product pricing and subsequent reserving, this will typically lead to reduced group profitability in the medium to long-term, as a result of a reduction in future income arising from charges on those products. The effects of this could be more severe in the case of a one-off event resulting in multiple withdrawals over a short period of time (a "mass lapse" event).

### COVID-19

Chesnara does not expect the pandemic to have a material impact on mortality experience and costs in the long-term.

# PR5

# **EXPENSE RISK**

## **DESCRIPTION**

Risk of expense overruns and unsustainable unit cost growth.

# **RISK APPETITE**

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

# POTENTIAL **IMPACT**

The group is exposed to expenses being higher than expected as a result of one-off increases in the underlying cost of performing key functions, or through higher inflation of variable expenses.

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

For the closed funds, the group is exposed to the impact on profitability of fixed and semi-fixed expenses, in conjunction with a diminishing policy base.

For the companies open to new businesses, the group is exposed to the impact of expense levels varying adversely from those assumed in product pricing. Similar, for acquisitions, there is a risk that the assumed costs of running the acquired business allowed for in pricing are not achieved in practice, or any assumed cost synergies with existing businesses are not achieved.

# COVID-19, **BREXIT &** UKRAINE

Inflation has materially increased during 2021 and 2022 in all territories including primarily due to economic supply and demand impacts of Brexit, COVID-19 and the Ukraine War. Expense assumptions have been updated appropriately, though it is acknowledged that there is a greater level of uncertainty regarding the assumption for future inflation levels.

### PR6

# **OPERATIONAL RISK**

## **DESCRIPTION**

Significant operational failure/business continuity event.

## **RISK APPETITE**

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

# POTENTIAL **IMPACT**

The group and its subsidiaries are exposed to operational risks which arise through daily activities and running of the business. Operational risks may, for example, arise due to technical or human errors, failed internal processes, insufficient personnel resources or fraud caused by internal or external persons. As a result, the group may suffer financial losses, poor customer outcomes, reputational damage, regulatory intervention or business plan failure.

Part of the group's operating model is to outsource support activities to specialist service providers. Consequently, a significant element of the operational risk arises within its outsourced providers.

## COVID-19

In response to COVID-19, Chesnara, its subsidiaries and outsourced service providers all adapted to remote working conditions, utilising communication technology as required and implementation of additional controls. Most parts of the business have adopted hybrid working arrangements which has become a "new normal" working practice, with suitable additional risk controls deployed as appropriate.

### IT / DATA SECURITY & CYBER RISK

### **DESCRIPTION**

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

### **RISK APPETITE**

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

# **POTENTIAL IMPACT**

Cyber risk is a growing risk affecting all companies, particularly those who are custodians of customer data. The most pertinent risk exposure relates to information security (i.e. protecting business sensitive and personal data) and can arise from failure of internal processes and standards, but increasingly companies are becoming exposed to potential malicious cyber-attacks, organisation specific malware designed to exploit vulnerabilities, phishing attacks etc. The extent of Chesnara's exposure to such threats also includes third party service providers.

The potential impact of this risk includes financial losses, inability to perform critical functions, disruption to policyholder services, loss of sensitive data and corresponding reputational damage or fines.

### COVID-19

The move to remote working, as a result of COVID-19, had the potential to increase cyber risk for businesses and therefore various steps were taken to enhance security, processes and controls to protect against this.

# **UKRAINE** CONFLICT

Cyber-crime campaigns originating from Russia have increased, with some suppliers reporting an increase in information security threats, which some are saying is state sponsored. Although Chesnara is not necessarily 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.

# RISK MANAGEMENT - PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

# PR8

# **NEW BUSINESS RISK**

### **DESCRIPTION**

Adverse new business performance compared with projected value.

### **RISK APPETITE**

Chesnara does not wish to write new business that does not generate positive new business value (on a commercial basis) over the business planning horizon.

# POTENTIAL **IMPACT**

If new business performance is significantly lower than the projected value, this will typically lead to reduced value growth in the medium to long-term. A sustained low level performance may lead to insufficient new business profits to justify remaining open to new business.

### COVID-19

Overall volumes during the pandemic were lower than historic levels, largely as a result of restrictions on face-to-face sales meetings and customer demand. There is potential for COVID-19 to influence the operating environment on a longterm basis and drive changes in competitor, regulator or counterparty (e.g. broker) behaviours. For example, any restrictions on Brokers meeting new customers face to face could result in increased focus on the existing customers and risk of churn.

# 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**

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.

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.

# **CLIMATE CHANGE RISK**

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.

# **UKRAINE** CONFLICT

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.

# GOING CONCERN

### Going concern

After making appropriate enquiries, including consideration of the ongoing high inflation environment, the impacts of the ongoing invasion of Ukraine and to a lesser extent, the reducing impact of COVID-19 on the group's operations and financial position and prospects, the directors confirm that they are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in the preparation of the financial statements.

In performing this work, the board has considered the current solvency and cash position of the group and company, coupled with the group's and company's projected solvency and cash position as highlighted in its most recent business plan and Own Risk and Solvency Assessment (ORSA) process. These processes consider the financial projections of the group and its subsidiaries on both a base case and a range of stressed scenarios, covering projected solvency, liquidity, EcV and IFRS positions. In particular these projections assess the cash generation of the life insurance divisions and how these flow 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 on page 25 under the section headed 'Capital Management Sensitivities'. The directors believe these scenarios will encompass any potential future impact of high inflation, the Ukraine crisis and COVID-19 on the group, as Chesnara's most material ongoing exposure to these 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 high inflation environment, ongoing Ukraine crisis and COVID-19 all 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 on pages 23 to 25 indicates a strong Solvency II position as at 30 June 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 has been 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 are being utilised 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 from dealing with the restricted operating environment in light of COVID-19, our assessment has shown that both our internal functions and those operated by our key outsourcers and suppliers adapted to these restrictions and do not cause any issues as to our going





# **DIRECTORS' RESPONSIBILITY STATEMENT**

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with United Kingdom adopted IAS 34 'Interim Financial Reporting';
- the management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- the management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the board

Luke Savage

Steve Murray

Chairman

Chief Executive Officer

30 August 2022

30 August 2022

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

#### Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 which comprises the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and related notes 1 to 9.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

### **Basis for Conclusion**

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

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

### **Conclusion Relating to Going Concern**

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for Conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with this ISRE (UK), however future events or conditions may cause the entity to cease to continue as a going concern.

### Responsibilities of the directors

The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

In preparing the half-yearly financial report, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

# Auditor's Responsibilities for the review of the financial information

In reviewing the half-yearly financial report, we are responsible for expressing to the group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions Relating to Going Concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for Conclusion paragraph of this report.

# Use of our report

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

Deloitte LLP Birmingham United Kingdom

30 August 2022

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

		Unaud Six month 30 Jur		Year ended 31 December	
		2022	2021	2021	
	Note	£000	£000	£000	
Insurance premium revenue		160,421	152,291	312,046	
Insurance premium ceded to reinsurers		(22,392)	(20,610)	(115,881)	
Net insurance premium revenue		138,029	131,681	196,165	
Fee and commission income		46,272	45,732	89,975	
Net investment return		(1,517,897)	621,272	1,172,988	
Other operating income		22,898	23,491	46,568	
Total income net of investment return		(1,310,698)	822,176	1,505,696	
Insurance contract claims and benefits incurred					
Claims and benefits paid to insurance contract holders		(240,339)	(255,462)	(506,490)	
Net increase/(decrease) in insurance contract provisions		419,640	(38,308)	(23,577)	
Reinsurers' share of claims and benefits		7,714	14,149	60,168	
Net insurance contract claims and benefits		187,015	(279,621)	(469,899)	
Change in investment contract liabilities		1,092,743	(470,272)	(902,579)	
Reinsurers' share of investment contract liabilities		(2,755)	2,635	4,110	
Net change in investment contract liabilities		1,089,988	(467,637)	(898,469)	
Fees, commission and other acquisition costs	-	(19,322)	(11,848)	(24,023)	
Administrative expenses		(44,338)	(33,316)	(67,925)	
Other operating expenses					
Charge for amortisation of acquired value of in-force business		(3,508)	(4,107)	(8,184)	
Charge for amortisation of acquired value of customer relationships		(23)	(28)	(55)	
Other		(5,410)	(3,698)	(5,964)	
Total expenses net of change in insurance contract provisions and investment contract liabilities		1,204,402	(800,255)	(1,474,519)	
Total income less expenses		(106,296)	21,921	31,177	
Post completion gains/(losses) on acquisitions	7	10,866	(94)	(93)	
Financing costs		(9,180)	(990)	(2,272)	
(Loss)/profit before income taxes	4	(104,610)	20,837	28,812	
Income tax credit/(expense)		36,418	(2,982)	(1,518)	
(Lors)/profit for the period		(60 702)	17 000	27.207	
(Loss)/profit for the period  Foreign exchange translation differences arising on the revaluation of foreign operations	4	<b>(68,192)</b> 1,666	<b>17,855</b> (15,948)	<b>27,294</b> (23,879)	
Revaluation of land and building		25	(13,946)	(23,679)	
Other comprehensive income for the year, net of tax		1,691	(15,951)	(23,510)	
Total comprehensive income for the period		(66,501)	1,904	3,784	
Basic earnings per share (based on profit for the period)	2	(45.42)p	11.90p	18.18p	
Diluted earnings per share (based on profit for the period)	2	(44.87)p	11.81p	18.00p	

The notes and information on pages 48 to 59 form part of these financial statements.

# CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

		Unaudited as at 30 June		Year ended 31 December	
	Note	2022 £000	2021 £000	2021 £000	
Assets	11000		2000		
Intangible assets					
Deferred acquisition costs		62,724	65,417	63,327	
Acquired value of in-force business		112,000	54,701	49,629	
Acquired value of customer relationships		292	358	320	
Software assets		8,743	8,486	8,885	
Property and equipment		7,363	7,635	7,830	
Investment properties		81,478	1,073	1,071	
Reinsurers' share of insurance contract provisions		222,523	190,737	247,750	
Amounts deposited with reinsurers		34,147	38,014	38,295	
Financial assets					
Equity securities at fair value through income		229,103	5,562	6,352	
Holdings in collective investment schemes at fair value through income		8,181,768	6,871,529	6,858,054	
Debt securities at fair value through income		963,168	1,002,546	978,199	
Policyholders' funds held by the group		858,010	502,051	990,700	
Financial assets held at amoritised cost		302,637	319,652	293,811	
Derivative financial instruments		25	137	264	
Total financial assets	Г	10,534,711	8,701,477	9,127,380	
Insurance and other receivables	L	49,528	44,135	35,613	
Prepayments					
		14,495	12,431	13,245	
Reinsurers' share of accrued policyholder claims Income taxes		14,737	18,096	16,340	
		11,449	5,978	7,233	
Cash and cash equivalents  Total assets	4	209,482 <b>11,363,672</b>	72,595 <b>9,221,133</b>	70,087 <b>9,687,005</b>	
Liabilities	4	11,363,672	9,221,133	9,667,003	
Insurance contract provisions		3,845,631	3,874,578	3,818,412	
Other provisions		12,110	681	992	
Financial liabilities		12,110	001	332	
Investment contracts at fair value through income		5,776,414	4,135,734	4,120,572	
Liabilities relating to policyholders' funds held by the group		858,010	502,051	990,700	
Lease contract liabilities		1,651	2,361	2,019	
Borrowings	5	214,782	51,574	47,185	
Derivative financial instruments	3	473	126	-7,10c	
Total financial liabilities	Г	6,851,330	4,691,846	5,160,476	
Deferred tax liabilities	L				
		41,111	16,450	15,699	
Reinsurance payables		59,265	4,403	70,414	
Payables related to direct insurance and investment contracts		121,497	101,988	129,262	
Deferred income		2,591	3,061	2,809	
Income taxes		10,832	6,002	6,527	
Other payables		48,448	52,312	23,99	
Bank overdrafts		790	1,918	256	
Total liabilities	4	10,993,605	8,753,239	9,228,838	
Net assets		370,067	467,894	458,167	
Shareholders' equity					
Share capital		7,496	7,496	7,496	
Merger reserve		36,272	36,272	36,272	
Share premium		142,085	142,172	142,085	
Other reserves		8,953	14,821	7,262	
Retained earnings	3	175,261	267,133	265,052	
Total shareholders' equity		370,067	467,894	458,167	

The notes and information on pages 48 to 59 form part of these financial statements.

Approved by the Board of Directors and authorised for issue on 30 August 2022 and signed on its behalf by:

Luke Savage

Steve Murray

Chief Executive Officer

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Unaudit Six months 30 Jun	ended 3	Year ended I December
	2022	2021	2021
	£000	£000	£000
(Loss)/(profit for the period	(68,192)	17,855	27,294
Adjustments for:			
Depreciation of property and equipment	355	351	749
Amortisation of deferred acquisition costs	4,082	6,818	13,370
Amortisation of acquired value of in-force business	3,098	3,684	8,184
Amortisation of acquired value of customer relationships	23	28	55
Amortisation of software assets	895	36	1,382
Depreciation on right of use assets	346	320	739
Interest on lease liabilities	17	23	95
Share based payment	504	282	593
Tax (recovery)/paid	(36,417)	2,961	1,518
Interest receivable	(5,696)	(1,268)	(2,269)
Dividends receivable	(1,461)	(1,529)	(614)
Interest expense	9,163	967	2,177
Fair value gains/(losses) on financial assets	1,280,945	(597,225)	(990,914)
Profit on business combination	(10,565)	-	- (0.070)
Increase in intangible assets related to insurance and investment contracts	(314)	(6,484)	(8,938)
Interest received	6,216	2,395	2,493
Dividends received	1,292	2,401	1,930
Changes in operating assets and liabilities:	(17.025)	60,020	(107.075)
Decrease/(Increase) in financial assets  Decrease/(increase) in reinsurers share of insurance contract provisions	(13,825) 27,363	68,929	(187,975)
Decrease/(increase) in amounts deposited with reinsurers	4,148	2,857 (988)	(37,747) 5,858
Decrease/(increase) in insurance and other receivables	9,298	(2,172)	5,980
(Increase)/decrease in prepayments	(1,236)	275	(873)
(Decrease) /increase in insurance contract provisions	(268,001)	21,089	15,534
(Decrease) /increase in investment contract liabilities	(986,315)	482,409	1,098,809
Increase in provisions	1,327	102, 103	445
(Decrease) /increase in reinsurance payables	(11,152)	1,674	67,766
(Decrease) /increase in payables related to direct insurance and investment contracts	(18,639)	7,128	35,701
Increase/(decrease) in other payables	6,472	2,708	(24,950)
Cash (utilised)/generated from operations	(66,269)	15,626	36,392
Income tax paid	9,390	(9,440)	(9,796)
Net cash generated from operating activities	(56,879)	6,186	26,596
Cash flows from investing activities		· · · · · · · · · · · · · · · · · · ·	
Business combinations	59,766	_	_
Development of software	_	(1,209)	_
Purchases of property and equipment	(1,005)	741	(3,636)
Net cash generated/(utilised) by investing activities	58,761	(468)	(3,636)
Cash flows from financing activities			
Proceeds from issue of share premium	_	87	_
Proceeds from Tier 2 debt	200,000	_	_
Repayment of borrowings	(32,097)	(12,777)	(16,102)
Repayment of principal under lease liabilities	(361)	(404)	(598)
Dividends paid	(22,103)	(21,445)	(33,276)
Interest paid	(9,178)	(989)	(2,271)
Net cash generated/(utilised) by from financing activities	136,261	(35,528)	(52,247)
Net increase/(decrease) in cash and cash equivalents	138,143	(29,810)	(29,287)
Cash and cash equivalents at beginning of period	69,831	103,706	103,706
Effect of exchange rate changes on cash and cash equivalents	718	(3,219)	(4,588)
Cash and cash equivalents at end of the period	208,692	70,677	69,831

The notes and information on pages 48 to 59 form part of these financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Unaudited six months ended 30 June 2022

	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Tota £00
Equity shareholders' funds at 1 January 2022	7,496	142,085	36,272	7,262	-	265,052	458,16
Loss for the period	-	-	-	-	-	(68,192)	(68,192
Dividends paid	_	_	_	-	-	(22,103)	(22,103
Foreign exchange translation differences	_	-	-	1,666	-	-	1,66
Revaluation of land and building	_	_	_	25	_	_	2
ssue of share capital	_	_	_	_	_	_	
ssue of share premium	_	_	_	_	_	_	
Share based payment	_	_	_	-	_	504	50
Equity shareholders' funds at 30 June 2022	7,496	142,085	36,272	8,953	_	175,261	370,06
Unaudited six months ended 30 June 2021	Sharo	Sharo	Morgor	Othor	Troocury	Potained	
	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Tot £00
Equity shareholders' funds at 1 January 2021 (a	capital £000	premium	reserve	reserves	shares	earnings	
Equity shareholders' funds at 1 January 2021 (a previously stated) Transfer to merger reserve	capital £000	premium £000	reserve	reserves £000	shares	earnings £000	£00
Equity shareholders' funds at 1 January 2021 (a previously stated) Fransfer to merger reserve Equity shareholders' funds at 1 January 2021	capital £000 s 43,768 (36,272)	premium £000 142,085	reserve £000 - 36,272	reserves £000 30,772	shares	earnings £000 270,442	£00
Equity shareholders' funds at 1 January 2021 (a previously stated) Fransfer to merger reserve Equity shareholders' funds at 1 January 2021	capital £000 s 43,768	premium £000	reserve £000	reserves £000	shares	earnings £000	£00
Equity shareholders' funds at 1 January 2021 (as previously stated)  Fransfer to merger reserve  Equity shareholders' funds at 1 January 2021 (restated)  Profit for the year	capital £000 s 43,768 (36,272)	premium £000 142,085	reserve £000 - 36,272	reserves £000 30,772	shares	earnings £000 270,442	487,0 487,0
Equity shareholders' funds at 1 January 2021 (as previously stated)  Fransfer to merger reserve  Equity shareholders' funds at 1 January 2021 (restated)  Profit for the year	capital £000 s 43,768 (36,272)	premium £000 142,085	reserve £000 - 36,272	reserves £000 30,772	shares	earnings £000 270,442 - 270,442	<b>487,0</b> 487,0 17,8
Equity shareholders' funds at 1 January 2021 (a: previously stated)  Fransfer to merger reserve  Equity shareholders' funds at 1 January 2021 restated)  Profit for the year  Dividends paid  Foreign exchange translation differences	capital £000 s 43,768 (36,272)	premium £000 142,085	reserve £000 - 36,272	reserves £000 30,772	shares	earnings £000 270,442 - 270,442 17,855	487,00 487,00 17,8 (21,44
Equity shareholders' funds at 1 January 2021 (a: previously stated)  Fransfer to merger reserve  Equity shareholders' funds at 1 January 2021 restated)  Profit for the year  Dividends paid  Foreign exchange translation differences	capital £000 s 43,768 (36,272)	premium £000 142,085	reserve £000 - 36,272	30,772 - 30,772	shares	earnings £000 270,442 - 270,442 17,855	<b>487,0</b> 0 <b>487,0</b> 0  17,8 (21,44 (15,94
Equity shareholders' funds at 1 January 2021 (as previously stated) Transfer to merger reserve Equity shareholders' funds at 1 January 2021 (restated) Profit for the year Dividends paid Foreign exchange translation differences Revaluation of land and building	capital £000 s 43,768 (36,272)	premium £000 142,085	reserve £000 - 36,272	30,772 - 30,772 - (15,948)	shares	earnings £000 270,442 - 270,442 17,855	<b>487,0</b> 0 <b>487,0</b> 0  17,8 (21,44 (15,94
Equity shareholders' funds at 1 January 2021 (as previously stated) Transfer to merger reserve Equity shareholders' funds at 1 January 2021 (restated) Profit for the year Dividends paid Foreign exchange translation differences Revaluation of land and building	capital £000 s 43,768 (36,272)	premium £000 142,085	reserve £000 - 36,272	30,772 - 30,772 - (15,948)	shares	earnings £000 270,442 - 270,442 17,855	£00
Equity shareholders' funds at 1 January 2021 (as previously stated) Transfer to merger reserve Equity shareholders' funds at 1 January 2021 (restated) Profit for the year Dividends paid Foreign exchange translation differences Revaluation of land and building Issue of share capital Issue of share premium Share based payment	capital £000 s 43,768 (36,272)	premium £000 142,085 - 142,085	reserve £000 - 36,272	30,772 - 30,772 - (15,948)	shares	earnings £000 270,442 - 270,442 17,855	<b>487,0</b> 0 487,00 17,8 (21,44 (15,94

Year ended 31 December 2021	Share capital £000	Share premium £000	Merger reserve £000	Other reserves £000	Treasury shares £000	Retained earnings £000	Total £000
Equity shareholders' funds at 1 January 2021 (as	2000	2000	2000	2000	2000	2000	2000
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 building	_	_	-	369	_	_	369
Issue of share capital	_	_	-	_	_	_	_
Issue of share premium	_		-	_	_	_	_
Share based payment	-	-	-	_	-	593	593
Equity shareholders' funds at 31 December 2021	7,496	142,085	36,272	7,262	-	265,052	458,167

The notes and information on page 48 to 59 form part of these financial statements.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 1 Basis of preparation

The annual financial statements of Chesnara are prepared in accordance with United Kingdom adopted International Financial Reporting Standards. This condensed set of consolidated financial statements has been prepared in accordance with United Kingdom adopted IAS 34 'Interim Financial Reporting'. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of consolidated financial statements has been prepared applying the accounting policies and presentation which were applied in the preparation of the group's published consolidated financial statements for the year ended 31 December 2021.

Any judgements and estimates applied in the condensed set of financial statements are consistent with those applied in the preparation of the group's published consolidated financial statements for the year ended 31 December 2021.

The financial information shown in these interim financial statements is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006.

The comparative figures for the financial year ended 31 December 2021 are not the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditor and delivered to the Registrar of Companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

#### Going concern

After making appropriate enquiries, including detailed consideration of the impact on the group's operations and financial position and prospects, the directors confirm that they are satisfied that the company and the group have adequate resources to continue in business for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in the preparation of these half year financial statements. Further detail on the key considerations made by the directors in making this assessment has been included in the 'Going Concern' section of this interim report on page 39.

#### IFRS 17

The new accounting standard for insurance contracts, IFRS 17, is effective for periods ending on or after 1 January 2023. IFRS 9 Financial Instruments is also effective for insurers from that date. IFRS 17 will significantly change how the group measures and reports its insurance contracts. Implementation activities continued during the period with the groupwide calculation engine going live and divisions completing dry runs and system/process refinements. We have also continued to work with our auditors on the technical decisions and operational processes underpinning the implementation. These implementation activities are ongoing and the remaining time to live reporting for IFRS 17 and IFRS 9 will be spent performing further dry runs. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until further work is performed.

### Judgements and estimates

Critical accounting judgements and key sources of estimation and uncertainty remain largely unchanged from those described in Note 3 of the 2021 Annual Report and Accounts. The potential impact on the group has been considered in the preparation of these half year condensed financial statements, including management's evaluation of critical accounting judgements and estimates, which has led to the following assessments being undertaken: -

Estimate of future operating expenses – Sanlam Life & Pensions (UK) Limited (SLP): One of the key components underpinning the acquisition accounting for SLP, is the estimation of future operating expenses under Chesnara ownership and in particular, those relating to the cost of outsourcing the day to day operations of the business to a third party service provider. At the time of calculating the initial impact of the acquisition, we have estimated those costs based upon a range of quotes obtained from prospective service providers. It is however recognised, that until an outsource partner has been selected and contract terms put in place, these estimated costs are potentially subject to change.

### 2 Earnings per share

Earnings per share are based on the following:

	Six montl	Unaudited Six months ended 30 June	
	2022	2021	2021
Profit/(loss) for the period attributable to shareholders (£000)	(68,192)	17,855	27,294
Weighted average number of ordinary shares	150,153,465	150,091,045	150,118,548
Basic earnings per share	(45.42)p	11.90p	18.18p
Diluted earnings per share	(44.87)p	11.81p	18.00p

The weighted average number of ordinary shares in respect of the six months ended 30 June 2022 is based upon 150,145,602 shares in issue at the beginning of the period and 150,157,451 at the end of the period. No shares were held in treasury.

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

The weighted average number of ordinary shares in respect of the year ended 31 December 2021 is based upon 150,145,602 shares. in issue at the beginning of the period and 150,061,567 shares in issue at the end of the period. No shares were held in treasury.

There were 1,815,601 share options outstanding at 30 June 2022 (30 June 2021: 1,092,286). Accordingly, there is dilution of the average number of ordinary shares in issue. There were 1,501,566 share options outstanding as at 31 December 2021.

## Retained earnings

	Six months	Unaudited Six months ended 30 June	
	2022 £000	2021 £000	2021 £000
Retained earnings attributable to equity holders of the parent company comprise:			
Balance at 1 January	265,052	270,442	270,442
(Loss)/profit for the period	(68,192)	17,855	27,294
Share based payment	504	282	593
Dividends:			
Final approved and paid for 2020	_	(21,446)	(21,446)
Interim approved and paid for 2021	_	_	(11,831)
Final approved and paid for 2021	(22,103)	_	_
Balance at period end	175,261	267,133	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 company in respect of the year ended 31 December 2021 was made at the rate of 22.60p per share.

An interim dividend of 8.12p per share in respect of the year ending 31 December 2022 payable on 21 October 2022 to equity shareholders of the company registered at the close of business on 9 September 2022, the dividend record date, was approved by the Directors after the balance sheet date. The resulting dividend of £12.2m has not been provided for in these financial statements and there are no income tax consequences.

The following table summarises dividends per share in respect of the six-month period ended 30 June 2022 and the year ended 31 December 2021:

	Six months ended 30 June 2022	Year ended 31 December 2021
	Pence	Pence
Interim – approved/paid	8.12	7.88
Final – proposed/paid	-	14.72
Total	8.12	22.60

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 4 Operating segments

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

The segments of the group as at 30 June 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 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. CA & SLP are responsible for conducting unit-linked and non-linked business. Additionally CA has a with-profits portfolio, which carries significant additional market risk, as described in note 6 'Management of financial risk' of the 2021 Annual Report and Accounts.

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

Waard Group: This segment represents the group's Dutch life and general insurance business which is in run-off, acquired on 19 May 2015 and which comprises the two original insurance companies Waard Leven N.V. and Waard Schade N.V., and a servicing company, Waard Verzekeringen B.V. On 25 November 2021, Waard entered into an agreement with Monument Re Group to acquire a 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 ultimate holding company within the group, Chesnara plc, are defined under the operating segment analysis as Other group activities. Also included therein are consolidation and elimination adjustments.

The accounting policies of the segments are the same as those for the group as a whole. Any transactions between the business segments are on normal commercial terms in normal market conditions. The group evaluates performance of operating segments on the basis of the profit before tax attributable to shareholders and on the total assets and liabilities of the reporting segments and the group. There were no changes to the measurement basis for segment profit during the six months ended 30 June 2022.

# 4 Operating segments (continued)

# (i) Segmental income statement for the six months ended 30 June 2022

	(UK)		Waard Group (Netherlands)	Scildon (Netherlands)	Other Group Activities	Total
	£000	£000	£000	£000	£000	£000
Insurance premium revenue	17,063	6,123	16,296	120,939	-	160,421
Insurance premium ceded to reinsurers	(7,247)	(2,244)	(1,877)	(11,024)	_	(22,392)
Net insurance premium revenue	9,816	3,879	14,419	109,915	-	138,029
Fee and commission income	14,362	7,546	75	24,289	-	46,272
Net investment return	(349,385)	(891,034)	(14,264)	(265,356)	2,142	(1,517,897)
Other operating income	6,106	16,792	_	_	_	22,898
Segmental revenue, net of investment return	(319,101)	(862,817)	230	(131,152)	2,142	(1,310,698)
Net insurance contract claims and benefits incurred	122,531	(186)	(2,918)	67,588	_	187,015
Net change in investment contract liabilities	200,186	889,802	_	_	_	1,089,988
Fees, commission and other acquisition costs	(8,593)	(11,235)	(208)	(259)	_	(20,295)
Administrative expenses:						
Amortisation charge on software assets	-	(899)	-	-	-	(899)
Depreciation charge on property and equipment	(37)	(52)	(29)	(266)	-	(384)
Other	(11,249)	(5,621)	(3,506)	(11,922)	(10,757)	(43,055)
Operating expenses	(1)	(5,409)	-	-	-	(5,410)
Financing costs	(13)	(5,067)	(1)	_	(4,099)	(9,180)
Profit/(loss) before tax and consolidation adjustments	(16,277)	(1,484)	(6,432)	(76,011)	(12,714)	(112,918)
Other operating expenses:						
Charge for amortisation of acquired value of in-force business Charge for amortisation of acquired value of customer	(436)	(1,088)	(410)	(1,574)	-	(3,508)
relationships	_	(23)	_	- 107	_	(23)
Fees, commission and other acquisition costs		850	- (5.0.(2)	123		973
Segmental income less expenses	(16,713)	(1,745)	(6,842)	(77,462)	(12,714)	(115,476)
Post completion profit on acquisition	10,565		301			10,866
(Loss)/profit before tax	(6,148)	(1,745)	(6,541)	(77,462)	(12,714)	(104,610)
Income tax (expense)/credit	12,339	3	1,715	19,942	2,419	36,418
Profit/(loss) after tax	6,191	(1,742)	(4,826)	(57,520)	(10,295)	(68,192)

# (ii) Segmental balance sheet as at 30 June 2022

	(UK)		Waard Group (Netherlands)	Scildon (Netherlands)	Other Group Activities	Total
	£000	£000	£000	£000	£000	£000
Total assets	5,005,658	3,749,599	555,873	1,891,226	161,316	11,363,672
Total liabilities	(4,833,372)	(3,650,154)	(512,678)	(1,791,787)	(205,614)	(10,993,605)
Net assets	172,286	99,445	43,195	99,439	(44,298)	370,067
Additions to non-current assets	_	4,884	39	335	-	5,258

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

# 4 Operating segments (continued)

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

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

# (iv) Segmental balance sheet as at 30 June 2021

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

# 4 Operating segments (continued)

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

	(UK)		Waard Group (Netherlands)	Scildon (Netherlands)	Other Group Activities	Total
	£000	£000	£000	£000	£000	£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/(expense)	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 Net change in investment contract liabilities	(34,545) (77,568)	(2,787) (820,901)	(35,849)	(396,718)		(469,899) (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)/income	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
Consolidation adjustments:						
Charge for amortisation of acquired value of in-force business Charge for amortisation of acquired value of customer	(1,443)	(2,467)	(838)	(3,436)	_	(8,184)
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

# (vi) Segmental balance sheet as at 31 December 2021

	(UK)		Waard Group (Netherlands)	Scildon (Netherlands)	Other Group Activities	Total
	£000	£000	£000	£000	£000	£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
Additions to non-current assets	-	11,590	197	4,483	_	16,270

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### 5 Borrowings

		Unaudited 30 June		
	2022	2021	2021	
	£000	£000	£000	
Bank loan	_	30,437	31,273	
Tier 2 Debt	200,000	-	_	
Property mortgages	2,584	-	_	
Amount due in relation to financial reinsurance	12,198	21,137	15,912	
Total	214,782	51,574	47,185	

In February 2022, the outstanding bank loans (both the sterling and euro loans) in the form of a Revolving Credit Facility (RCF) was re-paid in full. The facility, which was put in place in July 2021 still exists. The RCF is operated on a syndicated basis and provides an unsecured multicurrency debt facility up to the value of £100m sterling equivalent. The facility is initially for a term of 3 years from July 2021, extendable by up to two 12 month periods upon request. The RCF also has an accordion option which can extend the loan capacity by up to a further £50m upon request. This facility provides further financial flexibility above and beyond the Tier 2 debt raised in February 2022 and will enable us to fulfil our appetite of financing future deals up to the maximum levels of gearing set out in our debt and leverage policy, in a timely and efficient manner.

In 2022, a Tier 2 Subordinated Notes Debt was launched.

The fair value of the sterling bank loan at 30 June 2022 was £nil (31 December 2021: £12.0m).

The fair value of the euro denominated bank loan at 30 June 2022 was £nil (31 December 2021: £18.5m).

The fair value of the Tier 2 debt was £200.0m (31 December 2021: £nil).

The fair value of amounts due in relation to financial reinsurance was £12.1m (31 December 2021: £16.4m).

The property mortgage balance within SLP, comprises of capital amounts outstanding on mortgage bonds taken out over properties held in the Unit-linked policyholder funds. The mortgage over each such property is negotiated separately, varies in term from 5 to 20 years, and bears interest at fixed or floating rates that are agreed at the time of inception of the mortgage.

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

### 6 Financial instruments fair value disclosures

Fair value measurement at 30 June 2022

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

The group held the following financial instruments at fair value at 30 June 2022.

rail value measurement at 50 June 2022				
	Level 1	Level 2	Level 3	Total
Financial assets	£000	£000	£000	£000
Equities				
Listed	229,103	_	_	229,103
Holdings in collective investment schemes	8,015,413	_	166,355	8,181,768
Debt securities - fixed rate				
Government Bonds	514,692	20,752	_	535,444
Corporate Bonds	360,607	63,356	_	423,963
Debt securities - floating rate Listed	3,761			3,761
Total debt securities	879,060	84,108	_	963,168
Policyholders' funds held by the group	858,010	-	-	858,010
Derivative financial instruments	_	25	-	25
Total	9,981,586	84,133	166,355	10,232,074
Current				2,204,789
Non-current				8,027,285
Total				10,232,074
Financial liabilities				
Investment contracts at fair value through income	_	5,776,414	_	5,776,414
Liabilities related to policyholders' funds held by the group	858,010	_	_	858,010
Derivative financial instruments	_	473	_	473
Total	858,010	5,776,887	_	6,634,897
Fair value measurement at 31 December 2021	Level 1	Level 2	Level 3	Total
Financial assets	£000	£000	£000	£000
Equities				
Listed	6,352	_	_	6,352
Holdings in collective investment schemes	6,602,615	65,210	190,229	6,858,054
Debt securities - fixed rate		,	,	
Government Bonds	554,146	96	_	554,242
Corporate Bonds	406,608	_	_	406,608
Debt securities - floating rate	17,349	_	_	17,349
Listed	978,103	96		978,199
Total debt securities	990,700	96		990,700
Policyholders' funds held by the group	990,700	264	_	264
Derivative financial instruments	0.555.550		-	
Total	8,577,770	65,570	190,229	8,833,569
Current				2,309,678
Non-current				6 507 001
				6,523,891
Total				6,523,891 <b>8,833,569</b>
Financial liabilities		4120 573		8,833,569
Financial liabilities Investment contracts at fair value through income	- 990.700	4,120,573 -	-	<b>8,833,569</b> 4,120,573
Financial liabilities	990,700 990,700	4,120,573 - <b>4,120,573</b>	- - -	8,833,569

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

### Holdings in collective investment schemes

The fair value of holdings in collective investment schemes classified as Level 3 also relate to our Scildon operation, and represent investments held in a mortgage fund. These are classified as level 3 as the fair value is derived from valuation techniques that include inputs that are not based on observable market data. There is also a small holding of assets classified as level 3 £22.1m (December 2021: £16.3m) from our Movestic operation which are unlisted. The valuation of the vast majority of these assets is based on unobservable prices from trading on the over-the-counter market.

#### Debt securities

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

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

#### Derivative financial instruments

Within derivative financial instruments is a financial reinsurance embedded derivative related to our Movestic operation. The group has entered into a reinsurance contract with a third party that has a section that is deemed to transfer significant insurance risk and a section that is deemed not to transfer significant insurance risk. The element of the contract that does not transfer significant insurance risk has two components and has been accounted for as a financial liability at amortised cost and an embedded derivative asset at fair value.

The embedded derivative represents an option to repay the amounts due under the contract early at a discount to the amortised cost, with its fair value being determined by reference to market interest rate at the balance sheet date. It is, accordingly, determined at Level 2 in the three-level fair value determination hierarchy set out above.

### Investment contract liabilities

The Investment contract liabilities in Level 2 of the valuation hierarchy represent the fair value of non-linked and guaranteed income and growth bonds liabilities valued using established actuarial techniques utilising market observable data for all significant inputs, such as investment yields.

### Significant unobservable inputs in level 3 instrument valuations

The level 3 instruments held in the group are in relation to investments held in an Aegon managed Dutch Mortgage Fund that contains mortgage-backed assets in the Netherlands. The fair value of the mortgage fund is determined by the fund manager on a monthly basis using an in-house valuation model. The valuation model relies on a number of unobservable inputs, the most significant being the assumed conditional prepayment rate, the discount rate and the impairment rate, all of which are applied to the anticipated modelled cash flows to derive the fair value of the underlying asset.

The assumed conditional prepayment rate (CPR) is used to calculate the projected prepayment cash flow per individual loan and reflects the anticipated early repayment of mortgage balances. The CPR is based on 4 variables:

- Contract age The CPR for newly originated mortgage loans will initially be low, after which it increases for a couple of years to its maximum expected value, and subsequently diminishes over time.
- Interest rate differential The difference between the contractual rates and current interest rates are positively correlated with prepayments. When contractual rates are higher than interest rates of newly originated mortgages, we observe more prepayments and the vice versa.
- Previous partial repayments Borrowers who made a partial prepayment in the past, are more likely to do so in the future.
- Burnout effect Borrowers who have not made a prepayment in the past, while their option to prepay was in the money, are less likely to prepay in the future.

The projected prepayment cash flows per loan are then combined to derive an average expected lifetime CPR, which is then applied to the outstanding balance of the fund. The conditional prepayment rate used in the valuation of the fund as at 30 June 2022 was 6.1% (31 December 2021; 6.1%).

The expected projected cash flows for each mortgage within the loan portfolio are discounted using rates that are derived using a matrix involving the following three parameters:

- The remaining fixed rate term of the mortgage
- Indexed loan to value (LTV) of each mortgage
- Current (Aegon) mortgage rates

At 30 June 2022 this resulted in discounting the cash flows in each mortgage using a range from 3.39% to 4.45% (31 December 2021: 1.29% to 2.02%).

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

An impairment percentage is applied to those loan cashflows which are in arrears, to reflect the chance of the loan actually going into default. For those loans which are one, two or three months in arrears, an impairment percentage is applied to reflect the chance of default. This percentage ranges from 0.60% for one month in arrears to 13.70% for loans which are 3 months in arrears (31 December 2021: 0.60% for one month in arrears to 13.70% for loans which are in default receive a 100% reduction in value.

The value of the fund has the potential to decrease or increase over time. This can be as a consequence of a periodic reassessment of the conditional prepayment rate and/or the discount rate used in the valuation model.

A 1 per cent increase in the conditional prepayment rate would reduce the value of the asset by £0.3m (31 December 2021: £0.3m).

A 1 per cent decrease in the conditional prepayment rate would increase the value of the asset by £0.4m (31 December 2021: £0.5m).

A 1 per cent increase in the discount rate would reduce the value of the asset by £11.4m (31 December 2021: £13.7m).

A 1 per cent decrease in the discount rate would increase the value of the asset by £13.1m (31 December 2021: £15.8m)

Sensitivity of level 3 instruments measured at fair value on the statement of financial position to changes in key assumptions

There is a risk that the value of the fund decreases or increases over time. This can be as a consequence of a periodic reassessment of the constant prepayment rate and the discount rate used in the valuation model.

Reconciliation of Level 3 fair value measurements of financial instruments

	30 June 2022 £'000	30 June 2021 £'000	31 December 2021 £'000
At start of period	190,229	185,424	185,424
Transfers into level 3	_	_	16,314
Total gains and losses recognised in the income statement	(27,155)	(279)	796
Purchases	<u> </u>		_
Settlements	_	_	_
Exchange rate adjustment	3,281	(8,464)	(12,305)
At the end of period	166,355	176,681	190,229

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

	Carrying amount			Fair value		
	30 June 2022 £000	30 June 2021 £000	31 December 2021 £000	30 June 2022 £000	30 June 2021 £000	31 December 2020 £000
Financial liabilities: Borrowings	214,782	51,574	47,185	214,696	52,461	46,588

Borrowings consist of bank loans, tier 2, property mortgage and an amount due in relation to financial reinsurance.

The fair value of the bank loans are taken as the principal outstanding at the balance sheet date.

The amount due in relation to financial reinsurance is fair valued with reference to market interest rates at the balance sheet date.

There were no transfers between levels 1, 2 and 3 during the period.

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

### 7 Business combination

### Sanlam Life & Pensions (UK) Limited (SLP)

On 13 September 2021, Chesnara entered into an agreement with Sanlam UK Limited to acquire Sanlam Life & Pensions (UK) Limited (SLP), a specialist provider of insurance and long-term savings products in the UK. The acquisition was successfully completed on 28 April 2022.

The transaction has given rise to a provisional post completion profit on acquisition of £10.6m calculated as follows:

	Fair value
	£'000
Assets	
Acquired value of in-force business	69,212
Property and equipment	25
Investment properties	79,618
Reinsurers' share of insurance contract provisions	1,014
Financial assets	2,733,120
Other assets and receivables	26,967
Cash	67,866
Total assets	2,977,822
Liabilities	
Insurance contract provisions	241,715
Other provisions	9,809
Investment contracts at fair value through income	2,590,918
Derivative financial instruments	2,771
Deferred tax liabilities	62,776
Other payables	21,418
Total liabilities	2,929,407
Net assets	48,415
Net assets acquired	48,415
Total consideration paid	(37,850)
Post completion profit on acquisition	10,565

The table above represents a provisional assessment of the impact of the business combination on the group and is based upon provisional figures as at 31 March 2022 rather than as at the actual acquisition date. Work is ongoing to produce an accurate assessment of the assets, liabilities and acquired value of in-force business as at the 28 April 2022 and as a consequence, the numbers presented above will undergo refinement during the second half of the year and a re-stated business combination note will be presented in our full-year 2022 annual accounts. Although we do not expect the final business combination impact to be materially different to the numbers presented above, based upon our initial assessment of the surplus merging between the 31 March and the 30 June 2022, it is highly likely that the individual assets and liability captions above will change in value (particularly financial assets and insurance/investment contract provisions), due to factors such as financial market movements and claims and lapse experience.

Acquired value of in-force business: The acquisition has resulted in the recognition of intangible asset amounting to £69.2m, 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.

**Insurance contracts provision**: Upon acquisition, the insurance contract provision was reassessed, and as a result the insurance contract provision was aligned to reserving basis applied in Chesnara.

**Profit on acquisition:** A provisional profit of £10.6m has been recognised on acquisition. This profit on acquisition has been recorded as a "post completion profit on acquisition" on the face of the statement of comprehensive income.

Acquisition-related costs: Chesnara concluded the deal and obtained control of SLP as of 28 April 2022. The consideration transferred by Chesnara for the acquisition of SLP consisted of cash totalling £37.8m. There was also a capital contribution made by Chesnara to SLP amounting to £25m.

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.

### 7 Business combination (continued)

#### Robein Leven

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.

The transaction has given rise to a post completion IFRS profit on acquisition of £0.3m calculated as follows:

	Fair value
	£'000
Assets	
Financial assets	197,086
Other assets and receivables	4,301
Deferred tax asset	2,155
Cash	7,960
Total assets	211,502
Liabilities	
Insurance contract provisions	196,935
Total liabilities	196,935
Net assets	14,567
Net assets acquired	14,567
Total consideration paid	(14,266)
Post completion profit on acquisition	301

**Profit on acquisition:** A profit of £0.3m has been recognised on acquisition. This profit on acquisition has been recorded as a "post completion profit on business combination" on the face of the statement of comprehensive income.

Acquisition-related costs: Waard concluded the deal and obtained control of Robein Leven as of 28 April 2022. The consideration transferred by Waard Leven for the acquisition of Robein Leven consisted of cash totalling €16.5m.

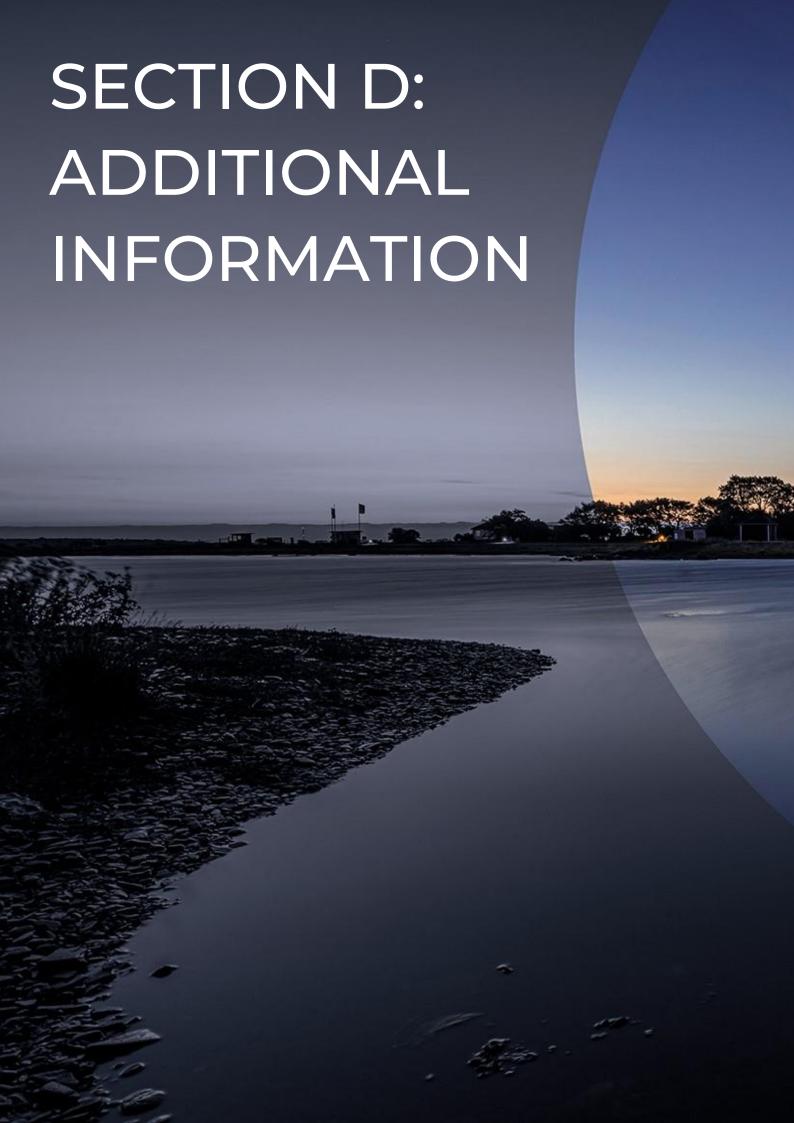
The assets and liabilities acquired are included within changes in insurance provisions and financial assets within operating cash flows on the face of the cash flow statement.

### 8 Post balance sheet event

On 22 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 insurance portfolio will increase Waard's number of policies under administration to approximately 165,0000. A Capital Contribution of £35 million will be provided by the Group to support the solvency position of the Conservatrix business, financed from the Group's existing resources.

### 9 Approval of consolidated report for the six months ended 30 June 2022

This condensed consolidated report was approved by the Board of Directors on 30 August 2022. A copy of the report will be available to the public at the Company's registered office, 2nd Floor, Building 4, West Strand Business Park, West Strand Road, Preston, PR1 8UY and at www.chesnara.co.uk





# FINANCIAL CALENDAR

# **KEY CONTACTS**

### 31 August 2022

Results for the six months ended 30 June 2022 announced

### 08 September 2022

Interim ex-dividend date

## 09 September 2022

Interim dividend record date

### 23 September 2022

Last date for dividend reinvestment plan elections

### 21 October 2022

Interim dividend payment date

### 31 December 2022

End of financial year

### Registered and head office

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### **Advisors**

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

### **Auditor**

Deloitte LLP Statutory Auditor Four Brindleyplace Birmingham B1 2HZ

## Registrars

Link Group 10th Floor Central Square 29 Wellington Street Leeds LS1 4DL

# Joint Stockbrokers and **Corporate Advisors**

Panmure Gordon One New Change London EC4M 9AF

Investec Bank plc 30 Gresham Street London EC2V 7QP

#### **Bankers**

National Westminster Bank plc 135 Bishopsgate London EC2M 3UR

The Royal Bank of Scotland 8th Floor, 135 Bishopsgate London EC2M 3UR

Lloyds Bank plc 3rd Floor, Black Horse House Medway Wharf Road Tonbridge Kent **TN9 1QS** 

## **Public Relations Consultants**

**FWD** 145 Leadenhall Street

London EC3V 4QT

# MEASURING OUR PERFORMANCE

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

### FINANCIAL ANALYSIS OF A LIFE AND PENSION BUSINESS

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

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

The non-IFRS APMs have at their heart the Solvency II valuation known as Own Funds and, as such, all major financial APMs are derived from a defined rules-based regime. The diagram below shows the core financial metrics that sit alongside the IFRS results, together with their associated KPIs and interested parties.

Further detail on APMs can be found in the appendix on pages 65 and

#### ADDITIONAL METRICS STATEMENTS Solvency II valuation IFRS net assets Capital requirements (own funds) R SCR plus Solvency Capital management Requirement **Economic Value IFRS** profits Solvency Absolute Balance sheet Earnings Percentage **STAKEHOLDER FOCUS:** Policyholders Investors Regulators **New business** Cash generation **Business partners** В Divisional EcV Commercial Group

# **SOLVENCY**

Key performance indicators

FINANCIAL

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.

Further detail on pages 23 to 26 & 65 to 68

Further detail on pages 30 to 31 & 65 to 66

# **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.

Further detail on pages 28 to 29 & 65 to 68

# OPERATIONAL AND OTHER PERFORMANCE MEASURES

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

	KE	EY STAK	EHOLDI	ERS	KEY: Primary Secondary interest	
Measure	Policyholder	Investor	Regulators	Business partner *	What is it and why is it important?	Page
Customer service levels	n	n	n	n	How well we service our customers is of paramount importance and so through various means we aim to assess customer service levels. The business reviews within the Half Year Report refer to a number of indicators of customer service levels.	16-21
Broker satisfaction	n	n	n	n	Broker satisfaction is important because they sell our new policies, provide ongoing service to their customers and influence book persistency. We include several measures within the Half Year Report, including direct broker assessment ratings for Movestic and general assessment of how our brands fare in industry performance awards in the Netherlands.	18-21
Policy investment performance	n	n	n	n	This is a measure of how the assets are performing that underpin policyholder returns. It is important as it indicates to the customer the returns that their contributions are generating, and options available to invest in funds that focus on environmental, social and governance factors.	16-21
Industry performance assessments	n	n	n	n	This is a comparative measure of how well our investments are performing against the rest of the industry, which provides valuable context to our performance.	16-21
Funds under management	n	n	n	n	This shows the value of the investments that the business manages. This is important because scale influences operational sustainability in run-off books and operational efficiency in growing books. Funds under management are also a strong indicator of fee income.	4 & 45
Policy count	n	n	Ω	n	Policy count is the number of policies that the group manages on behalf of customers. This is important to show the scale of the business, particularly to provide context to the rate at which the closed book business is maturing. In our open businesses, the policy count shows the net impact of new business versus policy attrition.	14
Total shareholder returns		n	Ω		This includes dividend growth and yield and shows the return that an investor is generating on the shares that they hold. It is highly important as it shows the success of the business in translating its operations into a return for shareholders.	See annual Report & Accounts
New business profitability		n			This shows our ability to write profitable new business which increases the value of the group. This is an important indicator given one of our core objectives is to "enhance value through profitable new business".	18-21
New business market share		Ω			This shows our success at writing new business relative to the rest of the market and is important context for considering our success at writing new business against our target market shares.	18-21
Gearing ratio		Ω	n		The gearing is a ratio of debt to IFRS net assets and shows the extent to which the business is funded by external debt versus internal resources (defined as debt divided by debt plus equity). The appropriate use of debt is an efficient source of funding.	See annual Report & Accounts
Knowledge, skills and experience of the Board of Directors	n	Ω	n	n	This is a key measure given our view that the quality, balance and effectiveness of the board of directors has a direct bearing on delivering positive outcomes to all stakeholders. 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.	See annual Report & Accounts

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

# ALTERNATIVE PERFORMANCE MEASURES

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

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

The following table identifies the key APMs used in this report, how each is defined and why we use them. Further information can be found in the Overview (Section A), with detailed reference within the Financial Review (pages 26 to 32).

APM		What is it?	Why do we use it?	Ref
Group cash generation		Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.  Group cash generation is calculated as the movement in the group's surplus Own Funds above the group's internally required capital, as determined by applying the group's Capital Management Policy, which has Solvency II rules at its heart.	Cash generation is a key measure, because it is the net cash flows to Chesnara from its life and pensions businesses which support Chesnara's dividend-paying capacity and acquisition strategy. Cash generation can be a strong indicator of how we are performing against our stated objective of 'maximising value from existing business'.	See cash generation on page 28 and reconciliation on page 68
Divisional cash generation		Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.	It is an important indicator of the operating performance of the business before the impact of group level operations and consolidation adjustments.	See cash generation on page 28
		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		Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed.	Commercial cash generation aims to provide stakeholders with enhanced insight into cash generation, drawing out components of the result relating to	See cash generation on page 29
		Commercial cash generation excludes the impact of technical adjustments, modelling changes and corporate acquisition activity; representing the inherent commercial cash generated by the business.	technical complexities or exceptional items. The result is deemed to better reflect the group's view of commercial performance, showing key drivers within that.	
Economic Value (EcV)	<b>(E)</b>	EcV is a financial metric that is derived from Solvency II Own Funds. It provides a market consistent assessment of the value of existing insurance businesses, plus adjusted net asset value of the non-insurance business within the group.  We define EcV as being the Own Funds adjusted for contract boundaries, risk margin and restricted with-profit surpluses. As such, EcV and Own Funds have many common characteristics and tend to be impacted by the same factors.	EcV aims to reflect the market-related value of in-force business and net assets of the non-insurance business and hence is an important reference point by which to assess Chesnara's value. A life and pensions group may typically be characterised as trading at a discount or premium to its Economic Value. Analysis of EcV provides additional insight into the development of the business over time. The EcV development of the Chesnara group over time can be a strong indicator of how we have delivered to our strategic objectives.	See EcV analysis on page 31

# ALTERNATIVE PERFORMANCE MEASURES (CONTINUED)

АРМ		What is it?	Why do we use it?	Ref
Economic Value (EcV) earnings		The principal underlying components of the EcV earnings are:  The expected return from existing business (being the effect of the unwind of the rates used to discount the value in-force);  Value added by the writing of new business;  Variations in actual experience from that assumed in the opening valuation;  The impact of restating assumptions underlying the determination of expected cash flows; and  The impact of acquisitions.	By recognising the market-related value of in-force business (in-force value), a different perspective is provided in the performance of the group and on the valuation of the business. EcV earnings are an important KPI as they provide a longer-term measure of the value generated during a period. The EcV earnings of the group can be a strong indicator of how we have delivered against all three of our core strategic objectives.	See EcV Earnings analysis on page 30
EcV operating earnings	16	This is the element of EcV earnings (see above) that are generated from the company's ongoing core business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future.	EcV operating earnings are important as they provide an indication of the underlying value generated by the business. It can help identify profitable activities and also inefficient processes and potential management actions.	See EcV Earnings analysis on page 30
EcV economic earnings	16	This is the element of EcV earnings (see above) that are derived from investment market conditions in the period and any economic assumption changes in the future.	EcV economic earnings are important in order to measure the additional value generated from investment market factors.	See EcV Earnings analysis on page 30
Commercial new business profit	16	A more commercially relevant measure of new business profit than that recognised directly under the Solvency II regime, allowing for a modest level of return, over and above risk-free, and exclusion of the incremental risk margin Solvency II assigns to new business.	This provides a fair commercial reflection of the value added by new business operations and is more comparable with how new business is reported by our peers, improving market consistency.	See Business Review section on pages 18 to 21
Funds Under Management (FuM)	IFRS	FuM reflects the value of the financial assets that the business manages, as reported in the IFRS Consolidated Balance Sheet.	FuM is important as it provides an indication of the scale of the business, and the potential future returns that can be generated from the assets that are being managed.	See Consolidated Balance Sheet on page 45
Operating profit, excluding AVIF impairment	IFRS	A measure of the pre-tax profit earned from the company's ongoing business operations, excluding any profit earned from investment market conditions in the period and any economic assumption changes in the future. This also excludes any intangible asset adjustments that are not practicable to ascribe to either operating or economic conditions.	Operating earnings are important as they provide an indication of the underlying profitability of the business. It can help identify profitable activities and also inefficient processes and potential management actions.	Reconciliation to pre-tax profit can be found on page 32
Economic profit, excluding AVIF impairment	IFRS	A measure of pre-tax profit earned from investment market conditions in the period and any economic assumption changes. This also excludes any intangible asset adjustments that are not practicable to ascribe to either operating or economic conditions.	Economic earnings are important in order to measure the surplus generated from investment market factors.	Reconciliation to pre-tax profit can be found on page 32
Acquisition value gain (incremental value)	<b>E</b>	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.	See annual accounts

# RECONCILIATION OF METRICS

As illustrated in the diagram on page 63, the key interaction between our statutory reporting rules under IFRS and the alternative performance measures is with the Solvency II valuation and the Own Funds balance.

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

£m	30 Jun 2022	31 Dec 2021	Rationale
Group IFRS net assets	370.1	458.2	
Removal of intangible assets; AVIF, DAC and DIL	(179.8)	(119.9)	Intangible assets that cannot be sold separately have no intrinsic value under Solvency II rules.
Removal of IFRS reserves, net of reinsurance	10,223.6	8,643.9	Actuarial reserves are calculated differently between the two methodologies and hence IFRS reserves are replaced with Solvency II
Inclusion of SII technical provisions, net of reinsurance	(9,948.1)	(8,394.6)	technical provisions. The main differences in methodology are discussed further below.
Other valuation differences	199.3	1.4	Other valuation differences (including Tier 2 debt)
Deferred tax valuation differences	26.0	(1.5)	These are the deferred tax impacts as a result of the adjustments above.
Foreseeable dividends	(12.2)	(22.1)	Under Solvency II rules, future 'foreseeable dividends' are required to be recognised within Own Funds. Under IFRS rules, dividends are recognised when paid.
Tier 2 Debt restriction	(35.0)	-	Restriction placed on Tier 2 subordinated debt within Own Funds under Solvency II requirements.
Ring-fenced surpluses	-	(7.9)	Solvency II requires that Own Funds are reduced by any surpluses that are restricted. For Chesnara this relates to surpluses within the two S&P withprofits funds, which are temporarily restricted. These restrictions are removed through periodic capital transfers.
Group SII Own Funds	643.9	557.5	

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

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

# RECONCILIATION OF METRICS (CONTINUED)

### Solvency II position

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

A summary of the solvency position of the group at 30 June 2022 and 31 December 2021 is as follows:

£m	30 Jun 2022	31 Dec 2021
Crown SII Own Funda (OF)	642.0	
Group SII Own Funds (OF)	643.9	557.5
Solvency Capital Requirement (SCR)	330.0	366.8
Solvency surplus	313.9	190.7
Solvency ratio	195%	152%

### Cash generation

Cash generation is used by the group as a measure of assessing how much dividend potential has been generated, subject to ensuring other constraints are managed. Group cash generation is calculated as the movement in the group's surplus own funds above the group's internally required capital, as determined by applying the group's capital management policy, which has Solvency II rules at its heart. For further information on cash generation please refer to page 28 and the Financial Review section.

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

	£m
Opening solvency II surplus, including management buffer of 10%:	
Own Funds - 31 Dec 2021	557.5
SCR – 31 Dec 2021	366.8
Management buffer (10% of SCR)	36.7
Surplus available for distribution - 31 Dec 2021	154.0
Closing solvency II surplus, including management buffer of 10%:	
Own Funds – 30 Jun 2022	643.9
Remove Tier 2 Debt	(200.0)
SCR – 30 Jun 2022	330.0
Management buffer (10% of SCR)	33.0
Surplus available for distribution - 30 Jun 2022	80.9

The closing Solvency II position at 30 June 2022 reflects the payment of the 2021 final dividend of £22.1m paid in May and reflects a foreseeable dividend of £12.2m due to be paid later in 2022. As these are distributions to shareholders, akin to IFRS profit reporting, these do not form part of the cash generation metric and should be excluded. Consequently, group Cash generation can be derived as follows:

	£m
Closing surplus available for distribution less opening available surplus for distribution	(73.1)
Add back: Tier 2 restriction	, ,
	35.0
Add back: Foreseeable interim dividend	12.2
Add back: Impact of acquisition	47.8
Group cash generation	21.9

# GLOSSARY

AGM	Annual General Meeting.	Movestic	Movestic Livförsäkring AB.
ALM	Asset Liability Management - management of risks that arise due to mismatches between assets and liabilities.	Modernac	Modernac SA, a previously associated company 49% owned by Movestic.
APE	Annual Premium Equivalent - an industry wide measure that is used for measuring the annual equivalent of regular and single premium policies.	New business	The present value of the expected future cash inflows arising from business written in the reporting period.
CA	Countrywide Assured plc.	Official List	The Official List of the Financial Conduct Authority.
CALH	Countrywide Assured Life Holdings Limited and its subsidiary companies.	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 –
BAU cash generation	This represents divisional cash generation plus the impact of non-exceptional group activity.	Ordinary shares	APM).  Ordinary shares of 5 pence each in the capital of the company.
BLAGAB	Basic life assurance and general annuity business	ORSA	Own Risk and Solvency Assessment.
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.	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.
Commercial cash generation	Cash generation excluding the impact of technical adjustments, modelling changes and exceptional corporate activity; the inherent commercial cash generated by the business.	PRA	Prudential Regulation Authority.
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.	QRT	Quantitative Reporting Template.
DNB	De Nederlandsche Bank is the central bank of the Netherlands and is the regulator of our Dutch subsidiaries.	RCF	3 year Revolving Credit Facility of £100m (currently unutilised) put in place in July 2021
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.	Resolution	The resolution set out in the notice of General Meeting set out in this document.
Dutch business	Scildon and the Waard Group, consisting of Waard Leven N.V., Waard Schade N.V. and Waard Verzekeringen B.V.	RMF	Risk Management Framework.
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).	Robein Leven	Robein Leven N.V.
EcV	Economic Value is a financial metric that is derived from Solvency II Own Funds that is broadly similar in concept to European Embedded Value. It provides a market consistent assessment of the value of existing insurance businesses, plus adjusted net asset value of the non-insurance business within the group.	Scildon Sharabaldor(s)	Scildon N.V.
FCA FI	Financial Conduct Authority.  Finansinspektionen, being the Swedish Financial Supervisory Authority.	Shareholder(s) SLP	Holder(s) of ordinary shares.  Sanlam Life & Pensions (UK) Limited
Form of	The form of proxy relating to the General Meeting being sent to shareholders with this	Solvency II	A fundamental review of the capital adequacy regime for the European insurance
proxy	document.  The Financial Services and Markets Act 2000 of England and Wales, as amended.	Standard	industry. Solvency II aims to establish a set of EU-wide capital requirements and risk management standards and has replaced the Solvency I requirements.  The set of prescribed rules used to calculate the regulatory SCR where an internal model
Group	Chesnara plc and its existing subsidiary undertakings.	Formula STI	is not being used.  Short-Term Incentive Scheme – A reward system designed to incentivise executive
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	SCR	directors' short-term performance.  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 Own Funds	group activity.  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	Swedish business	Movestic and its subsidiaries and associated companies.
Group SCR	book-value of investments by the group in those capital resources.  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.	S&P	Save & Prosper Insurance Limited and Save & Prosper Pensions Limited.
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.	TCF	Treating Customers Fairly – a central PRA principle that aims to ensure an efficient and effective market and thereby help policyholders achieve fair outcomes.
HCL	HCL Insurance BPO Services Limited.	Tier 2	Term debt capital (Tier 2 Subordinated Notes) issued in February 2022 with a 10.5 year maturity and 4.75% coupon rate.
IFRS	International Financial Reporting Standards.	Transfer ratio	The proportion of new policies transferred into the business in relation to those transferred out.
IFA	Independent Financial Advisor.	TSR	Total Shareholder Return, measured with reference to both dividends and capital
KPI	Key performance indicator.	UK or United Kingdom	growth. The United Kingdom of Great Britain and Northern Ireland.
LACDT Leverage (gearing)	Loss Absorbing Capacity of Deferred Tax 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	UK business UNSDG	CA and S&P. United Nations Sustainable Development Group.
London Stock Exchange	London Stock Exchange plc.	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
LTI	Long-Term Incentive Scheme - A reward system designed to incentivise executive directors' long-term performance.	Waard	returns. The Waard Group.

# NOTE ON TERMINOLOGY

As explained in Note 4 to the IFRS financial statements, the principal reporting segments of the group are:			
CA	which comprises the original business of Countrywide Assured plc, the group's original UK operating subsidiary; City of Westminster Assurance Company Limited, which was acquired by the group in 2005, the long-term business of which was transferred to Countrywide Assured plc during 2006; S&P which was acquired on 20 December 2010. This business was transferred from Save & Prosper Insurance Limited and Save & Prosper Pensions Limited to Countrywide Assured plc on 31 December; and Protection Life Company Limited which was acquired by the group in 2013, the long-term business of which was transferred into Countrywide Assured plc in 2014;		
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.		

### **Registered and Head Office**

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### **Cautionary statement**

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

